
Content democratization

&

**How the Internet
is fueling the
growth of creative
economies**

Contacts

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Methodology

The amount of digital content created, exchanged, and consumed is growing by the day across the world, and because the Internet has democratized access to creation and distribution tools, boundaries between professional and amateur content are blurring across all parts of the creative sector. The objective of this report is to provide a comprehensive view of the effect of the Internet on content providers and distributors, emerging artists, and consumers in five very different countries — Australia, India, Japan, South Korea, and Thailand. We selected these countries because they feature highly varying levels of Internet connectivity, infrastructure development, and media reach. Studying the commonalities and differences among them contributes to an understanding of how the Internet can bring value to the creative sector regardless of a country's institutional and technological framework.

We analyzed the impact from the consumer perspective as well as from the creator and industry perspectives, providing a differentiated perspective on each player.

Our methodology combined desk research with one-on-one interviews with representatives of leading companies in each of the five countries. Our desk research was based on respected industry sources such as PwC's Global Entertainment and Media Outlook, Ovum, and the World Bank, to name just a few. We assessed the impact of the Internet on both a quantitative and a qualitative perspective. Some of the key quantitative figures we analyzed were the market size and growth of the creative sector, the evolution of consumer time spent across media, and indicators of each country's degree of digitization. Examples of qualitative factors we assessed include creative industry players' business models and evolution, and strategies for integrating traditional and digital media, as well as market dynamics and competitive strengths.

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BKI (South Korea)	KledThai (Thailand)
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(Australia)	(South Korea)
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Dotty (South Korea)	Nexon (South Korea)
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Dymocks (Australia)	Ookbee (Thailand)
Electronic Frontier Foundation	OpenNet (South Korea)
(Australia)	Ormschool (Thailand)
Flipkart (India)	Pandora Australia and New Zealand
Gaana (India)	(Australia)

Pantip (Thailand)	Sony Music Entertainment Australia (Australia)
Phonographic Performance Company of Australia (Australia)	Southern Cross Austereo (Australia)
Rajshri Entertainment (India)	State Library of New South Wales (Australia)
Rich World Record Label (South Korea)	<i>Thai Rath</i> (Thailand)
SBS (South Korea)	TrueVisions (Thailand)
SM Entertainment (South Korea)	Turner Asia (Thailand)
Screenrights (Australia)	Universal Music (Australia)
Shemaroo Entertainment (India)	Van Vuuren Bros (Australia)
SketchShe (Australia)	YG Entertainment (South Korea)
	YoBoHo (India)
	Whacked Out Media (India)

This report was financed by Google Inc., and independently researched and written by Strategy&, PwC's strategy consulting business. It draws on expertise from Strategy&'s communications, media, and technology practice and from its digitization team, as well as on academic and public research, public information, and primary research.

Highlights



- **The growth of digital content, and especially paid digital content, is driving the growth of the creative sectors** in all of the five countries we studied. And it is growing more rapidly than the nominal GDP in most of these markets. In fact, in Australia, South Korea, and Japan, all of the growth in creative industries is being driven by digital media. Digital media contributed \$14.5 billion in revenues across these three markets from 2012 through 2014.
- **People are spending more time consuming both the traditional and digital output of the creative sector**, almost entirely due to the Internet. Time spent consuming content has been increasing across all five countries in our study as people spend a greater portion of their leisure and entertainment time with creative content. In Australia, for instance, people spend an average of 9.7 hours a day consuming content,¹ up from six hours a day four years ago, with almost half of this time being spent on the Internet. Similarly, growth in time spent consuming content on the Internet ranges from 5 to 11 percent annually across Thailand, India, and South Korea.
- We are witnessing **the rise of a consumer-creator model** that has broken down the barriers to the creation and distribution of content. Consumers are increasingly participating in infotainment and video content creation through forums, blogs, and social networks, and social media platforms have enabled users to convert their passions into careers by making their work accessible to millions of users around the world.
- Digital content is at the heart of the **emergence of a cultural renaissance** thanks to the opportunity for niche content creators to distribute their products on the unlimited shelf space of the Internet. Broadcasters, publishers, and other traditional media distributors that were constrained by limited space for their content offline have seen their business models disrupted.

- **Digital is also enabling the spread of content across large and previously underserved populations**, especially in markets such as India, where a vast majority of the population does not have access to traditional media such as newspapers, books, and pay TV. These populations are now able to access content on the Internet, in many instances through their mobile phones.
- **The export market for content from these countries has grown rapidly**, as the Internet permits easier access to international markets, yielding significant revenues. Content creators and distributors across all creative sectors now have access to previously untapped markets.
- **Emerging artists are benefiting** from open, instant, and, in many cases, free access to a critical mass of users via online distribution platforms, as well as from dedicated platforms providing assistance in production, distribution, monetization, and audience development.
- **Local content consumption is rising**, as exemplified in Australia, where short-form audio/video content is much more popular on digital platforms than on long-form box office platforms. Local YouTube artists in Australia are capturing and engaging with a much larger share of the country's audience than is the box office, where just one of the top 20 movies for each year between 2010 and 2015 was local.
- **Content majors can now access larger audiences** while increasing loyalty and tailoring their offerings to user preferences. They also benefit from cost-effective access to new talent.
- **Distributors are monetizing digital, international, and long-tail content** and building more agile and cost-effective new business models. Social media has also allowed them to capture more audiences and increase content usage.

Introduction

As of July 2016, almost 3.41 billion people around the globe (46 percent of the world's population) were connected to the Internet. The Internet has reduced the distance between them, allowing for instant communication and exchange of data, news, opinions, information, entertainment, and more. In so doing, the Internet has transformed many industries — from telecommunications and finance to retail and travel. The five creative sector industries that we consider in this report have been no less transformed.

Indeed, the creative sector has become a prime example of the convergence of the digital and the non-digital. The line between a TV show or a newspaper article and its digital extensions — everything from online videos to apps — is fading away, even as the line between artists and audiences is fast blurring as well.

The benefits of the Internet for the creative sector, however, have so far been unevenly distributed. Some industries, such as gaming, have rapidly reaped extraordinary rewards; others, including music, newspapers, and magazines, which have been slower to adapt to digital models, have experienced limited growth. However, there is no doubt that for the sector as a whole, the Internet has unleashed an unprecedented burst of creativity — artistic, technological, and commercial. And the biggest beneficiary of all? The consumer.

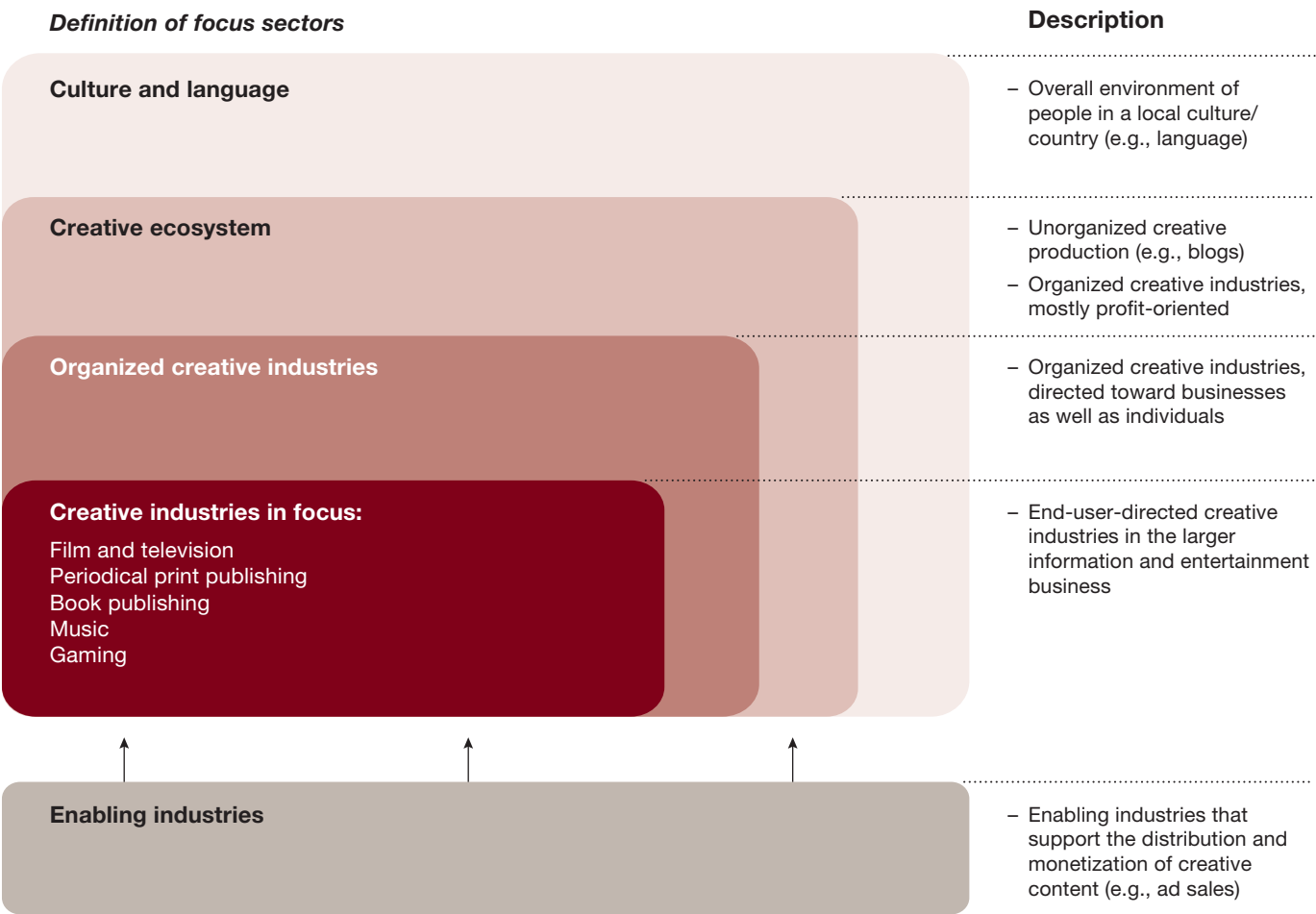
Defining the creative sector

There is no single, uniform definition of “the creative sector.” This report defines it as all creative efforts directed at consumers, within the larger information and entertainment business, where the works are designed to generate a for-profit commercial return. The report focuses on five industries — video (film and television), periodical print publishing (newspapers and magazines), book publishing, electronic gaming, and music — all of which depend to varying degrees on copyright to support the generation of revenue, from both digital and non-digital sources. Ultimately, the creative sector should be seen as

part of a larger social system that includes, at the outer layer, the culture and language of a country or region on which all creative production is based (see Exhibit 1).

Exhibit 1
The creative industries defined

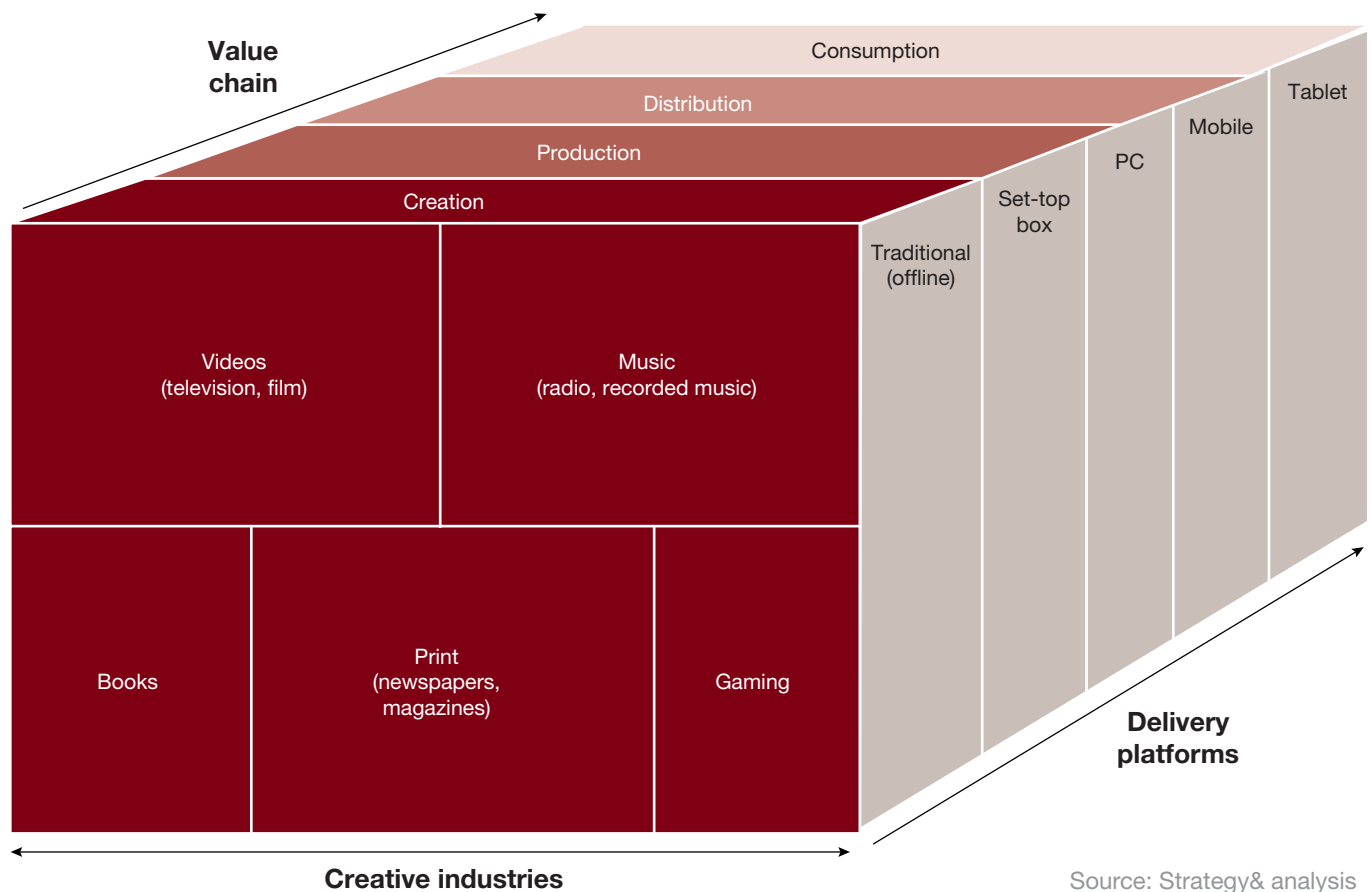
The study focuses on the largest end-user-directed creative industries



Source: Strategy& analysis

This definition explicitly leaves out the live performing arts and sports events, fine arts such as painting and photography, and any B2B-directed creative production, including product design and architecture. Moreover, although the creative sector is supported by numerous “enabling industries” such as advertising agencies, search engines, and social media, these providers are also excluded from our definition (see *Exhibit 2*). Thus, we include advertising-supported media, such as television and online newspapers, but not the advertising industry itself.

Exhibit 2
Our focus industries across the value chain and platforms



Source: Strategy& analysis

Stages of Internet evolution

To study the many different ways the Internet has affected the creative sector, we selected five countries, at varying stages in the process of digital evolution. Specifically, we classified those countries into four categories based on their level of traditional media reach and Internet connectivity. Traditional media reach — the level of penetration of traditional content distribution platforms such as television and print into a market's households — allows us to understand the accessibility of content in each country without the Internet. Connectivity is measured by the level of penetration of fixed and mobile broadband and smartphones across the market's population (*see Exhibit 3, next page*).

These are the four stages we identified.

- India is a **next-generation** market. It features low fixed broadband and smartphone penetration, and its level of traditional media distribution is not particularly strong. However, high and increasing mobile broadband penetration — 73 percent in India — is vastly improving the ability of consumers to access informational, entertainment, and educational content and fast-tracking the growth of the country's creative sectors overall.
- Thailand is in the **transitional** phase, having reached a more developed state of Internet connectivity. Fixed and mobile broadband connections and smartphone penetration are at acceptable levels, and traditional media distribution is strong. As such, the Thais benefit considerably from the tools required to consume creative content both through traditional means and on digital devices.
- Japan is **fully equipped** for digital, as is Australia in its major urban areas (Australia's more remote communities fall more closely into the transitional stage). These markets enjoy highly developed fixed, mobile, and smartphone penetration that allows their people to consume high-quality, high-resolution content.
- Finally, in **hyper-connected** South Korea, digital is in the population's very DNA. South Koreans are among the largest consumers of digital creative content in the world, and can access ultra-high-resolution videos and games anywhere, anytime, and anyhow.

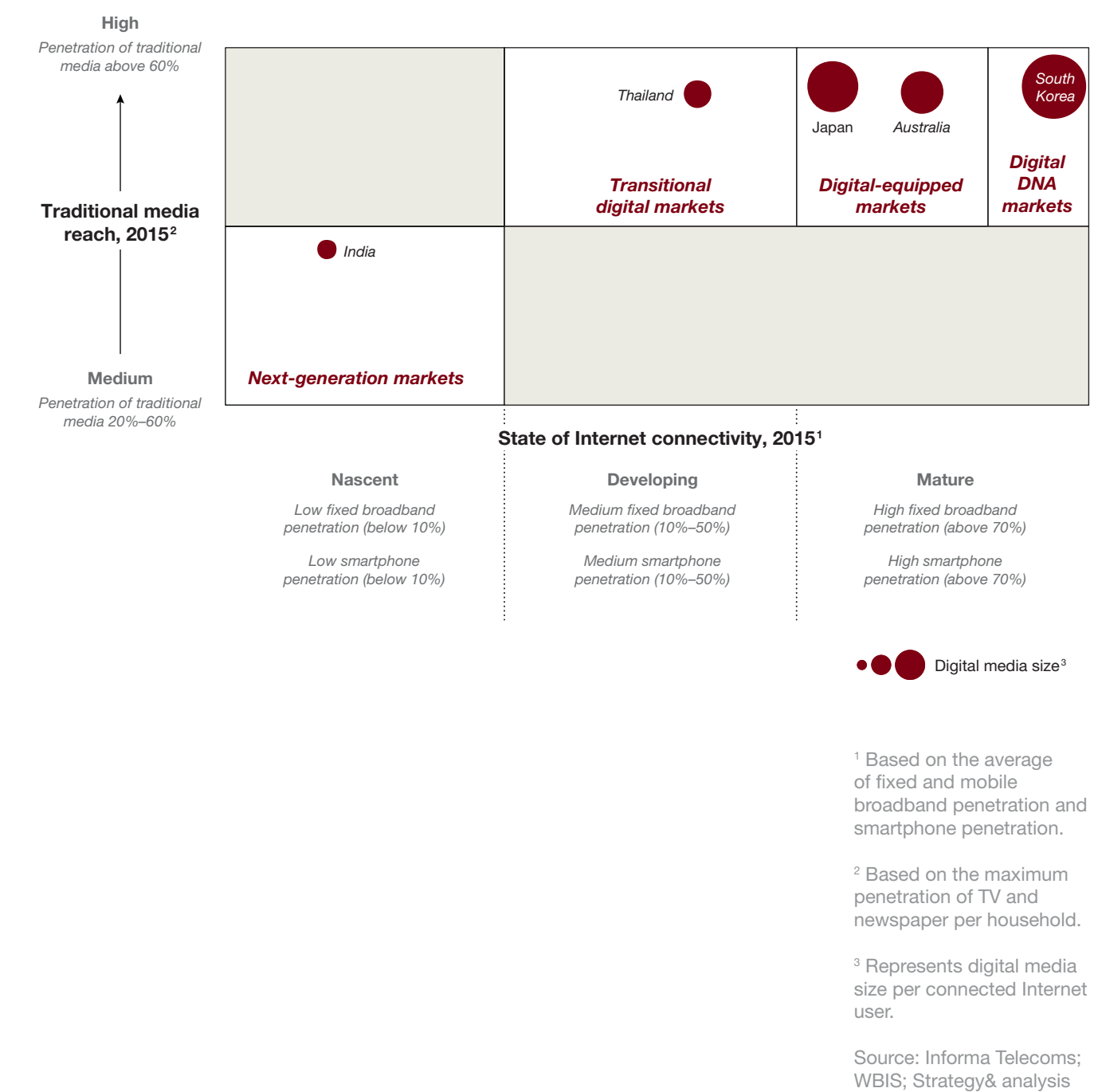
Overview of each creative sector

The impact of the Internet on each of the five creative industries has been uneven. Although video remains the largest creative sector in terms of revenue, the gaming sector has been the largest contributor to

Exhibit 3

Internet maturity and media penetration

Focus countries' stages of Internet evolution, 2015



the growth of creative content. Across all five countries between 2011 and 2015, gaming, mainly driven by digital, has been growing most rapidly, at 13 percent per year. Video and books have been growing at 4 and 1 percent per year, respectively, while music and print have each dropped 1 percent.² (These numbers combine both digital and non-digital content.) A closer look at each industry explains why.

Video. Traditional platforms such as satellite and cable TV remain the dominant sources of revenue coming from creative content, while revenues from digital video content have not yet reached their full potential across all five countries. Still, viewership of online and mobile videos is soaring. Internet TV platforms have already had a significant impact, increasing the breadth of content offered and providing the ability to upload content, both professional and user-generated. Interest in short-form content (on sites such as YouTube, Vine, and Dailymotion) is booming, while short- and long-form premium content (films and TV series) is increasingly available at affordable prices on so-called over-the-top platforms such as Netflix and Hulu that carry their data over traditional telecom networks. For linear TV channels, dual screening and multi-platform experiences have become a must to retain and engage a highly connected audience.

Already, many broadcasters have expanded their revenues by following their consumers online. They have successfully introduced a variety of new business models to make money from their content and create new experiences, and such innovations will continue to drive the industry's growth. The digital landscape is also allowing for the emergence of niche video producers bringing non-mainstream content to audiences, thanks in part to a growing ecosystem of players offering support, from production and funding through to distribution.

The revenue contribution from digital TV remained low in all markets in 2015, varying from just 1 percent of total video revenues in Thailand to 5 percent in Japan. Going forward, digital videos, including TV and home entertainment, are expected to fuel the overall video industry growth at annual rates between 16 and 25 percent from 2015 to 2020.³

Periodical print publishing. The Internet has had a huge and in many ways disruptive impact on periodicals, which continue to experiment with new ways to extract value from digitization. Although demand for news in general has been on the rise, how people consume it is changing fast. Younger people typically don't consume news in print or on TV, and are much more likely than people over 45 to get their news through mobile devices and social media.⁴ This suggests that traditional news providers should be able to capture more value if they can develop truly appealing digital ecosystems and innovative business models.

Although demand for news in general has been on the rise, how people consume it is changing fast.

In countries with more mature digital capacity, traditional news-oriented business models are increasingly shifting from a platform focus to a content focus: People get their news from multiple formats — from TV and newspapers to publishers' websites, citizen journalism sites such as the Huffington Post, blog sites like BuzzFeed, and, increasingly, social media networks (Facebook, Twitter, and others) and mobile apps. Periodicals at a global level have seen revenues and profits decline, but are now experimenting with new business models and revenue streams.

The five markets in our study have been facing this decline at different intensities: The drop has been strongest in the digital DNA and digital-equipped markets. The Australian newspaper industry has seen annual revenue losses of 3 percent between 2011 and 2015; in South Korea and Japan, the industry has lost around 1 percent per year. Thailand, which is in the transitional phase, witnessed a stable growth of 0.5 percent per year. In next-generation markets, however, digital has not yet disrupted the print players; India has seen annual growth of 4.8 percent.⁵

Several studies have assessed the role of each media platform across each step of the news consumption journey. They have found that discovery increasingly occurs on social media or through a publisher's breaking-news app. News amplification occurs on social media and forums, while validation and investigation occur only on the most credible publishers' branded sites.

Print publishers have great assets with their established brands and existing content capabilities. The future success of print media businesses will depend on their ability to continuously create relevant consumer experiences that utilize their unique strengths and the perceived credibility of their brands to more effectively leverage their existing assets.

Book publishing. This will be the next industry to be fully revolutionized by digitization. Up to now, the financial impact on books in the countries we studied has been small, but that, too, will change. Revenues for physical books are growing or stable in all five of our countries, and the share of digital revenues was still only about 15 percent in 2014. South Korea is at the upper range of digitization, with e-books contributing a 24 percent share of sales in 2014, while next-generation markets such as India are still hovering around a 2 percent share.⁶

Traditional publishers in every market are moving online to offer larger book libraries and the convenience of home delivery, while also distributing hard-copy editions. The Internet has become a supplement to traditional book retailers, which use it to drive traffic to their bookstores, acquire new customers, and promote their brands and products.

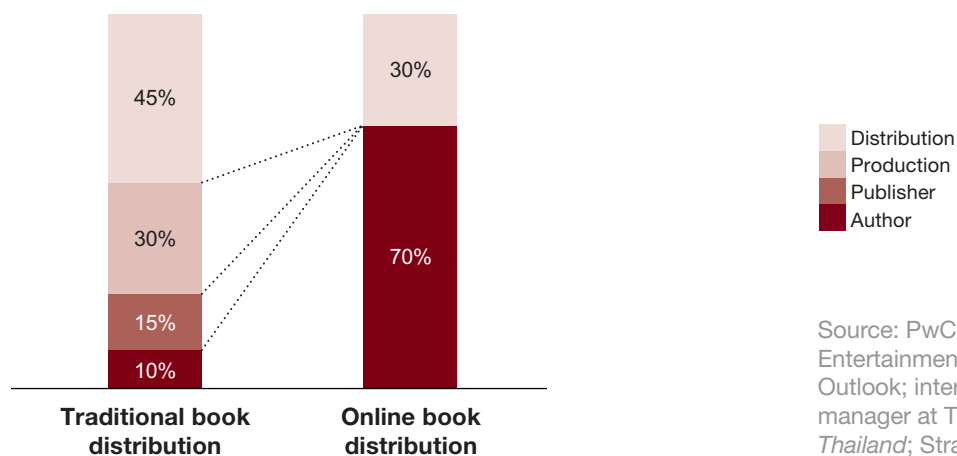
While traditional bookstores are increasing their focus on online distribution, book aggregators and e-readers such as Amazon's Kindle, Apple's iBooks, and Google Play Books are entering the e-books market in Asia-Pacific. As a result, the number of e-book releases in Japan has increased from 260,000 in 2011 to more than 1 million in 2014. This development offers consumers a large range of books that are easily carried, are affordably priced, and can be stored in large numbers.

The new phenomenon of self-publishing is also emerging in the form of platforms that nascent writers can use to publish their work, gain access to a community of readers with whom they can interact, and leverage an end-to-end publishing solution from content preparation to storage and delivery to billing. In Thailand, for example, authors who self-publish capture 70 percent of the revenues from sales, compared with just 10 percent for traditional authors (*see Exhibit 4*).

Electronic gaming. The electronic gaming industry has reaped extraordinary rewards from the Internet. Enabled by a higher-performance broadband infrastructure, online and mobile games have been fully embraced by the industry and across all age groups. The emergence of new gaming platforms such as Facebook, the iTunes Store, Google Play, YouTube Gaming, and many others has also reduced

Exhibit 4 Financial benefits of self-publication

Revenue allocation from books in Thailand



Source: PwC's Global Entertainment and Media Outlook; interview with manager at TCDC; *Forbes Thailand*; Strategy& analysis

barriers to entry for game publishers, thanks to lower distribution costs and the lower production requirements of producing social games.

The shift in platforms is also attracting new consumers who might not have used a console but will spend time playing games online or on a mobile device because it is convenient. In fact, although users of casual games would not call themselves “gamers,” they end up spending more time playing than hard-core gamers.

Globally, games have rapidly become one of the largest paid-content categories online, thanks primarily to the growing preference for “freemium” models, in which the basic app is offered free but additional options are available for a price. In fact, freemium-based models, featuring either in-app purchases or desktop-game micro-transactions, have been growing more rapidly than the overall gaming market everywhere. Freemium-based games grew by an average of 13 percent per year from 2011 to 2015 in Japan, compared with 11 percent for the total game market, and by 21 percent per year in South Korea compared with 19 percent for the total market. Online micro-transaction and social/casual games, which are mainly based on freemium models, contributed 73 percent and 91 percent to Japan’s and South Korea’s gaming revenues, respectively, in 2015.

Music. The market for paid music has been experiencing a revival over the past decade or so, thanks to live music events and the success of legal international distribution platforms such as iTunes, Apple Music, Spotify, Pandora, and YouTube, as well as many local players such as MelOn and Mnet in South Korea. These companies have been able to convert casual pirates to paying consumers through a value proposition focused on content variety, accessibility, and flexible pricing. In turn, this has fueled a revival in recorded music sales.

With the establishment of digital downloads as an alternative to physical recordings, beginning with the rise of iTunes in the early 2000s, the economics of the industry fundamentally changed. Today, about 66 percent of revenues from a download go to the artist and label, compared with about 32 percent for a CD sale. The additional share for artists and labels is coming almost entirely from the reduction in intermediary and distribution costs as a result of the new formats (see *Exhibit 5, next page*).

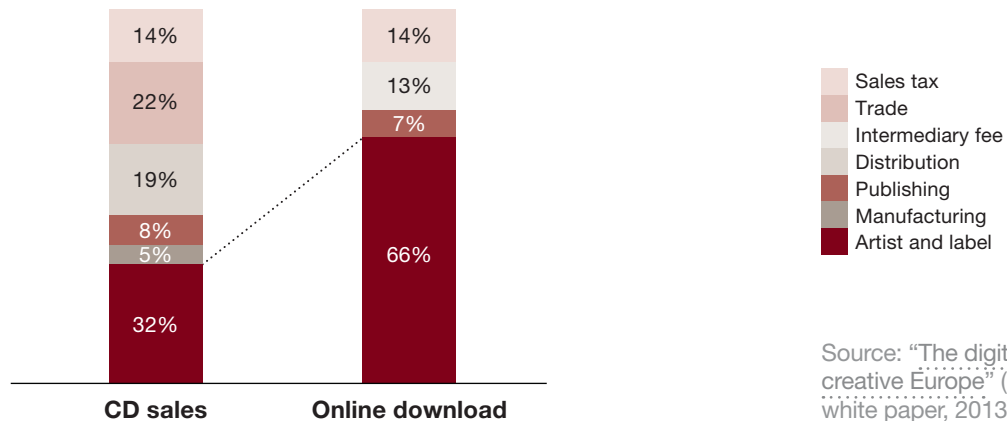
Music consumption patterns vary from country to country; in Japan and Australia, for example, the culture of downloads is still dominant, whereas in Thailand, Korea, and India, streaming is the preferred way of listening. Overall, however, music is slowly shifting toward a culture of “access,” rather than ownership, as streaming platforms become the main source of music consumption. In Australia, for instance, the

The shift in gaming platforms is attracting new consumers who might not have used a console but will play games online or on a mobile device.

Exhibit 5

Profit redistribution in the music business

Profit distribution of physical sale vs. online download (% of sales price)



Source: "The digital future of creative Europe" (Strategy& white paper, 2013)

streaming model grew 183 percent between 2014 and 2015 and download services grew 90 percent. It is worthwhile to contrast these countries with Norway and Sweden, which have the highest share of streaming penetration. We expect the portion of revenue from downloads to continue to decline over time in most countries worldwide (see Exhibit 6, next page).

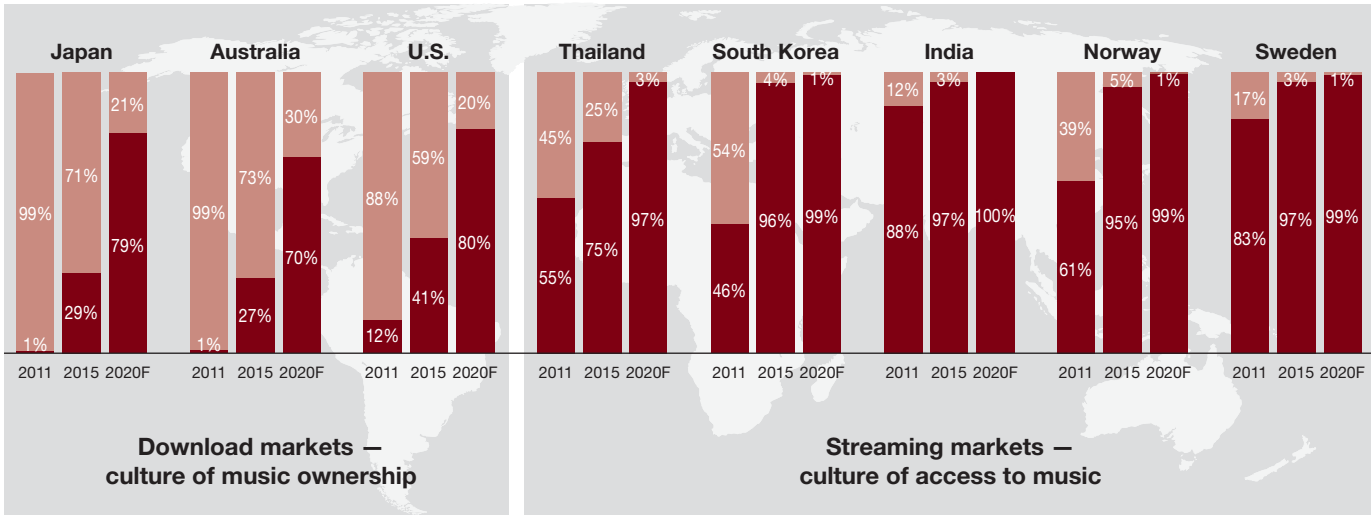
Streaming platforms provide both leading and nascent artists with ways to distribute their music at limited cost, promotional platforms with international reach, and direct channels of communication with their fans. The shift from downloads to streaming has created its share of controversy, however, as artists and songwriters raise concerns about the amount of royalties they receive from their streamed music. What is clear is that streaming is becoming an increasingly important source of revenue for the music industry. For example, Australia grew digital music revenues by more than 29 percent per annum between 2011 and 2015, adding AU\$405 million (US\$306 million) to the total of AU\$2.7 billion.⁷

Exhibit 6

Increase in music streaming

Digital music market revenues by downloads vs. streaming

(select countries in US\$ millions)



General trend

Music downloads
Music streaming

Source: PwC's Global
Entertainment and Media
Outlook; Strategy& analysis

Growth in the creative industries is digital

As different as the countries and creative industries we studied are, six common themes unite the overall effect of the Internet on the creative sector and on these countries' economies as a whole.

1. The time spent consuming creative products is increasing.

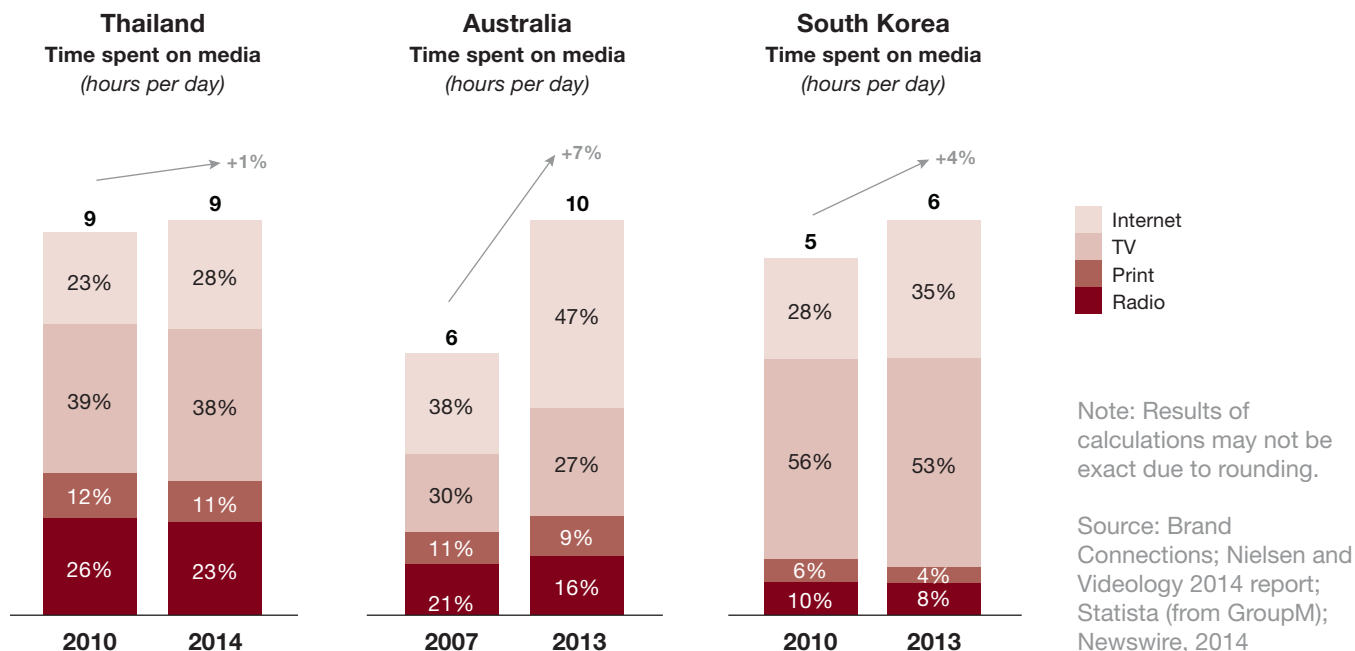
Consumer media usage is growing across every country in our study, from those with relatively low Internet penetration to those with penetration rates close to 100 percent. The amount of time devoted to offline and online media consumption has increased fastest in countries

with strong Internet penetration, such as Australia and South Korea (see Exhibit 7).

- The increase in time-consuming media is the highest in Australia, up from 6.4 hours per day in 2011 to 9.7 hours in 2013, an annual increase of 11 percent. That increase is occurring without cannibalizing users' consumption of traditional TV, radio, and print. TV consumption increased by 13 percent from 2007 to 2013, and consumption of print media rose 7 percent during the same period.
- Online video consumption in India doubled between 2011 and 2013, while traditional viewing platforms such as TV and cinema continued to grow in popularity.

Exhibit 7

Increased time spent on media, by country



2. Users are willing to pay for creative products. Some observers question the sustainability of the Internet as a revenue source for the creative sector, and many believe that consumers are less willing to pay for digital products than for their physical equivalents. Indeed, this has proven to be a challenge for news organizations. Yet sales of digital content show that consumers, as they spend more time online, are willing to pay for content, especially if it provides variety, is of high quality, is affordable, and has the convenience of anytime, anywhere, anyhow consumption.

In every country in our study, consumers are spending more on digital creative products than ever before — from 15 percent annual growth in Japan between 2011 and 2015 to 35 percent annual growth in Australia for the same period (*see Exhibit 8, next page, which shows data for Thailand, Australia, and South Korea, the markets for which we had analogous data*).

The rapid international growth of distribution platforms — such as Netflix, a TV streaming service; Spotify and Apple Music, streamers of music; and local players such as Hollywood HD and iFlix in Thailand — provides strong evidence of the increased willingness to pay for digital content.

- With a flexible pricing model and a unique content library, Netflix attracted 1.6 million sign-ups and 900,000 paying users in Australia less than six months after its launch there, Citi Research estimates.⁸
- Digital games are large drivers of online payments, particularly in Korea and Japan, where the Internet is driving increased per capita gaming spend for both PC and app-based games. Game apps are leading the surge in Japan, where expenditure per capita grew by a total of 232 percent between 2010 and 2015, mainly driven by the rapid adoption of smartphones and tablets.⁹

3. The overall value of the creative sector is increasing. As more time is spent online and consumers can legally and more cost-effectively access content, the overall value of the creative market is growing. In South Korea, the Internet's contribution to the total value of the creative sector is particularly high — fully 35 percent in 2015 — since digital is increasingly part of most consumers' DNA there. Japan's and Australia's creative sectors are moderately digitized; their proportion of digital media content is in line with that of other developed markets such as the U.S., the U.K., and France.

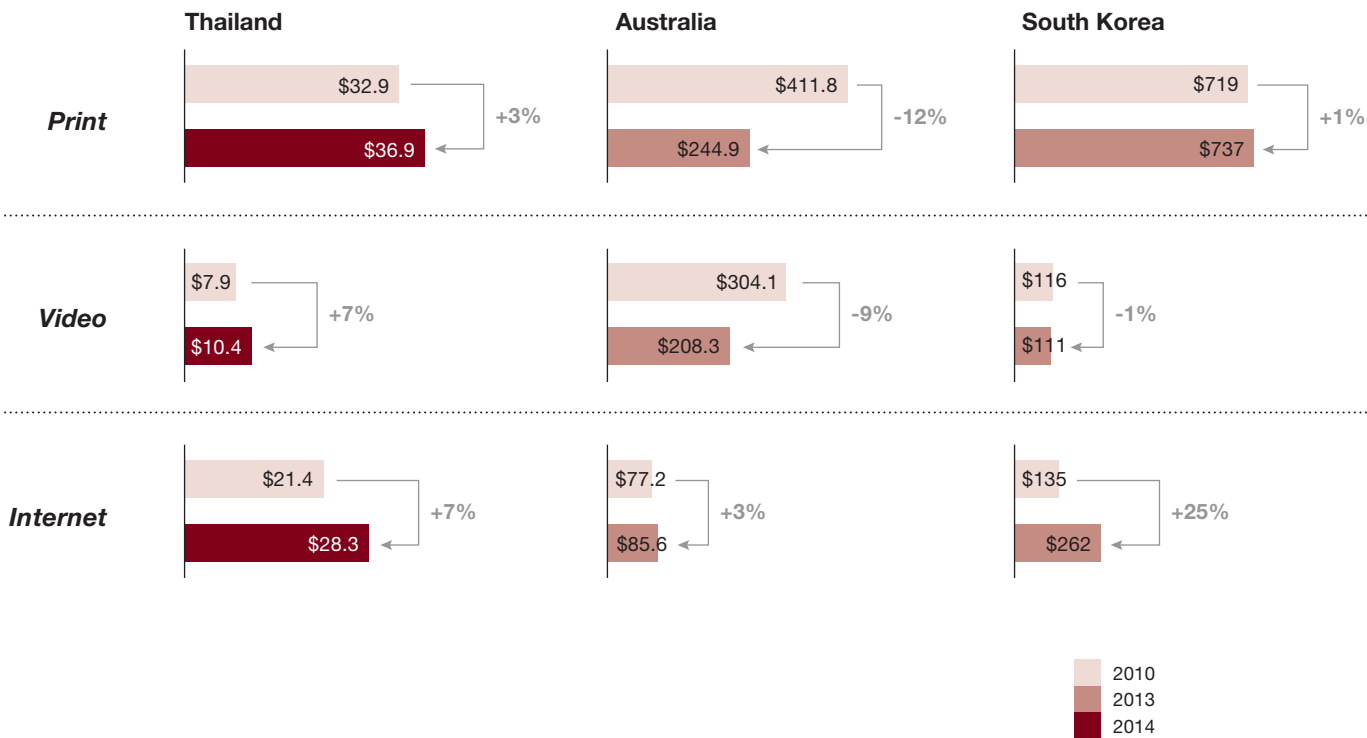
Moreover, every country's creative sector has been growing faster than its nominal GDP, although that growth is faster in developing markets, as developed markets become more mature. In South Korea, for

Exhibit 8

Payments for digital content are rising

Pay monetization by hour of usage

(in US\$ per 1,000 capita for print and video, and per 1,000 Internet population for digital)



Source: PwC's Global Entertainment and Media Outlook; eMarketer; Statista; Strategy& analysis

instance, while GDP increased by 3 percent annually from 2011 to 2015,¹⁰ payments for creative content increased by 6 percent and for digital content by 21 percent for the same period¹¹ (see *Exhibit 9*, next page).

The creation of real value, in the form of actual revenue, however, is moving more slowly in mobile-heavy next-generation markets, since money made from mobile channels through advertising and content payment still lags behind revenues from larger screens such as TV and theaters, even though consumers spend much more time consuming content on mobile devices. Still, digital media in all five countries grew at double-digit annual rates, with Australia, India, and South Korea growing at 25, 24, and 21 percent, respectively, between 2011 and 2015 (see *Exhibit 10*, page 26).

Overall, across all five countries in our study, the creative sector grew at an average of 3 percent per year from 2011 to 2015, with most of the growth coming from paid digital content (see *Exhibit 11*, page 27). In fact, digital growth represents as much as 86 percent of the creative market growth from 2011 to 2015, compared with 14 percent for traditional content over the same period.

Total paid content also increased slightly faster than advertising, at 3.5 percent compared with 2 percent, for the same period, demonstrating consumers' increased willingness to pay for content. Paid content growth represented 83 percent of the creative market growth from 2011 to 2015, compared with just 17 percent for advertising.¹²

4. Entrepreneurship is on the rise. Traditional creative platforms came with limited inventory space and high distribution costs, giving the platforms' owners most of the control and the lion's share of the revenue. The Internet has allowed independent artists and small and medium-sized enterprises to build direct relationships with consumers and get closer to the revenue stream.

The low costs of digital content production — sometimes requiring little more than a smartphone — and the proliferation of distribution platforms have opened up real opportunities for individual and small-scale content creators to experiment with original offerings, showcase their work, and instantaneously reach a critical mass of people. Indeed, all five of the creative sector's industries have witnessed a growth in entrepreneurship, from video blogs, or vlogs, to indie music, microblogs, self-published e-books, and indie games.

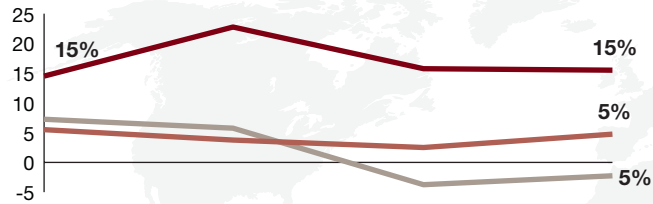
Individual creators also benefit from the availability of alternative funding models and supporting mechanisms such as multichannel networks (MCNs), which provide assistance to new video artists when it

Exhibit 9

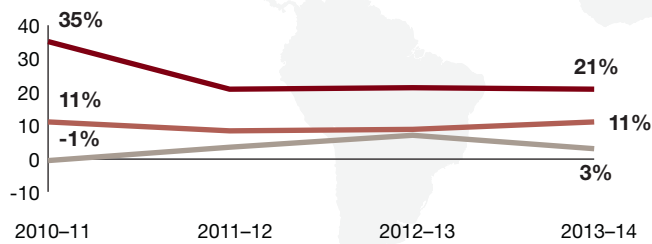
Growth in the creative sector compared with nominal GDP

Developing countries

Thailand



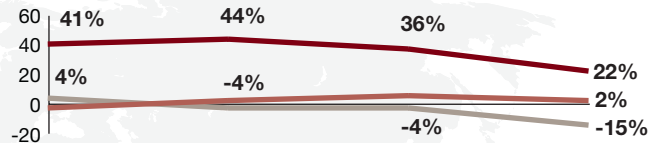
India



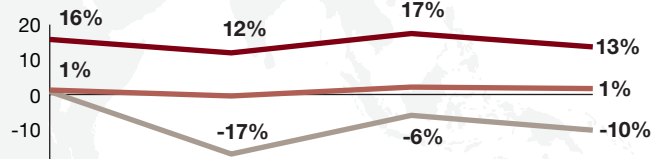
Digital media experiencing faster growth than GDP and still growing faster or as fast as in previous years

Developed countries

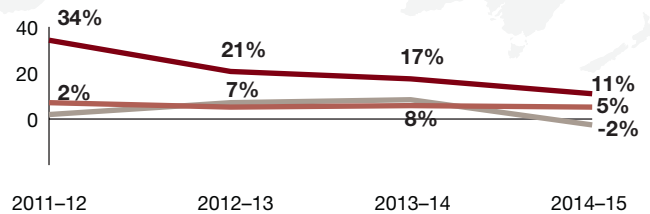
Australia



Japan



South Korea



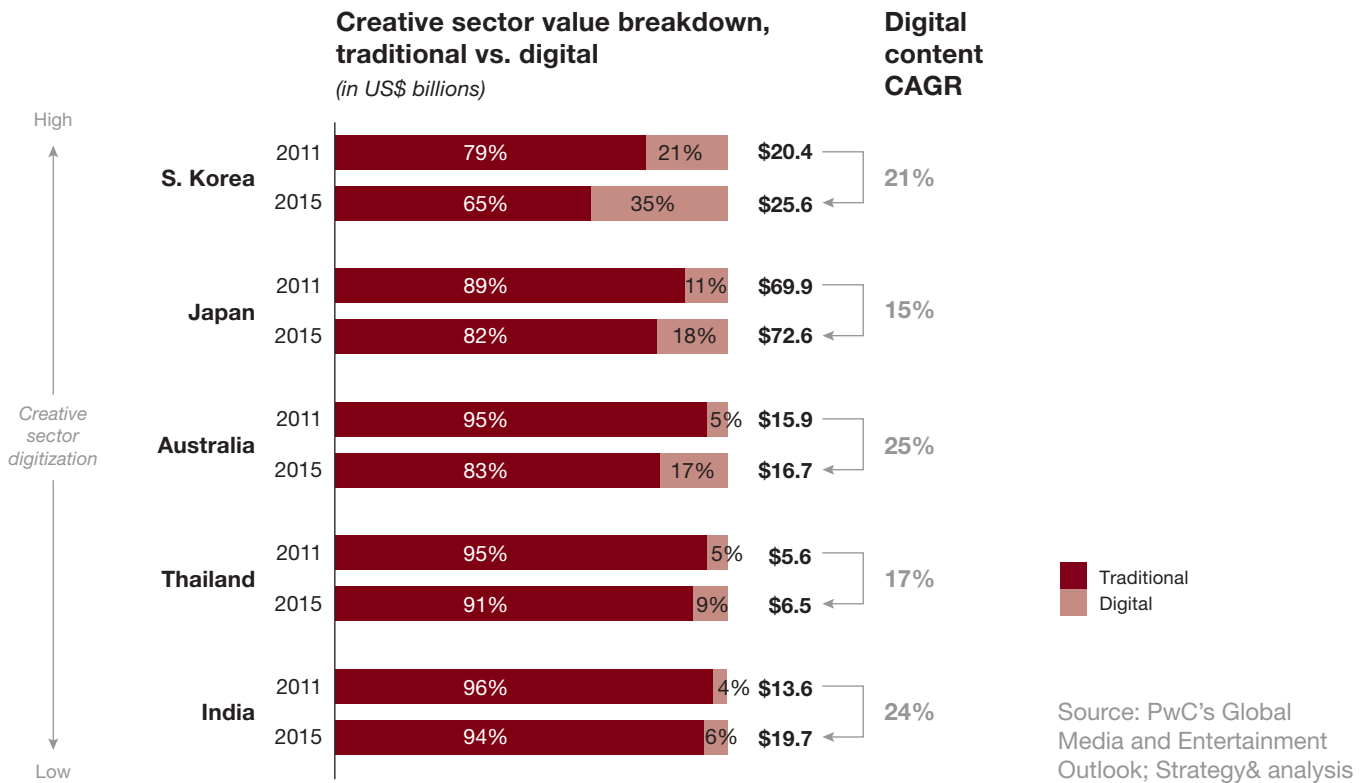
Digital media experiencing faster growth than GDP with growth rate slightly decreasing as market reaches mature levels

— GDP
— Media market
— Digital media market

Source: PwC's Global Entertainment and Media Outlook; Euromonitor; Strategy& analysis

Exhibit 10

Digital contribution to creative sector growth



comes to production, distribution, monetization, and audience development. This support helps create jobs and contribute to the expansion of small and medium-sized businesses.

In Australia, user-generated and independent artists' content is widely popular; in May 2016, it made up nine of the top 10 Australian YouTube channels, seven of which are represented by MCNs.¹³

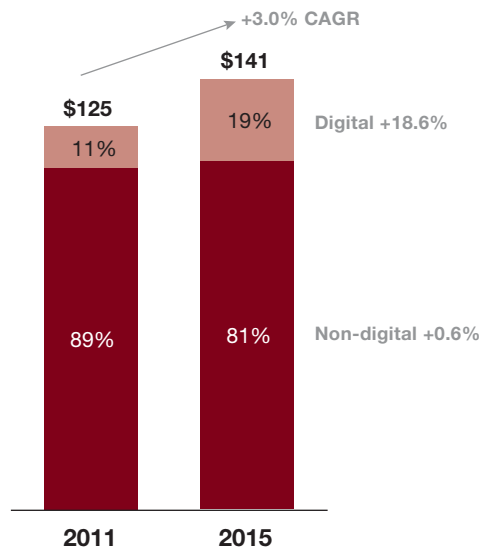
In India, in the words of the late Rajjat Barjatya, who was managing director and CEO of Rajshri Media: "Platforms such as YouTube have 'democratized' the content creation process and led to the removal of 'gatekeepers.'"¹⁴ New entrants such as singer Shraddha Sharma now find it easy to showcase their talent to a wide audience. Sharma's records had captured almost 200,000 subscribers and more than 14.4 million views by April 2016. After being discovered through YouTube by an MCN, she signed with Universal Music and released her first album, *Raastey*, in 2014.

Exhibit 11

Growth fueled by digital and paid content

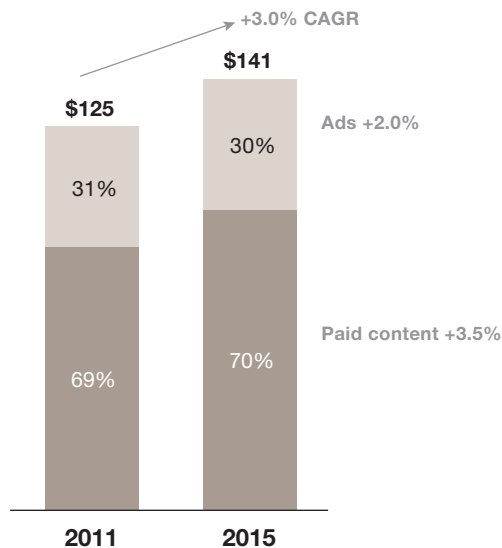
Creative sector digital vs. non-digital breakdown

(focus countries, in US\$ billions)



Creative sector ads vs. paid content breakdown

(focus countries, in US\$ billions)



Source: PwC's Global Media and Entertainment Outlook; Strategy& analysis

5. Local content industries are getting stronger. A further effect of the Internet's ability to boost entrepreneurship and reduce barriers to entry for independent creators is the increased supply of local content, a significant benefit to consumers. In Australia, for example, despite ever-expanding access to international content, traffic to local sources has risen over the past few years. In 2015, 61 percent of total traffic on the country's top 12 sites went to local news websites, a 55 percent increase since 2012. And according to Nielsen, the number of visitors to ".au" websites is increasing faster than it is for ".com" websites.¹⁵

6. Creative exports are soaring. Internet platforms have removed the physical borders between markets and thus fueled the export of creativity across all five creative industries. In countries where a particular creative industry has traditionally been strong, the Internet has enabled easier access to international markets and yielded significant export revenues for the industry's products.

For instance, the gaming industry in Korea took in a total of US\$9.29 billion in revenues in 2015,¹⁶ and exports accounted for a third of that,

up from a quarter just four years earlier. Mobile games have become the key driver of the growth in exports, up 40 percent annually between 2011 and 2013.¹⁷

Many of the new Internet-based social media stars in Australia, such as Troye Sivan, SketchShe, and Josiah Brooks (Draw with Jazza), have established themselves in markets across the globe. Unsurprisingly, Australia's cultural exports are especially popular in English-speaking countries like the U.K., the U.S., Canada, South Africa, and New Zealand.¹⁸

India's HooplaKidz, an animated, Web-based children's series, has also reached markets around the world, eventually attracting foreign investment. In 2015, U.S.-based MCN BroadbandTV acquired YoBoHo, the MCN of HooplaKidz.¹⁹

A boom for consumers

Perhaps the greatest beneficiaries of the content revolution brought about by the Internet are consumers themselves. The Internet has given them more entertainment avenues, more access to information, and the ability to interact with content and its producers. As a result, consumers spend more time on media activities than ever before. And it isn't just passive consumption — the Internet is enabling a whole new culture of remixing that allows consumers to co-create content and generate their own content. Among the benefits:

1. Increased social inclusion. The rise in digital media consumption has significantly increased the level of social inclusion around the world, bringing together often disparate and widely disseminated populations. This is especially true in next-generation markets, thanks to the greater reach and more timely sharing of content, as well as a growing number of payment options. In these markets, a vast majority of the population does not have access to traditional media such as newspapers, pay TV, books, and the like. The Internet has changed the situation.

The proliferation of mobile phones has fast-tracked this phenomenon, especially in remote rural areas, where creative, informational, and educational content is increasingly available to communities with limited access to traditional distribution platforms such as cable and pay TV.

- Thanks largely to the proliferation of mobile devices, more than 73 percent of rural connected users in India use the Internet for entertainment.²⁰
- Content providers are designing new forms of distribution for consumers with bandwidth limitations, including content-light

Consumers spend more time on media activities than ever before.

versions and offline viewing. India's Shemaroo, T-Series, Saregama, and Yash Raj Films, for example, are offered through YouTube's offline feature that is available on Android and iOS platforms.

- And Hotstar, a mobile app, allows videos to be downloaded for offline viewing; downloads of the app drove its popularity rank in India from number 339 to 38 just between January and May 2016, and it reached a peak as the most downloaded app on March 31, 2016.²¹

2. Mobility brings greater flexibility. The Internet provides consumers with the ability to access creative content anywhere, anytime, anyhow. This level of mobility and flexibility is becoming the norm in both developing and mature countries, although mobile usage is particularly high in developing markets, which have come to depend on more cheaply built-out wireless infrastructure.

South Korea is particularly advanced in this regard. Consumers there can access games through multiple devices, physical and mobile, while mobility allows users to play music anywhere, anytime (*see Exhibit 12, next page*).

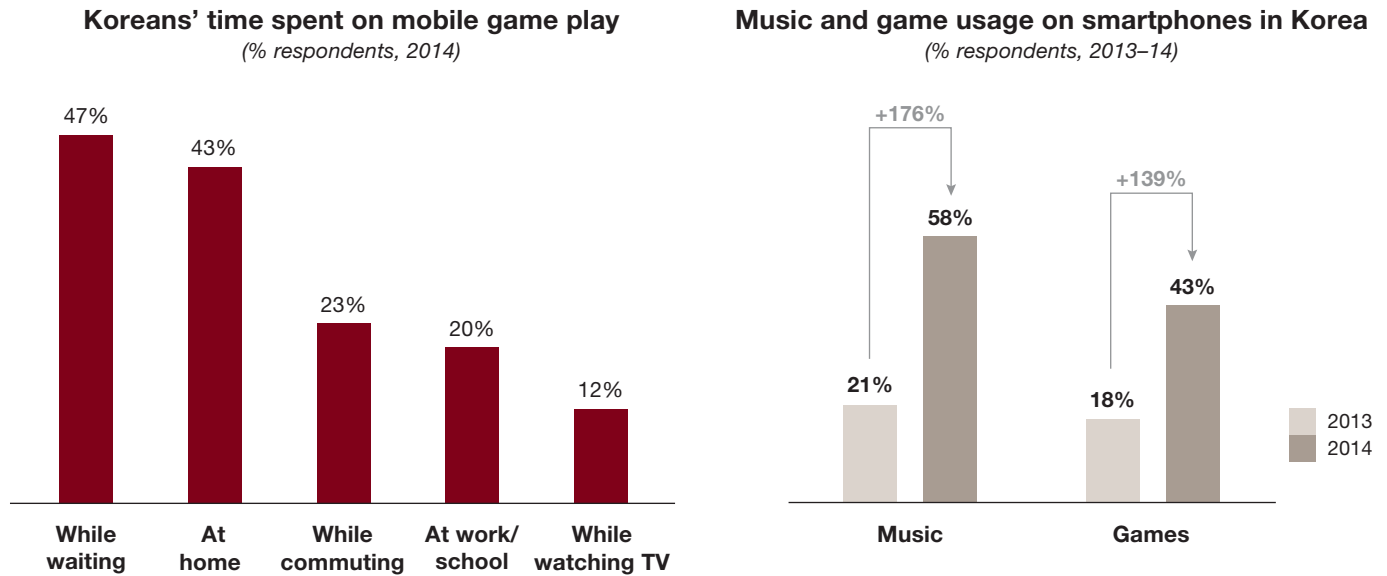
Consumption of music and games on mobile devices in Korea more than doubled between 2013 and 2014. In Thailand, dual-screening — watching traditional and online TV at the same time — is particularly high; in 2015, 40 percent of TV consumption took place on dual screens, and that is expected to reach 50 percent by 2020.²² By 2014, the percentage of Thai Internet users consuming online and traditional TV simultaneously had reached 94 percent, with 76 percent doing so on a daily basis.²³

3. More choice. Consumers also benefit from a wide and increasing variety of online content: Content archives are readily accessible, content is updated instantaneously, and innovative niche and indie offerings are on the rise. Major distribution platforms such as Netflix, Hollywood HD, and iFlix offer an enormous menu of top TV shows and movies as well as original content at affordable prices, while further benefiting the sector by helping reduce the extent of casual piracy. Niche players can enter the content market more easily, providing previously unavailable content such as independent movies, indie music genres, and self-published books of all kinds. Audiences also have access to a large supply of local content, thanks in part to the emergence of local independent artists in every genre. And audiences can gain access to the archives of libraries and universities, as well as the content majors.

4. Increased user participation. The Internet has enabled consumers to engage with content in a variety of ways, from ratings to uploading videos to commenting on articles. The Internet also lets audiences form their own communities of interest and interact more directly with

Exhibit 12

Mobile usage in South Korea



Source: "Mobile Gaming Cross-Market Analysis" (InMobi report, 2014); TNS Infratest; Statista; Strategy& analysis

artists and public figures in the news. Consumers are fast becoming actors in the very content they consume, through online communities, video sharing, and citizen journalism sites such as Internet giants Facebook and YouTube as well as local players such as Kakao in South Korea, Line in Japan, and Pantip in Thailand.

Opportunities for content majors

The community of traditional content creators — including traditional film and TV production groups, broadcasters, record labels, and newspaper and book publishers, among others — used to control a large part of the content value chain, integrating the creation, production, and distribution processes. They also aggregated content and commissioned a large portion of the output of content creators. Now, however, they are feeling the impact of the new forms of creation

and distribution enabled by the Internet, which has pushed them to adapt by creating new business models.

New technologies are being broadly used by most of the content majors. The Internet has revolutionized the way creators work and collaborate. This trend is true for most markets, including the next-generation markets. Even data-heavy film production in Bollywood is now being put online, allowing collaborators from around the globe to access the same video material in real time.

The Internet has also benefited these content majors in five key ways: by giving them broader reach and a greater understanding of their audiences (allowing them to find ways to sell content more effectively); by facilitating closer relationships with audiences; by providing easier access to talent; by opening up international markets; and by opening up significant new revenue streams.

1. Greater audience reach and insights. By expanding their content to digital platforms such as websites, online videos, and mobile apps, and by distributing their content on third-party platforms, the content majors have significantly increased their reach. In Australia, newspapers have seen revenue from traditional sources, such as print advertising, decline as a result of online advertising, and digital revenues do not always make up for those losses. At the same time, however, the absolute number of subscribers to content is growing, thanks almost entirely to digital platforms. While the Australian print newspaper audience decreased by 10 percent from 2013 to 2015, the incremental audience online and on mobile devices increased by a total of 50 percent during the same period, contributing to a net increase in newspaper audiences of 7 percent.²⁴

TV broadcasters have also increased their audiences, primarily through online video offerings. In South Korea, for example, TV broadcaster MBC generated incremental revenues of \$41.9 million in 2012 and \$46.8 million in 2014 from its online streaming offerings, and increased its YouTube subscribers from 500,000 in 2013 to 4.4 million in April 2016, leading to additional incremental revenues.²⁵

2. Closer relations with audiences. While traditional media players in such industries as television, newspapers, and music are accustomed to managing the content value chain from creation and production to distribution, the digitization of content has brought any number of specialized players across every step of the value chain, especially in creation and distribution. Now, however, a new, fully digitized ecosystem architecture is on the rise, presenting great opportunities for the traditional content majors as well. At the heart of the most successful business models is the creation of a seamless consumer

experience and the development of a deeper understanding of, and closer relationship with, audiences through online tools.

Thailand's TrueVisions, a cable TV operator, for example, has been a pioneer in integrating TV and social media, engaging with viewers on social networks and adapting its content accordingly. Said Birathon Kasemsri, the chief commercial officer at TrueVisions: "Engaging with TV audiences is better and easier with the Internet," and "combining event data with our audience's habits and preferences [allows us to significantly improve] targeting content and advertisements."²⁶

3. Easier access to talent. In the past, the content majors spent considerable amounts of time and money finding and grooming new artists. Now, digital distribution platforms have given them much better and more efficient access to new talent. As noted above, Universal Music identified the young Indian Shraddha Sharma through YouTube and signed her for her first album, *Raastey*. Sharma now finds it easy to showcase her talent to a wide audience. Her records had captured almost 198,000 subscribers and more than 14.4 million views by April 2016.

Similarly, South Korea's Applegirl rose to fame through her uploaded YouTube videos, which feature her singing and playing songs by Lady Gaga and Beyoncé. Her videos gained much interest — her Lady Gaga video alone garnered 5.3 million views by May 2016 — and facilitated her signing with Dream High Music Entertainment as a singer and songwriter.

4. International reach. The Internet has opened up important new markets that leading content majors can tap into, benefiting the entire creative sector. The independent Australian film industry, for instance, has gained international exposure through such platforms as Beamafilm. A promoter and distributor of independent Australian movies, Beamafilm reaches audiences across Australia and New Zealand as well as in the U.K., the U.S., France, Germany, and Mexico.²⁷

5. Greater efficiencies and revenue streams. Content majors are already benefiting from the generation of new revenue streams such as the monetization of their digital content, the scaling of their offerings to international markets, and the online distribution of older "long tail" content that was not previously available digitally. Moreover, thanks to large reductions in the cost of production, manufacturing, distribution, and warehousing, the Internet allows content majors to operate much more efficiently. And the increased insight into their audiences helps content majors to optimize their content costs to extract the highest value from customers.

Many publishing companies have already shown that digital content can be effectively monetized through new value propositions. Marina Go, former general manager of Hearst-Bauer in Australia, notes, “The Internet enables blue-sky thinking. It has unlocked a whole new world of creativity for publishers.”²⁸ The company’s most popular magazine, *Cosmopolitan*, has doubled its online audience since the mid-1990s, from 1 million to more than 2 million, and now reaches a new digital audience, many of whom are in their 20s, compared with the mid-30s for the title’s print readership. Even as circulation and advertising revenues decline, the company is leveraging the Internet to learn more about its subscribers while also exploring new revenue streams such as events and licensing.

Emerging artists: Unlimited value in a new digital ecosystem

By building a larger pipeline of creative material developed by consumers, the Internet has created broader communities of creative involvement, and opened up opportunities for emerging artists. These artists benefit from open platforms, better access to funding, the ability to reach international audiences cost-effectively, and increased support from sources such as MCNs, which help promote artists on sites like YouTube. Among the benefits:

1. Access to audiences. Thanks to a wide range of digital distribution platforms and affordable technologies, new artists can reach consumers directly by complementing or circumventing intermediaries and gatekeepers. South Korea’s Sungha Jung, a previously unknown guitar player, now has 4.2 million subscribers to his YouTube channel.²⁹

In 2009, Thailand’s Kirakorn Chimkool developed the Unblock Me app game using a Mac Mini bought with a 10-month installment loan. Within a few days of its release, the free version of Unblock Me became the 60th most downloaded game in the U.S. App Store and the most downloaded app in every category during the month of its release.³⁰ Since then, the game has been released for Google Play, HTML5, and the Tizen OS. By May 2016, it had been downloaded almost 120 million times.³¹

2. Access to funding. New artists have benefited greatly from better access to local and global Internet-based crowdfunding platforms. A long-standing major obstacle for the “consumer-creator” model has been access to the financing needed to make professional products that consumers are willing to pay for. The Internet is enabling new sources of funding that support new niche markets, where everyone can pitch projects to the “crowd” in an effort to receive financing by multiple (mostly small) donors.

In India, for instance, online crowdfunding platforms such as Wishberry are contributing to the growth of local nascent creators. The rock band Parvaaz was able to raise \$4,000 in less than two months and build a solid fan base along the way. Following the release of their album in 2014, the band was invited to perform at popular music festivals and later toured India.³² And Tim Lea, an independent film director and writer from Australia, financed his sci-fi feature film *54 Days* by raising \$45,000 through Pozible, an Australian crowdfunding site, in just one month. The critically acclaimed film was made available to the public on three video-on-demand platforms.³³

3. Increasing support from dedicated platforms. The rise of the MCNs has added considerably to the ability of new video artists to bring attention to their work, providing them with assistance in production, distribution, monetization, and audience development. In fact, seven of the top 10 YouTube channels in Australia and five in India feature new artists supported by MCNs. Australian teen Troye Sivan emerged as an online star thanks to the success of his YouTube channel, produced by Boom Video, an MCN; it boasted 4 million subscribers in May 2016.³⁴ *Time* magazine listed Sivan as one of the 25 most influential teens of 2014.

A variety of new digital distribution platforms now focus on distributing the work of independent artists in various fields while providing them with other kinds of support. India's OK Listen! allows up-and-coming Indian artists to make their songs available on its platform, while also helping the artists create the artwork for their songs and promoting them across online channels. The site supports more than 200 new artists.

4. Greater bargaining power. By removing the middleman from the value chain, the digitization of Thailand's book industry has allowed authors to receive a larger share of the revenues from the sale of their books — 70 percent versus 10 percent in the traditional print model — while readers benefit from lower prices for e-books.

Like the music industry in other countries around the world, South Korea's music industry used to be firmly controlled by the country's record labels, which created and developed talent, managed the careers of artists, and saw to all content promotion and distribution. The Internet has increased the bargaining power of independent artists by providing them with a platform to showcase their work and reach audiences directly, in a cost-effective manner. (See "*The changing value chain in the South Korean music industry*," page 36.)

New dynamics brought by the Internet

Digital models, driven by the proliferation of the Internet, are fueling a renewed growth in creative sectors. Increasingly, the power is shifting to consumers, who decide what they want to make, what they want to consume, and how and when they want to consume it. This change has been the primary driver of innovation and investment in creative sectors. Succeeding in this digital environment requires a different approach and recipe than in the past. Players that have managed to adopt these new models have benefited from this growth.

Although this report focuses on the impact of the Internet on creative sectors, the Internet is a powerful tool that has had a significant impact on society as a whole. As transformative as the Internet is to individuals' lives, it also creates new economic opportunities. The expansion of Internet activity has stimulated economic expansion, job growth, and poverty reduction (especially in developing countries).

The Internet's impact on the creative sector follows a similar evolution. The penetration of mobile broadband increased at a compound annual growth rate (CAGR) of 5 percent and smartphones by a CAGR of 31 percent from 2011 to 2015 across the five countries, and the digital creative sector grew at a rate of 7.5 percent during this period. In aggregate, 84 percent of the \$15 billion in revenues added to the creative sector can be attributed to digital. Consequently, the digital share of the total creative sector in these countries increased from 11 percent to 18 percent in the same period.

Consumers have embraced the digital world. They are spending more time consuming creative products. The quantity and relevance of creative products have increased steadily, and the barriers to becoming a creator have been lowered. Consumers are actively engaged in the creation of content themselves, with many reaching global audiences. New creators and companies that have emerged are providing locally relevant content in new genres, adding to the variety of local content. In developing nations such as India, the Internet is also driving social inclusion by enabling consumers in remote areas to access informational, educational, and entertainment content for the first time.

While the demand for creative content is increasing, it is also fragmenting. Traditional media players must now compete with purely digital brands and platforms for the time and attention of the consumer. In this world, traditional offline media strategies will be very hard to defend. Agility and speed are as important as size, often favoring new players. Cannibalization of traditional revenue streams and fear that their current assets will be devalued have been holding back some of the established players. New propositions, frequently led by technology,

While the demand for creative content is increasing, it is also fragmenting.

need to be launched rapidly, tested in the market, and adapted quickly based on consumer feedback. This approach can be challenging, especially in large corporate settings. But as long as the consumer benefits and spends more time with media, the creative sector will find a way to thrive. Many new digital media possibilities will not replace old media channels but rather augment them.

We are in the early stages of digitization of the creative sectors. The evolving digital ecosystem in creative sectors will be much more fluid, but it will also present abundant opportunities for all players. We expect the Internet to contribute \$15 billion more to the creative sectors of the five countries in the next five years. Traditional players that are able to embrace the new models, in the same way that consumers have, stand to benefit immensely.

The changing value chain in the South Korean music industry

The Internet has already had a significant impact on the music industry in South Korea, which had long been controlled by just a few major record labels that tightly managed every aspect of the business.

Exhibit A, next page, illustrates how the industry used to be organized, and how that's changing under the influence of the Internet. Traditionally, labels controlled content creation and talent discovery, auditioning, hiring, grooming, and training the artists, and then producing, marketing, and distributing the music. Without a contract with a record label, artists found it very difficult to get exposure for their music. Distribution and sale of CDs was the largest revenue stream for both the large and small record labels.

The barriers to entry for new artists have dropped, thanks to lower costs of production, distribution, and promotional methods such as viral marketing. And because the Internet

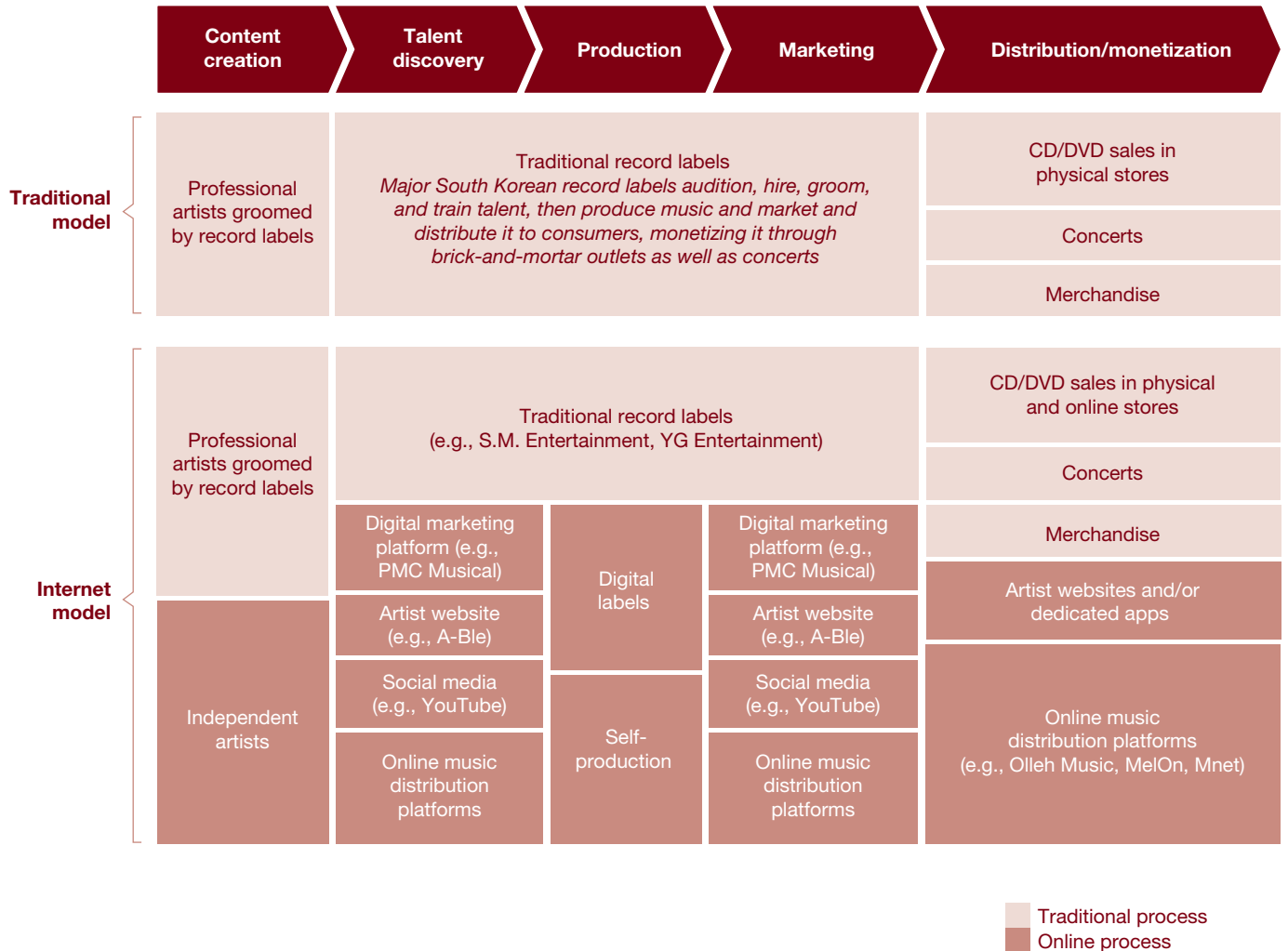
offers transparency into an artist's popularity, talented newcomers now have easier access to funding from record labels. The user feedback available on various platforms such as social media allows artists to adjust their styles and songs based on that information.

For record labels, costs are lower, audience reach has risen, and they can find new artists more easily through techniques such as online video auditions and metrics such as hits and downloads. Meanwhile, revenues no longer have to be split with CD manufacturers.

Smaller labels in South Korea, however, face a more difficult environment. The commissions they must pay to the top music distribution platforms are actually higher than the cost of producing CDs and DVDs, and top artists, who can demand a higher percentage of sales, often prefer signing contracts with the large record labels.

Exhibit A

A changing value chain: South Korea's music value chain before and after the advent of the Internet



Source: Interviews with large and medium-sized record labels; Strategy& analysis

Chapter 1

Japan: Growth in a contracting economy

Although Japan's overall economy continues to struggle — it contracted by 9 percent yearly between 2011 and 2015 — its media sector actually grew annually by 1 percent over the same period, to \$73 billion in total revenue, and is expected to continue to grow through 2020. Much of that increase has and will continue to come from the rapid growth of digital content. In 2011 digital content made up 11 percent of the overall sector's total revenues; by 2015 that proportion had reached 18 percent, and by 2020 it is expected to rise to 25 percent (*see Exhibit 13, next page*).

Trends shaping Japan's creative market

The digital share of Japan's total creative sector revenue is quite high, and compares favorably to that of India (6 percent), Thailand (9 percent), and Australia (17 percent). Only South Korea's digital sector is significantly more developed, at 35 percent. The strength of Japan's digital media sector is largely attributable to its high level of fixed broadband penetration (76 percent), mobile broadband penetration (119 percent), and smartphone penetration (77 percent) in 2015.

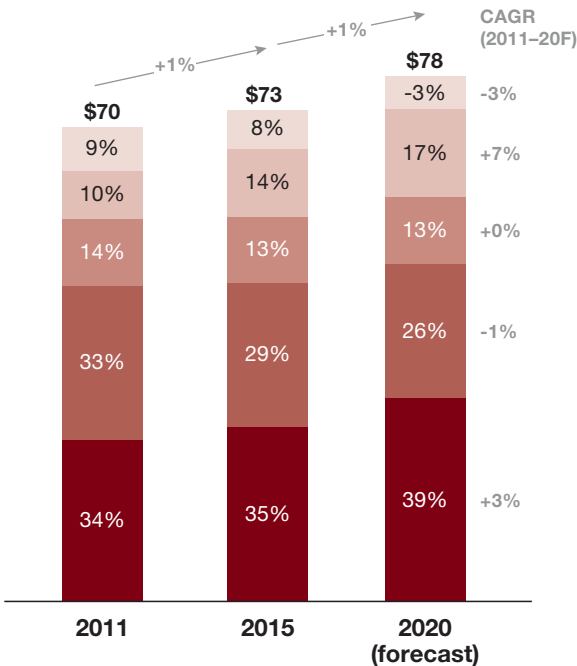
Driven largely by broadcast TV, Japan's video market is still the largest contributor to its overall creative sector. In fact, Japan is the largest TV advertising market in the Asia-Pacific region, and it is expected to remain so until 2020 and beyond. At 2 percent annual growth between 2015 and 2020, Japan's TV market is expected to reach \$24 billion in 2020. The home entertainment portion of the video sector is expected to grow revenues at a slow but steady 1 percent annual rate between 2015 and 2020, reaching \$6 billion in 2020. Local box office content is key for audiences in Japan, in which nine of the top 20 movies of 2015 were Japanese-made.

Digital compensates for traditional sector revenue decline. Japan's digital creative sector is projected to grow at 11 percent during this decade (2011–20) to reach \$19 billion by 2020. The growth in digital content has more than compensated for the decline in revenues on traditional platforms and is expected to continue to do so.

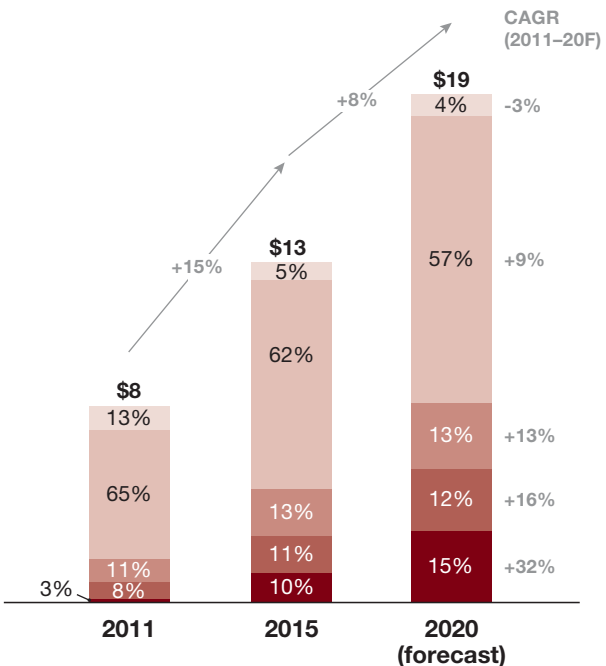
Exhibit 13

Strong growth in Japan's creative content sector

Japan's media market size by sector
(per capita gaming expenditure in US\$ billions)



Japan's digital media market size by sector
(in US\$ billions)



- Games
- Music
- Books
- Print
- Video

Note: Results of calculations may not be exact due to rounding.

Source: PwC's Global Entertainment and Media Outlook; Strategy& analysis

Japan's digital media sector is dominated by online gaming, which will likely continue to take in more than half of all digital revenues through 2020, owing to its consistent growth rate of 9 percent. In fact, Japan's online gaming industry is among the largest in the world, and it's driven by the growth of social gaming, which made up 52 percent of the gaming market in 2015.

World's largest app-based gaming market. In recent years, Japanese gamers have shifted in huge numbers from playing games on consoles, PCs, and handhelds to playing them on smartphones, and now games played on smartphones account for 70 percent of all game-related spending. Much of that comes from the so-called in-app purchase of upgrades to popular free-to-play titles. The result is that Japan accounts for a quarter of the worldwide \$24.9 billion smartphone gaming market, which explains the growing interest in the Japanese market by foreign developers such as Europe-based King and Supercell, which have brought local versions of Candy Crush and Clash of Clans, respectively, to Japan. Today, Japan leads the globe in terms of per capita gaming expenditure on app-based games (see *Exhibit 14, next page*).

Digital platforms have come to provide virtually all the growth in Japan's creative sector. In the following sections, we analyze key benefits of the shift to digital platforms, including the emergence of indie creators across creative sectors, the role of smartphone-based digital communities in stimulating growth, use of the Internet by content majors to drive efficiencies and larger audiences, and the Japanese passion for games and other digital creative content successfully crossing international borders.

The rise of the independents

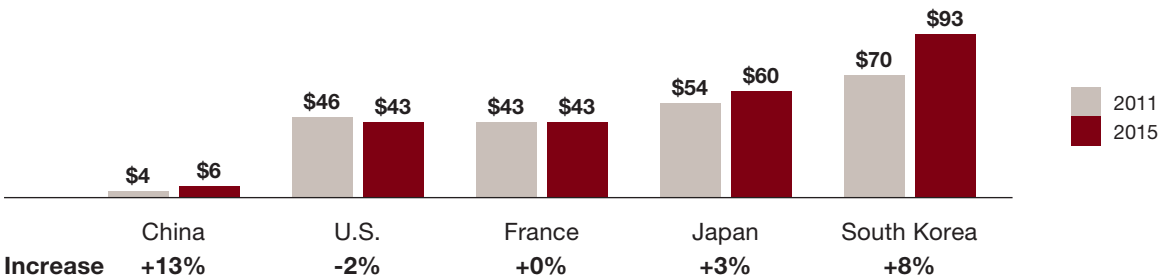
Thanks to the rise of digital distribution platforms and the power of crowdfunding, many new independent artists have emerged across numerous creative sectors, including games, music, and educational content.

New gaming channels. Traditionally, independent game makers in Japan struggled to release their new games on console players, because the console manufacturers exerted full control over the games they allowed on their machines. But the increased prevalence of digital distribution platforms such as Steam, the App Store, and Google Play has allowed the independents to distribute and sell their games without having to negotiate costly deals with the console publishers. These platforms are an easy way for indie game makers to release their creations with minimal distribution costs, and new titles pop up

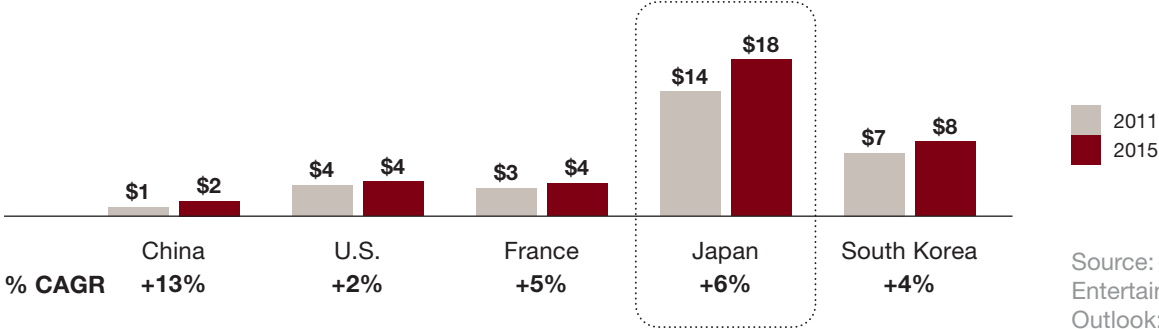
Exhibit 14

Per capita gaming expenditure on app-based games

Gaming expenditure per capita
(in US\$)



App-based gaming expenditure per capita
(in US\$)



Source: PwC's Global
Entertainment and Media
Outlook; Strategy& analysis

regularly. Their popularity has allowed local platforms such as Playism to emerge and even expand beyond Japan.

Two examples stand out: Downwell, a 2D platform game for mobile devices, was developed by the independent developer Ojiro Fumoto. The game was picked up by Devolver Digital, a U.S.-based game distributor, after it saw a picture on Twitter and reached out to the developer. Devolver Digital published the game in 2015, and made it available on PCs as well as iOS and Android devices. Similarly, Astebreed was developed by a company called Edelweiss, a developer of social games that has been active since 2005. The game was first distributed on Playism's platform, and more recently released on established platforms such as Steam, PS4, and Vita.³⁵

Money from crowds. Among the driving forces behind the increased success of independent game makers is crowdfunding, a real alternative to traditional funding, which small-scale game developers struggled to gain access to. Popular global crowdfunding platforms like Kickstarter and Indiegogo have often featured Japan-based projects — and now local alternatives like Campfire and Shooting Star are entering the market.

For example, Inafune, the co-creator of the popular Mega Man series of games, chose Kickstarter to raise funds for his new project, called Mighty No. 9. The project hit its goal of \$900,000 in less than 24 hours. On a smaller scale, indie developers Team Grand Slam chose Campfire to help fund Monken, which became the first Japanese indie game to be successfully crowdfunded on a Japan-only platform. Although the amount raised is relatively modest — just \$25,000 — it's the largest ever raised for a game on the platform.

New music on YouTube. As we've seen in other countries, YouTube has become a hotbed of activity among undiscovered young musical talents. Japanese beatboxing is a musical form in which performers vocally imitate percussion machines. Hikakin, perhaps the most popular beatboxer, first joined YouTube in 2006, and by May 2016 boasted 1.8 million subscribers to his YouTube channel; he has collected more than 381 million views. In 2011 he created the HikakinTV channel, which has 3 million subscribers and 2 billion views, and in 2013 he launched HikakinGames, which had 2 million subscribers and more than 1.2 billion views by May 2016. By then, Hikakin's soundtracks had become so popular that they were made available on iTunes.

Cultural content on YouTube. Born in Japan and raised in the U.S., Chika Yoshida returned to Japan as a young woman and soon became a Japanese YouTube celebrity through the videos she creates to teach English to the Japanese. She calls herself Bilingirl (i.e., "bilingual girl"), and released her first self-made YouTube video in 2011. Within four

years, her videos went from an average of fewer than 50 views total to 145,000 views in April 2016. Yoshida has posted 430 lessons on her YouTube channel, which now has more than 561,000 subscribers. In 2013 she launched a new YouTube channel, called Japanagos, through which she introduces Japanese language and culture to foreigners, and in 2015 she published her first book. “There is so much that I still don’t know about Japan and I want to share what I learn — its culture and history,” she says.

Local digital communities as a platform for growth

Japan’s digital media industry has benefited considerably from the rise of all forms of social media, especially mobile apps, through which Japanese players actively compete in mobile games with friends. Originally, Japanese mobile games were played on feature phones and integrated with social networks based on gaming. More recently, most of the activity has moved to messaging apps, with Line leading the market.

Launched in 2011, Line began as a messaging app, and has become best known for distributing “stickers” — large images that users pass around to one another. But it has since expanded into developing games for the platform, introducing a series of internally produced and third-party releases that appeal to casual social gamers. Its growth has been phenomenal: Between January 2013 and March 2014, the number of registered users grew 300 percent, to 400 million, and game downloads grew 329 percent, to 300 million. The company has also expanded to China, Taiwan, and Thailand, where it now competes with major messaging apps such as WeChat.

With its Line Manga app, launched in 2013, Line leveraged its 45 million users to diversify into books as well as games. Manga are a popular type of comic books aimed at both adults and children, and Line’s smartphone platform includes a store, a viewer, and a bookshelf to view previously purchased manga, all in one app. By April 2014, the app had been downloaded more than 5 million times, growing into Japan’s largest digital manga platform, and it now offers 60,000 different publications — manga from major publishers such as Kadokawa and Kodansha, as well as more than 4,000 novels, including the popular Haruhi Suzumiya series and *Nanana’s Buried Treasure*.³⁶

Content majors: Adding value by using the Internet for marketing and distribution

In Japan, in addition to purely digital content such as online games, traditional offline media such as books are beginning to move online as

well. Publishers are moving to the Internet to market and sell their books, while large traditional bookstores are boosting sales through online ordering.

The preordering of books, for instance, has become much more common. Traditionally, publishers would try to estimate demand for a particular title, and then print and distribute that number of books. Now, armed with preorders from customers through online bookstores, publishers can optimize the number of copies they print. Thanks largely to the many preorders received, Haruki Murakami's latest novel, *Colorless Tsukuru Tazaki and His Years of Pilgrimage*, sold 1 million copies in just the first week after publication.

Among the beneficiaries of preordering are the traditional publishers that have moved into online sales, making their databases of titles publicly available on the Internet and delivering orders via door-to-door delivery or customer pickup at local convenience stores. Maruzen was the first major Japanese bookstore to offer an online database, in 1995; since then, a number of big chain stores have begun offering online bookselling services. The largest, Honto, currently offers 262,000 Japanese titles online.

Stronger creative exports for Japanese content

The Japanese creative sector has always benefited from strong export revenues. The shift of content consumption to digital platforms has given a further push to Japan's positioning in the global content market. Japanese have embraced digital content, and as more and more of Japan's creative output moves online, its popularity throughout the world has grown rapidly. The Internet knows no geographic barriers, and the country's gaming, video, music, and publishing industries have seen their international revenues increase significantly.

Global games. Thanks to companies like Sony and Nintendo, Japanese games have long been popular internationally. Now, app-based games have become just as popular, and Japanese publishers and developers are among the top performers globally, with the revenues to prove it. In fact, four of the top 10 revenue-generating game apps worldwide in 2015, and three of the top 10 publishers, were based in Japan (*see Exhibit 15, next page*). To take just one example, *Monster Strike*, developed by Mixi, made more than \$4 million in revenues per day in 2015.

Anime videos go global. Japanese anime, a style of animated action cartoons that is wildly popular domestically and has attracted considerable attention internationally, had struggled until recently to

Exhibit 15

Considerable revenues from online games

Worldwide top revenue-generating app-based games and publishers, 2015

Top apps (<i>developer</i>)		HQ	Top publisher		HQ
1	Clash of Clans (<i>Supercell</i>)	Finland	1	Supercell	Finland
2	Game of War — Fire Age (<i>Machine Zone</i>)	U.S.	2	King	U.K.
3	Monster Strike (<i>Mixi and Tencent</i>)	Japan, China	3	Mixi	Japan
4	Candy Crush (<i>King and Tencent</i>)	U.K., China	4	GungHo Online	Japan
5	Puzzle & Dragons (<i>GungHo Online</i>)	Japan	5	Line	Japan
6	Candy Crush Soda (<i>King</i>)	U.K.	6	Tencent	China
7	Bai Mao Puroziekuto (<i>Colopl</i>)	Japan	7	Machine Zone	U.S.
8	Disney Tsum Tsum (<i>Line</i>)	Japan	8	Netmarble	S. Korea
9	Boom Beach (<i>Supercell</i>)	Finland	9	NetEase	China
10	Fantasy Westward Journey (<i>NetEase</i>)	China	10	Electronic Arts	U.S.

Japanese game publishers

Source: App Annie; Think Gaming; Strategy& analysis

make money in markets outside Japan. Now, however, specialized online anime platforms are going global, offering day-and-date releases and more local content, including translations into local languages. Thanks to global online distribution, anime is rapidly becoming among the most recognizable symbols of Japanese culture.

Case in point: Since it was founded in 2007, Crunchyroll has built the world's premier over-the-top video services for Japanese anime content and moved quickly to cement its international presence. For example, Brazil, the country with the largest number of Japanese descendants living outside Japan, has embraced Crunchyroll, which offers streamed

anime content with Portuguese subtitles. The platform also delivers more than 25,000 episodes and 15,000 hours of video across France, Spain, Germany, and Latin America. The company had reached 750,000 subscribers by May 2016.

World music. Online platforms have also enabled Japanese musicians to export their songs to receptive new audiences. Beatbox artist Hikakin, for example, became a global Internet sensation when Yahoo featured one of his videos on the home page of its U.S. website; over the next five days, his videos garnered more than 1 million views.

YouTube, too, has been instrumental in the worldwide interest in Japanese music. Kiriko Takemura, known by her stage name Kyary Pamyu Pamyu, released her first single, “PonPonPon,” on YouTube in July 2011. The song reached the top 10 in Japan, and went viral when Katy Perry tweeted about it. The song topped the iTunes Electronic Songs Chart in both Belgium and Finland in 2011, and was ranked number 15 on the World Hot Digital Songs chart in 2012 and 2013. Since then, Takemura’s singles have been released internationally on iTunes, propelling her to international fame; she toured the world for the third time in 2015.

Books across borders. The market for Japan’s books, too, has blossomed thanks to the Internet. For example, Kinokuniya, which was founded in 1927 and is now one of Japan’s largest bookstores, launched its online bookstore website, BookWeb, in 1996, and has since expanded it to eight countries worldwide. The website offers about 80,000 Japanese titles, and sells versions for several e-readers, including Android phones, iPhones, tablets, and PCs. By September 2015, Kinokuniya had a 13 percent share of the e-book market in Japan, second only to Amazon in the region, and receives more than 400,000 unique visitors from around the world.

Conclusion

Japanese people are truly embracing digital platforms for consumption of creative content, exhibiting a strong “mobile first” mind-set even when compared with most other digitally advanced markets. This has greatly benefited the country’s creative sector, which grew during the past few years even when Japan’s GDP contracted. All of the creative sector growth is attributed to the fast-growing digital creative sector, which will continue to grow at double-digit rates, outpacing the decline in revenues on traditional platforms.

The shift to digital platforms is enabling a wide range of benefits for key stakeholders in the creative sector. Japan’s creative sector is

experiencing a rise in independent content creators, fueled by the easing of barriers by the online distribution platforms for content production and distribution. The emergence of crowdfunding platforms, such as Campfire, is further enabling this trend. New artists are adding to content variety in local markets and to the overall appeal of Japanese content in international markets. Digital community apps like Line are integrating creative content offerings in a shared environment and creating fresh demand for the content produced by emerging artists and established content majors alike.

Content majors, too, are reaping the benefits of digitization by leveraging the Internet to drive marketing- and distribution-related efficiencies. For instance, the emerging trend of preordering in the book industry is helping publishers optimize the printing and inventory costs of their business. Most leading publishing houses have expanded into online bookstores, which are counterbalancing the decline in sales in physical bookstores.

Finally, digital has enabled a stronger position for Japanese creative content in international markets. The global reach and export revenues of Japanese anime on the video side, app-based games, and Japanese music have all benefited in the digital age. Kinokuniya, one of Japan's largest bookstores, has a majority of its online traffic emanate from international markets, and it has expanded operations into eight countries since 1996.

Digital creative content is a bright spot in Japan's ailing economy, contributing to local market growth as much as export revenues. Digital platforms contribute roughly 18 percent to Japan's creative sector today and are expected to continue driving the growth in future years.

Chapter 2

India: Digital infuses innovation and diversity

Few large economies have grown as quickly as India's over the past several years. Between 2011 and 2015, the subcontinent enjoyed annualized GDP growth of 3 percent, a rate that is expected to increase by as much as 9 percent a year between 2015 and 2020. This level of growth is in turn fueling even stronger growth in the country's creative sector; overall, India's print, video, music, and gaming industries grew at an annualized rate of 10 percent between 2011 and 2015, to \$19.7 billion, and they are expected to maintain a similar growth rate to reach a size of \$31 billion by 2020 (*see Exhibit 16, next page*).

Trends shaping India's creative market

Unlike other countries covered in this report, traditional media continues to generate the great majority of the creative sector revenues in India. India's creative sector has long been dominated by the video industry, including movies and TV, which accounted for 63 percent of the sector's total revenues in 2015, and video's dominance is expected to continue through 2020. India is the second-largest pay-TV market in the Asia-Pacific region, with 144 million households subscribing in 2015. And box office revenues continue to drive Bollywood, the country's internationally acclaimed film industry. Traditional print media, too, remains healthy — India is the world's second-largest market for physical print circulation, with 138 million copies sold in 2015, and it is among the fastest-growing newspaper markets by circulation.

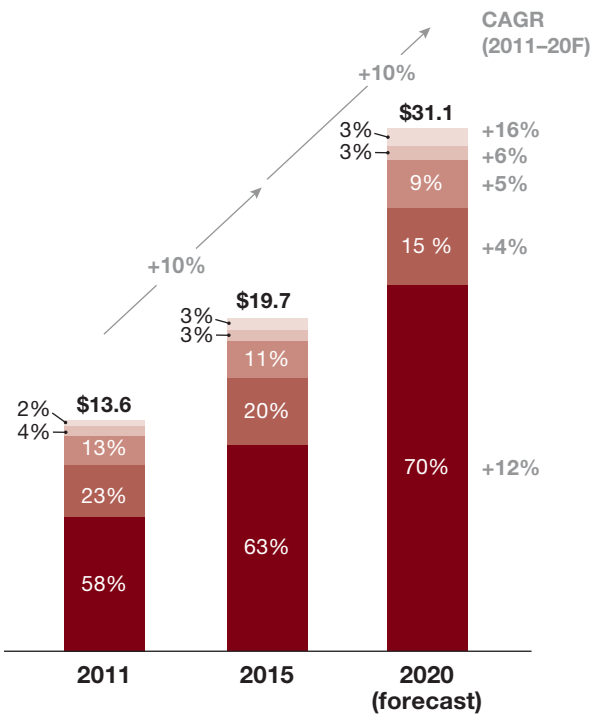
Meanwhile, digital media is also booming in India; it increased by 24 percent per year from 2011 to 2015, and is expected to more than double from 2015 to 2020. The digital creative sector is led by the rapidly growing consumption of online video and the increased use of mobile devices on which to consume it. Nevertheless, digital accounted for 6 percent of the total creative sector in 2015, compared with 35 percent in South Korea. But a variety of efforts designed to further monetize digital media are being put in place; indeed, digital media is destined to loom large in the country's overall creative sector in the coming years.

Exhibit 16

India's booming creative sector

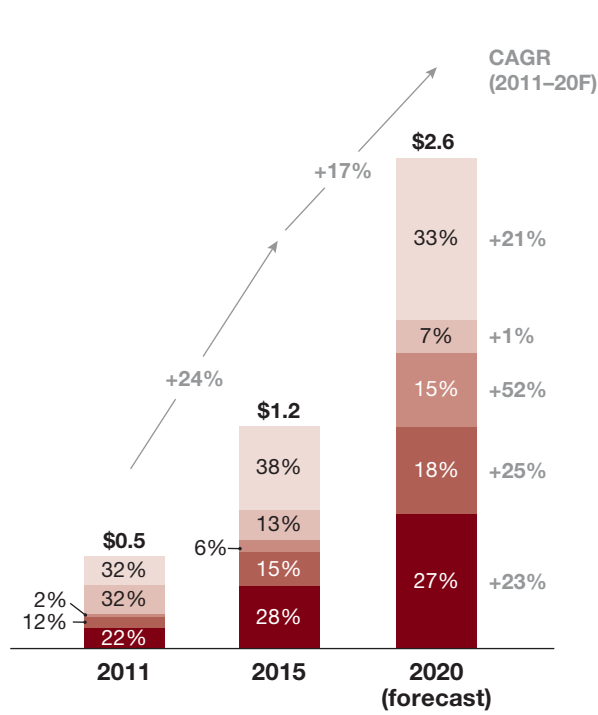
Creative market size, by sector

(in US\$ billions)



Digital creative market size, by sector

(in US\$ billions)



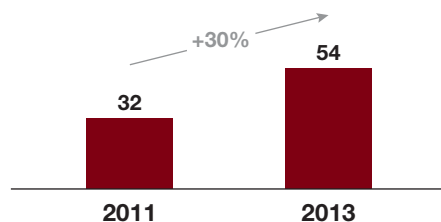
- Games
- Music
- Books
- Print
- Video

Source: PwC's Global Entertainment and Media Outlook; Strategy& analysis

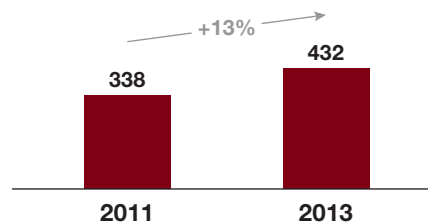
Online video viewing among the highest worldwide. Already a key strength of India's digital media environment, consumption of online video increased by 30 percent from 2011 to 2013, driven by the ability to view content over multiple mobile devices, and put India in eighth place globally in terms of online video consumption in 2014 (*see Exhibit 17*). Between 2013 and 2014 alone, the number of people viewing videos on smartphones and tablets rose 27 and 32 percent, respectively, bringing the total to more than 110 million people.

Exhibit 17 Online video viewing patterns in India

Online video viewership (unique viewers, in millions)

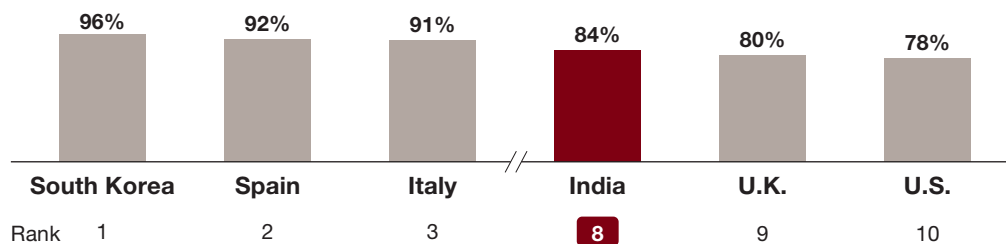


Time spent on online videos (minutes per month)



Source: ComScore Video Metrix (May 2013); Strategy& analysis

Top countries in online video viewing (% of Internet users who watch online videos, 2014)



Source: eMarketer and TNS (March–June 2014), 55,000 respondents; Strategy& analysis

Smartphone as the primary Internet platform for most consumers. Indeed, mobility very likely holds the key to the increased consumption of all kinds of digital media in India. Already, mobile browsers vastly outnumber desktop browsers in the country, making up more than two-thirds of the total compared with just 40 percent globally. However, the amount of time spent browsing on mobile devices is lower, and the average young user flips between devices 27 times a day, indicating a shift toward a “snacking” culture.

Says Vivek R, the head of the books category at Indian e-commerce website Flipkart: “Smartphones continue to dominate the market and are continuously increasing their market share. In India we are also seeing an increase in short-read consumption. Smartphones have relatively smaller screens and multiple media functionalities. This leads to a shorter attention span of the viewer and hence the preference for shorter reads. As a result, a lot of short reads are doing well.”³⁷

An inclusive force: Previously unserved consumers feel the power of digital platforms

In addition to urbanites, who are the primary consumers of media content, India’s rural residents and the less privileged have been empowered by the Internet to enjoy music and videos, read the news, play games, and learn, and thus participate in the national discussion. The rapid uptake of mobile devices and of technologies that let people with low-bandwidth connectivity download content is largely responsible for this transformation — one that will continue to support the growth of India’s middle class.

Mobile growth. As in many developing countries, the spread of mobile networks has been the primary driver of Internet penetration in India, especially in rural areas. Since 2012, the number of mobile Internet users in rural areas has grown 137 percent annually. In fact, mobile data usage by low-income residents is surpassing usage by educated, urban Indians (*see Exhibit 18, next page*). Thanks to reduced tariffs, 3G networks reached 67 million people in India by 2014, while more than 5.5 million 4G devices had been sold in anticipation of the spread of 4G networks. Meanwhile, despite the slow connection, 2G continues to be adopted by many people in rural areas, thanks in part to the low cost of 2G data plans.

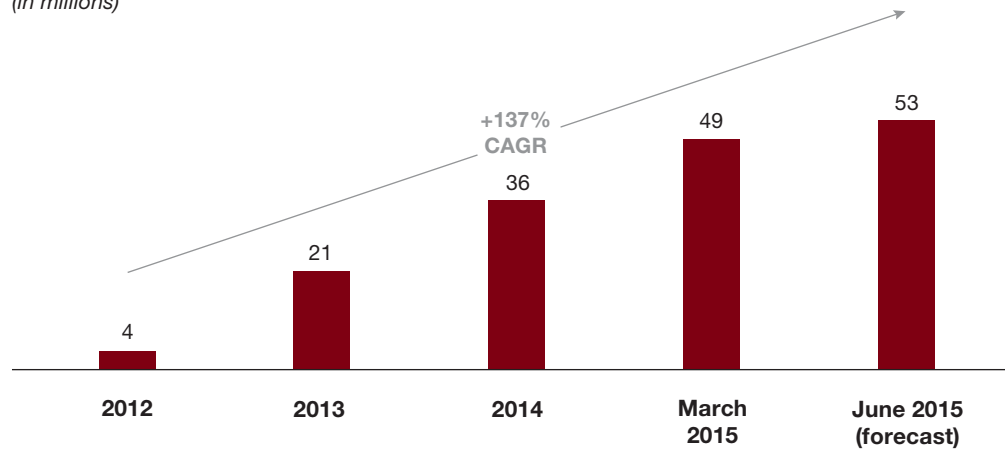
As more and more rural Indians gain access to the mobile Internet — more than 50 million were connected by the middle of 2015 — the mobile phone is increasingly being seen not just as a communication device but as a “window to the world.” Thanks to its high quality, mobile video entertainment is especially prized by people outside the city;

Exhibit 18

Mobile Internet allows consumers from remote areas to access online content

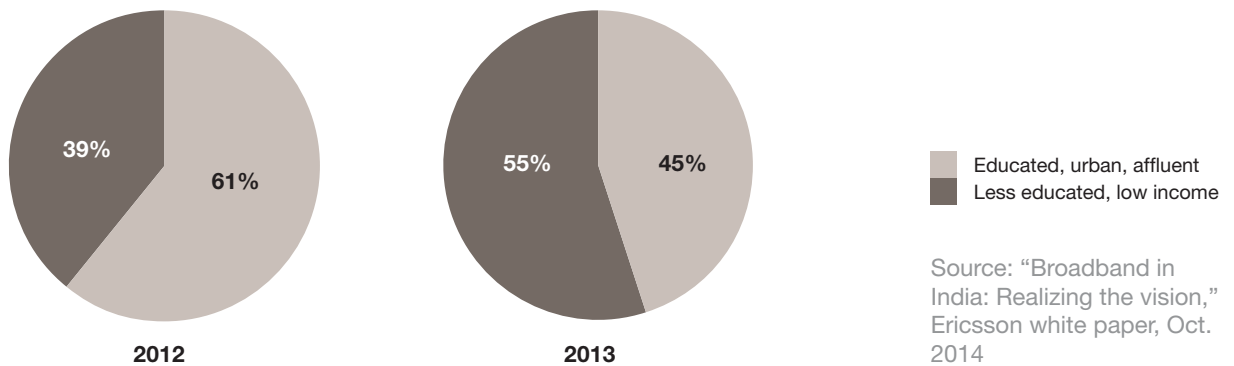
Mobile Internet users in rural areas

(in millions)



Source: "India Media & Entertainment Industry Report 2015," KPMG; Hindustan Times

Mobile data usage and services



Source: "Broadband in India: Realizing the vision," Ericsson white paper, Oct. 2014

almost three-quarters of connected rural users watch entertainment videos on their mobile devices. By 2013, half of the video content consumed through telecom operator Airtel's on-demand video store was downloaded by users in rural areas.

Online, then off. A further key to the increase in video entertainment among consumers with bandwidth limitations is the rise of new ways to watch videos offline. In 2014, Google added an offline viewing option to its YouTube mobile app that allows viewers to download a video and then watch it within 48 hours. Later, in 2016, Google added its new Smart Offline feature on YouTube that allows users to take advantage of cheaper nighttime data rates offered by their mobile operators without requiring them to stay up late. Viewers can also watch videos offline through a mobile app called Hotstar, which proved so popular that its rank among all apps in India improved from 339th to 38th between January and May 2016, and reached a peak as the most downloaded app on March 31, 2016.

Information for all. Indians in rural areas aren't just watching videos on their mobile phones — educational content is now much more widely distributed thanks to the Internet. Companies like Rockstand and NewsHunt are reaching readers throughout India by selling e-books on popular magazine reading apps installed on most smartphones. Dissemination of health and medical information has been especially beneficial, as companies like Hughes Education India help medical institutions expand their reach and accessibility across India through their online platforms.

Digital provides emerging artists with easier access to consumers and content majors alike

By providing greater access to low-cost distribution channels, creative support from dedicated online platforms, and better access to funding, the Internet has opened up all kinds of opportunities for India's emerging artists in every creative field. Video platforms such as YouTube, music sites like OK Listen!, and Flipkart's e-commerce site for books give independent artists a chance to show off their talents to audiences around the world. MCNs provide critical production support to young video artists, along with the chance to distribute their products to a large audience. Online crowdfunding platforms such as Wishberry provide much-needed funding so that new artists can complete and distribute their projects. And perhaps most important, many new digital artists are being taken on by traditional media channels, further contributing to the growth of the creative sector.

A learning opportunity

The demand for engineers in India is high, but the country's top engineering school, the Indian Institute of Technology (IIT), caters to just 3 percent of the country's student population. Many new engineering schools have been founded recently, but they often suffer from poor curriculum quality and too few teachers. In hopes of helping to solve this problem, and thus improve the level of technical education in India, a consortium of academics from a variety of institutions founded the National Programme on Technology Enhanced Learning (NPTEL) 15 years ago to provide high-quality classes and content to a much larger share of the country's engineering students. Funding comes from the Indian government and from private companies seeking to strengthen particular areas of education and to directly sponsor their employees to gain more knowledge.

Early on, the courses were moved to YouTube to enable compressed video formats, while also being offered on schools' intranets to serve students without high-speed Internet connections. And the courses now allow students to participate more actively, engaging in Q&A sessions and adding to the courses' content.

Since its inception, NPTEL has had a huge impact on making engineering education available to a much larger number of Indians. As of September 2015, it offered more than 900 online courses to 270 million registered users, and thousands of students have "graduated" with engineering certifications in a wide variety of subjects. "The Internet is the most beautiful thing that has ever happened to this country," says Dr. Mangala Sunder Krishnan, a professor of chemistry at IIT and a founding member of NPTEL.

Each of these new digital content platforms has already made real contributions to the development of India's creative sector.

The YouTube connection. YouTube has been perhaps the most commonly used medium for many new artists to reach large audiences. For instance, All India Bakchod (AIB) is an Indian comedy group that started its career by offering its videos for distribution on YouTube. Since it released its first video, in 2013, its audience has grown to more than 1.58 million subscribers. And in May 2016, the troupe launched a news comedy series on the Star India network.

Musicians, too, have found considerable success on YouTube. Since she released her first video, in 2010, Shraddha Sharma, an Indian teenage singer, has captured almost 198,000 subscribers and more than 14.4 million views (by May 2016). Her rapid rise to popularity — her Facebook page has more than 3.6 million "likes" — led to a record contract with Universal in 2013, and she released her first album, *Raastey*, a year later.

Rajjat Barjatya, CEO of Rajshri Media until his death in 2016, said: “Platforms such as YouTube have democratized the content creation process and led to the removal of gatekeepers — established players who could control the content being played and the entry of newer players. New entrants now find it easy to showcase their talent to a wide audience.”³⁸

Making music. Alongside the music videos available in India on platforms like YouTube are numerous music distribution platforms that contribute further to the rise of the country’s independent artists. OK Listen! is a particularly successful one. Launched in 2012, it lets the independent artists it specializes in make their songs available for purchase at whatever price they choose, and gives them 70 percent of each song’s net profits. The site also helps artists create their album’s artwork and promotes them across other online channels. For example, its partnership with the Orchard, the largest online aggregator and redistributor of digital music worldwide, enables its artists to sell their music through more than 700 digital platforms, including iTunes, Amazon, and Spotify. In 2013 alone, OK Listen! supported more than 200 indie artists, and the most popular ones — bands such as Agam and Lagori — are typically downloaded 300 or more times a month.

Publish yourself. Thanks largely to Amazon’s Kindle Direct Publishing, self-publishing has risen rapidly as a way for Indian authors to publish, market, and sell their books with minimal investment. The platform really took off in August 2012, when Amazon allowed authors and

A career in music videos

Aakash Gandhi, an American composer, performer, and entrepreneur, was working in finance when he began uploading videos of Bollywood music to YouTube in 2008. Since then, he has released more than 136 videos (by May 2016), which have been watched more than 50 million times, and the number of subscribers to his YouTube channel, 88KeysToEuphoria, has grown to more than 155,000.

In 2011, Gandhi moved to Mumbai to pursue his music career further. He

began collaborating with other musicians around the world, entirely over the Internet, and launched 88keystoeuphoria.com, a website offering music contests and polls, as well as piano tutorials. More recently, he has worked with traditional media outlets Sony Music and Yash Raj Films. “A lot of traditional labels are looking into the digital space to catch new talent,” Gandhi told PwC and Strategy& in an interview on Oct. 12, 2015.

publishers to set prices in Indian rupee on the Kindle Store; self-published books now account for 20 percent of the bestsellers on Amazon in India.

Author Ashok Banker, for example, set up his own e-book store in 2011, attracted primarily by the ease and low cost of distributing and purchasing books online. And after self-publishing his Shiva trilogy online, author Amish Tripathi earned a \$1 million advance from Westland, a traditional publisher. The print edition of the first book in the trilogy sold more than 2.5 million copies within two and a half years, and retail sales of the entire series have now brought in more than \$9 million, making it the fastest-selling book series in the history of Indian publishing.

Says Vivek R, category head at Flipkart: “Lots of young authors and self-publishers now have the opportunity to publicize their work directly to their audience and build a brand for themselves.”³⁹

Rise of the MCNs. The number of independent content creators specializing in made-for-Internet content has grown rapidly, and they have attracted a large and loyal audience. That, in turn, has fueled the emergence of the MCNs; usually affiliated with video platforms such as YouTube, MCNs provide creators with assistance in production and distribution, monetization, and audience development.

Whacked Out Media is a case in point. Launched in 2011 as an online and mobile aggregator of traditional broadcast, Bollywood, and online-only content, Whacked Out has always tried to drive traffic to its site through both traditional content and the work of new artists, whose careers it helps to develop. It moved to YouTube to benefit from the greater number of eyeballs and multiple revenue models to be found there, including advertising, licensing, and branding. It attracts a large audience through its traditional content, and then directs that traffic to new artists, enabling it to fund their rise to popularity.

In 2015, through October, Whacked Out Media had been viewed 4 billion times over YouTube, compared with just 1.5 billion times in all of 2014, and it is targeting a total of 3 billion views a month in 2017. With 58 percent of its audience outside India, it expected to double the number of YouTube subscribers, to 10 million, by the end of 2015, and it already has 130 million followers on social media. And thanks to its low production costs and high profit margins, it is hoping to grow its \$1 million in 2014 revenues to \$30 million in 2015.

New funding sources. The proliferation of crowdfunding sites in India, both international and local, has allowed independent developers and artists with no other means of support to bring their projects to life. Game developers have especially benefited: By putting developers in

direct contact with their “backers,” these sites can both raise awareness about new gaming projects and build demand for a game even before its official release.

The Khel Planet Foundation, a nonprofit educational social enterprise that helps build 21st-century life skills in children, turned to Wishberry, an Indian crowdfunding platform, to help it fund an educational game called King’s Kin. It succeeded in raising \$3,550, almost 15 percent more than its goal of \$3,120. Another independent game studio, called Pyrodactyl Games, chose U.S. crowdfunding site Kickstarter to raise money for Unrest, its PC role-playing game. Hoping to raise \$3,000, it ended up with more than \$36,000 to help develop the game.

Wishberry has financed the careers of musicians as well. In one case, an independent experimental band called Parvaaz raised \$4,000 in less than two months to finance its first album, while building a solid fan base at the same time. Following the 2014 release of the album, the band was invited to perform at several popular music festivals and later toured all over India.

Content majors leverage digital platforms to innovate their traditional offerings

New artists aren’t the only ones who have benefited from the rise of the Internet and mobile distribution in India. Traditional content majors, too, have succeeded in boosting their reach, gaining insight into their audiences, and growing closer to their customers as they build their Internet presence. In the view of the late Rajjat Barjatya, who was managing director and CEO of entertainment conglomerate Rajshri Media, “YouTube and social media have enabled us to get closer to our audience. We offer many different shows catering to a diverse audience, and the number of ‘shares’ and ‘likes’ each show gets gives us a pretty accurate idea of what viewers think about them.”⁴⁰

This has become true of long-standing companies in virtually every content industry. From video and music to gaming and publishing, traditional media companies have gained audiences, boosted revenues, and improved the content they offer — all thanks to the Internet.

A future in music. Perhaps no creative industry has been affected by the Internet as much as the music business. But traditional companies that understand the shift to digital music can reap real benefits. Founded more than 30 years ago, T-Series, now India’s largest music company, shifted its business model early on to take advantage, in a variety of ways, of the digitization of the sector. For instance, monthly views of its YouTube channel have grown 83 percent annually since

2012, to 510 million in May 2016; overall, it has attracted more than 8 billion views and 10 million subscribers since its 2006 launch, making it India's top-ranked video channel. Every day, the channel posts several music videos featuring the label's artists; the most popular video — "Dheere Dheere Se Meri Zindagi" — had attracted more than 132 million views by May 2016.

The label also promotes its artists, their latest releases, and upcoming events through its T-Series Music official page on Facebook, which had garnered 3.5 million fans by May 2016. The page gathers fans not just from India but from around the world, and provides T-Series with feedback on songs it can use to mold artists' careers.

From print to digital. Many traditional publishers of newspapers and magazines have begun the process of going digital, although the struggle to find the best online business model continues. On the bright side, the loss of print audiences has been offset by rapid increases in digital, as the majority of readers have migrated online. Moreover, digital's cross-border reach has increased the international audience by as much as 25 percent.

The Internet, however, has significantly increased the degree of competition for all news organizations. The barriers to entry are considerably lower online, and smaller firms such as the independent Scroll are gaining viewers simply by repurposing and aggregating content, and counting on it going viral. Indeed, for all news companies, the success of any story is highly dependent on how readers find it and whether it goes viral; as a result, a great deal of control over what people read is now in the hands of the public at large. Competition from smaller players like Scroll has also brought down advertising revenues. Ultimately, a more sustainable model will need to be found, but at present, no one is really sure what it will look like.

HT Media, publisher of the *Hindustan Times*, is using the Internet to launch new online ventures. Its *Mint*, launched in 2007, is now the country's second-largest business media outlet. *Mint* is published both in print and online, although most of its readers have migrated to digital, especially on mobile devices. The company aims to run breaking stories online, while using its print publication to run follow-up stories and more in-depth content.

Let the viewers decide. India's content majors are even beginning to use the Internet to guide decisions about the content they provide their customers. Like many TV networks, Star Plus, a TV channel owned by Star India, uses social media to promote its shows, including *Satyamev Jayate*, a talk show covering Indian social issues. But the show's producers also collect and analyze the social media chatter on Facebook

and Twitter in response to the show's content, and then create future episodes reflecting what viewers want to see. The buzz created by *Satyamev Jayate* — more than 1 million responses each week — even led to the creation of an offshoot weekly radio program based on the show.

The most powerful impact for content majors, however, has been in the integration of the digital ecosystem into their traditional worlds. The continued growth of traditional platforms uniquely positions content majors in India to explore and experiment with integrated models. On one end, leading broadcasters are commissioning YouTube creators to produce content to be aired on prime-time television, while on the other, studios are actively investing in short-form mobile-phone-oriented content. Such initiatives have garnered initial success for content majors that ventured into an integrated approach. For instance, Star TV partnered with YouTube-born comedy channel AIB to launch a news comedy series, *On Air with AIB*, which aired on Star Network in October 2015. As another example, Yash Raj Films (one of the leading production studios) created Y-Films, a production house to provide a platform for young talent and innovative marketing, in April 2011. Y-Films has been investing in creating short-form digital content combining mainstream talent with new-age artists, and has produced several successful Web series like *Bang Baaja Baaraat*. More recently, Y-Films branched into short films of five- to 10-minute duration. Through these initiatives, content majors are successfully promoting innovation in their traditional offerings, creating incremental viewership on traditional platforms, and driving youth engagement for their brands. Y-Films also recently partnered with international filmmaker Richard Curtis to support the U.N.'s Global Goals for Sustainable Development by producing the Web series *Man's World* on women's equality.

Indian digital content and creativity get international attention

As we have seen, the Internet has done a great deal to develop and promote India's cultural wealth domestically. But it has had at least as significant an impact on the spread of Indian creativity around the world. India's cultural exports are by no means limited to movies, however. The news media, TV broadcasters, music companies, and even small-scale video producers all have found success in international markets.

The Bollywood factor. Bollywood movie producers and distributors are partnering with international online distribution platforms and now reach large audiences around the world by leveraging the power of digital.

M-Go, for instance, a joint venture for on-demand video between DreamWorks Animation and Technicolor, which was bought by Fandango in January 2016, has teamed with FilmKaravan to include Bollywood releases in its offerings.⁴¹ Similarly, Bigflix.com, India's oldest on-demand video service, recently signed a content-sharing agreement with U.S.-based Hulu to bring Bollywood movies to Hulu's online video service.

Key to the international success of Bollywood is the ability to tailor content to the needs of local markets, said the late Rajjat Barjatya, then managing director and CEO of Rajshri Media. "The Internet," he noted, "was a significant help in penetrating newer markets and geographies by partnering with local operators to provide content that was more relevant to the local audience."⁴²

News across the globe. India's traditional newspapers, such as *Times of India* and *Dainik Bhaskar*, established their online presence in India years ago. Now they are going international, and the numbers of viewers are growing. *Indiatimes*, for example, reached 77 million total unique visitors by May 2016, with 18 percent of them living outside India; that makes it the 11th most read website in India. The numbers for *Dainik Bhaskar* are similar: 29 million unique visitors by May 2016, one-third of them outside India.

TV news broadcasters have also found success internationally. NDTV, one of India's most popular news channels, has attracted 44 million visitors to its website, and fully a quarter of them are visiting from other countries.

The children's market. Content for young children is uniquely able to cross international boundaries, since much of it can avoid cultural and language barriers. One company that has found considerable success in this arena is India's HooplaKidz, a small-scale video producer that has become one of the most popular YouTube channels for preschoolers. Launched in 2010, the site features nursery rhymes, original songs, stories, spelling games, and interactive videos, making it a one-stop learning and playing destination for preschool children. Since then, HooplaKidz has become an international phenomenon, attracting large audiences in the U.S., the U.K., Australia, and Canada, as well as in India itself. The number of subscriptions to its YouTube channel grew from 1.2 million in 2014 to 2 million in May 2016. And its global success has enabled the company to expand its offerings to a mobile app and a range of DVDs.

Another notable example is ChuChu TV, a children's animation channel launched in 2013 by Indian entrepreneur Vinoth Chander. Its first video got about 300,000 views in a few weeks, and the second video, "Twinkle Twinkle Little Star," got the channel to the 5,000-subscriber mark.

Today, ChuChu TV is India's third-largest YouTube channel, with nearly 5 million subscribers; it is now the most-watched YouTube channel in Asia-Pacific and the second-most-watched children's "edutainment" channel in the world. The channel has amassed more than 5 billion views with just 115 videos in approximately three years.

Interest from abroad. The growing popularity of India's creative output around the world has triggered a number of high-profile acquisitions of Indian content creators by large international firms. The popularity of HooplaKidz suggests why.

HooplaKidz is owned by YoBoHo, an Indian digital-first content producer and multichannel network. With a library of more than 8,000 videos, 40 YouTube channels, and 40 brands and subbrands, YoBoHo attracts 3 billion YouTube views a year. That level of success drew the attention of BroadbandTV, owned by European broadcast giant RTL, which bought YoBoHo in 2015 for more than \$10 million.

The acquisition should enable YoBoHo to accelerate the international reach of all its channels, including HooplaKidz, by scaling up the business and leveraging BroadbandTV's cutting-edge technology to improve its content production.

As a result, BroadbandTV hopes to increase YoBoHo's average monthly YouTube views to more than 4 billion, eventually reaching 50 billion views a year.

According to YoBoHo CEO Hitendra Merchant, "This acquisition has already opened a lot of doors for us, enabling us to work more closely with BroadbandTV's production division, share knowledge, and add more science to the business."⁴³

World music. Indian music has also attracted a considerable amount of foreign investment. In the case of music, however, the goal is primarily to participate in the growth of India's domestic music business, especially streaming services, although other sectors, such as music downloads integrated with mobile data plans, are also attracting investors.

Many foreign funds are focusing on making equity investments in Indian music services in order to tap into their revenue potential; the music-streaming business in India is expected to outpace that of other leading Asian markets within the next five years. In 2012, one such service, Hungama, received major investments from U.S.-based Intel Capital and Bessemer Venture Partners. By 2015, Hungama had reached more than 48 million users, and is now expected to raise \$100 million in its next round of funding.

Conclusion

India's vibrant national culture has long been sustained by its very active traditional creative sector — its movies, TV shows, music, and information and news outlets. In recent years, the rise of the Internet and digital content has only enhanced the value of the country's creative sector, both at home and around the world. It has provided new outlets for young artists, boosted their careers, dramatically widened their audience, and drawn the attention of the content majors. It has enabled the spread of Indian content beyond the country's borders, increasing its value and attracting lots of foreign investors. And it has brought millions of otherwise isolated Indians into its sphere, giving them access to news and information and opening up opportunities in education.

Chapter 3

Australia: The revival of content

Australia is one of the two markets in our study — the other is Japan — that we have classified as digitally equipped for creative content: not quite as far advanced as hyper-connected South Korea, but well beyond the positions in which transitional Thailand and next-generation India are at present. Australia benefits from a well-developed Internet infrastructure with fixed broadband penetration in 2015 of 73 percent of households, which is comparable to that of other developed markets such as the U.S. and Germany.⁴⁴

Trends shaping Australia's creative market

High Internet usage is driving the growth in the amount of time Australians spend consuming media — up 18 percent per annum between 2007 and 2013. In 2008, Australians spent less than four hours a day consuming media; five years later, media investment firm GroupM estimates that they spent more than nine hours a day. This increase, driven primarily through digital platforms, has not come at the expense of time spent consuming traditional media such as TV, radio, and print (*see Exhibit 19, next page*).

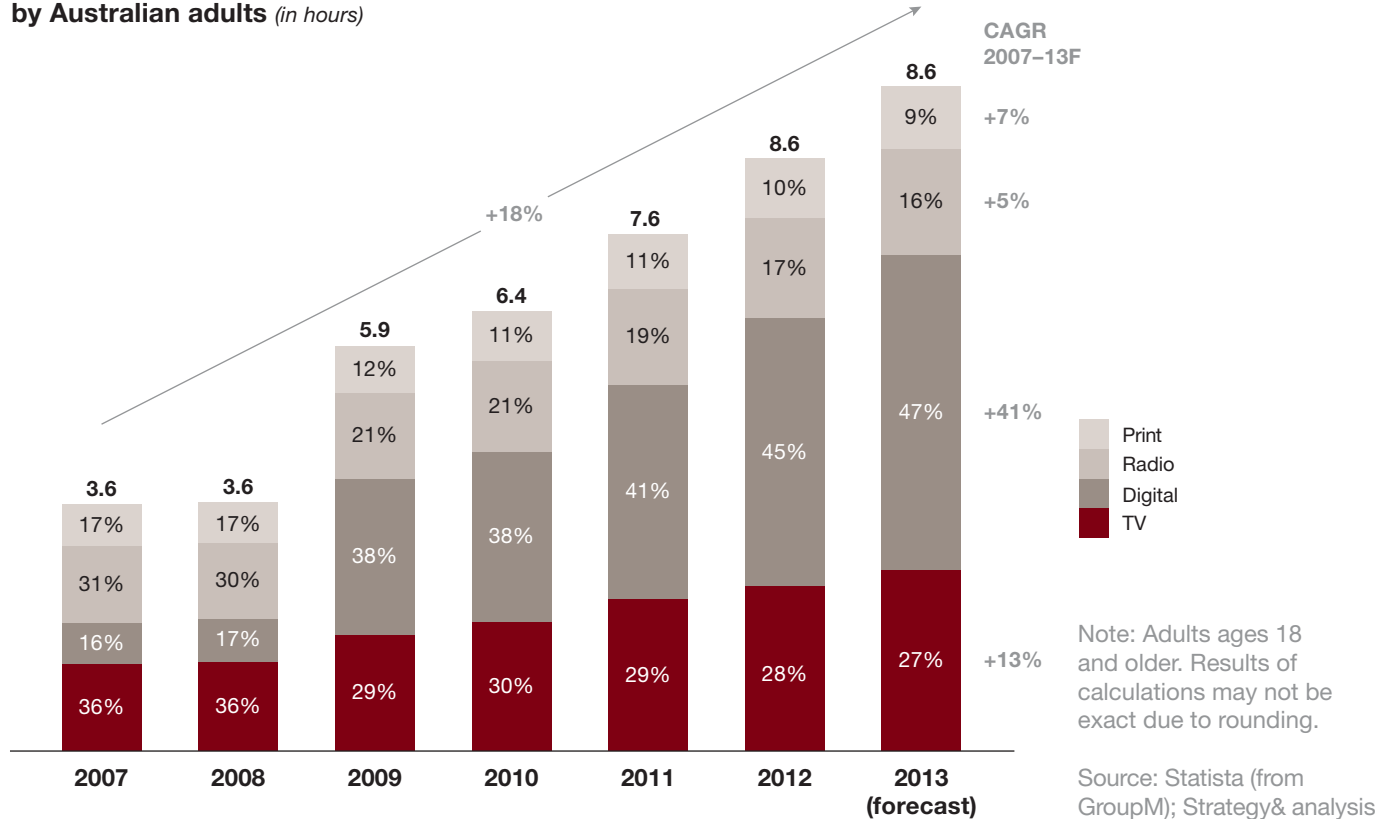
In fact, the large increase in time spent on digital media encompasses an increase in consumption of traditional media assets as a whole. Each type of media has benefited — 36 percent more time spent on TV's digital extensions, 15 percent on radio content, 76 percent on print content, and 87 percent on games (*see Exhibit 20, page 65*).⁴⁵

Despite the increase in the amount of time consumers spent consuming media, revenues in Australia's creative sector actually fell 1 percent over the same period — due primarily to the decline in print revenues. Indeed, average daily unit circulation and print advertising revenues have been falling since 2009 and are expected to keep falling for the foreseeable future, particularly as consumers of print get older; people over the age of 65 make up the largest segment of print readers. Advertising revenue losses in the print business have not yet been offset by increases in revenue from digital advertising, despite an

Exhibit 19

Increased time spent on media in Australia

Share of time spent per day with major media
by Australian adults (in hours)



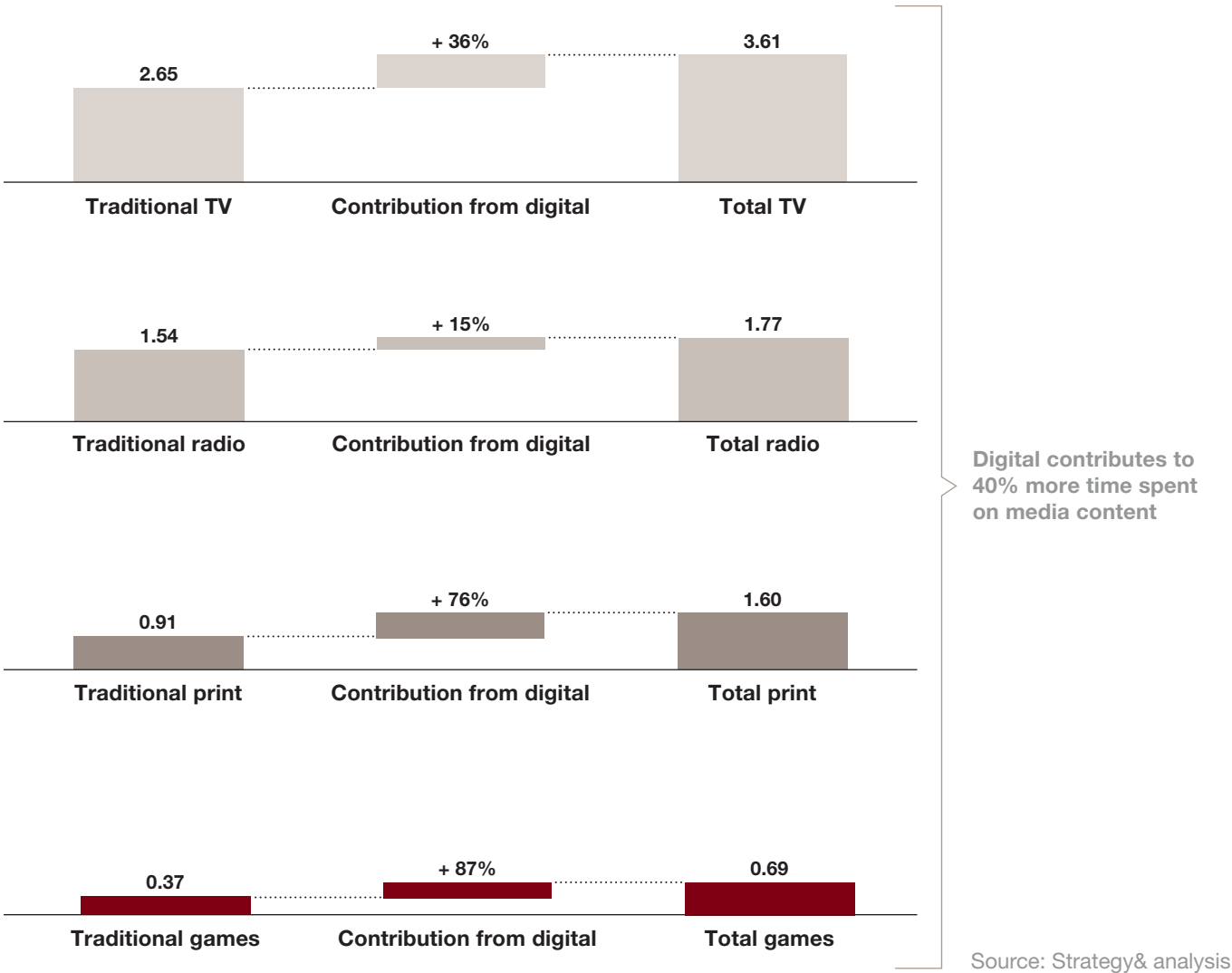
increase in subscribers to newspapers' Web and mobile platforms of as much as 50 percent between 2013 and 2015.⁴⁶ As monetization models for digital content become established, revenue from digital advertising will more than cover the losses in advertising revenue from non-digital content.

Australia's creative sector experienced a slight contraction in the past few years, making up 1.37 percent of the country's GDP in 2015, a decline from 1.45 percent in 2011. Australia is in the medium range of countries in terms of the media sector's contribution to GDP, considerably below the U.S., South Korea, and the U.K., for instance. In 2011, the media sector employed just 0.9 percent of the overall workforce in Australia, which is lower than in most comparable markets, such as Canada and Singapore.⁴⁷

Exhibit 20

Increase in all forms of media consumption

Contribution of digital to total time spent per day with major media in Australia, 2013

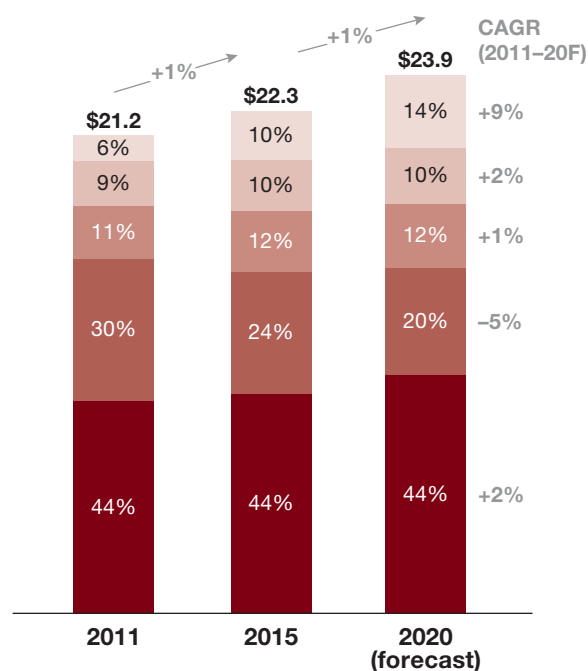


Still, the overall health of Australia's creative content industries is strong due to the Internet. Digital revenues have been boosting the sector's growth in recent years — increasing 35 percent annually from 2011 to 2015 — and they will continue to do so as the sector, and particularly its digital component, recovers by the end of the decade (*see Exhibit 21*).

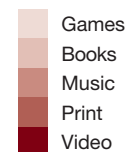
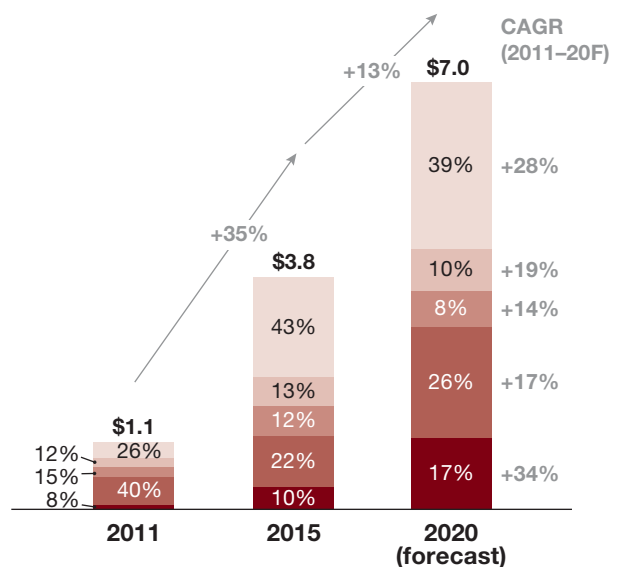
Exhibit 21

Growth mainly from digital

Creative sector market size, by sector (in AU\$ billions)



Digital creative sector market size, by sector (in AU\$ billions)



Note: Results of calculations may not be exact due to rounding.

Source: PwC's Australian Entertainment and Media Outlook; Strategy& analysis

Since 2012, digital media has compensated for more than half of the contraction in the revenues of traditional media. Moving forward, digital media is expected to more than offset the losses in revenues from traditional media and restore overall growth in the sector.

Among the world's most advanced smartphone markets. Australia benefits from strong mobile connectivity; as of 2015, penetration was 100 percent for mobile phones⁴⁸ and 78 percent for smartphones (many Australians have more than one). Smartphone penetration is higher than in other developed countries, such as the U.S. (69 percent in 2015), the U.K. (63 percent), and Germany (55 percent).⁴⁹

In fact, despite a comparatively small population, Australia has the ninth-highest number of smartphone subscriptions in the world, and the majority of Australians' time in front of a digital screen is spent on a mobile device.⁵⁰ According to a July 2015 Nielsen study, Australians spend 42 percent of their online time on their smartphones, 17 percent on their tablets, and 41 percent on desktops. Nearly two-thirds of their online smartphone time is spent on social media, entertainment, and games (*see Exhibit 22, next page*).

The proliferation of mobile devices is driving an explosion of short-form content in Australia, leading to the emergence of new artists experimenting with alternative genres. This is opening up significant opportunities in the market — greater diversity of content available to users, and innovative business models for organizations. Much of this trend will be a determining factor in the growth of Australia's creative economy. We will elaborate on these opportunities in more detail in the next section.

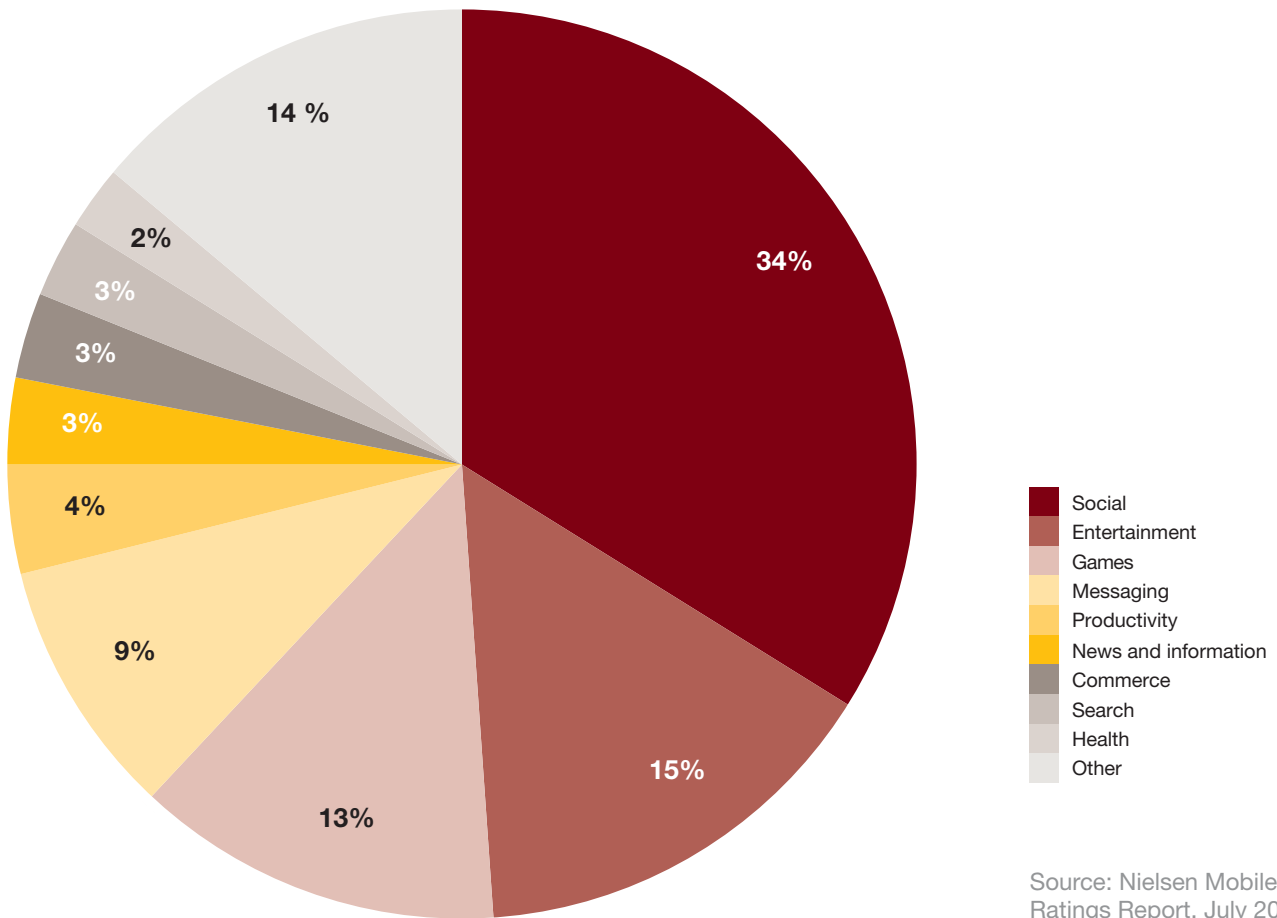
In the following sections, we analyze the potential of the Internet and digital technologies to revive the growth of the creative sector in Australia in four areas: empowering emerging talent, who in turn fuel local content creation; increasing consumers' willingness to pay for digital content; enabling content majors to increase their reach and relations with audiences; and increasing the level of the country's creative exports.

Diverse, local, and bigger: How digital content is creating opportunities for emergent artists

The Internet has opened up opportunities for emerging artists by providing greater access to open distribution platforms, increased support from platforms such as multichannel networks, better access to funding, and the ability to reach international audiences at optimal cost.

Exhibit 22

Distribution of time spent on smartphones



The rise of independent creators has also greatly increased the amount of locally produced content in Australia. Nick O’Byrne, manager of the popular, award-winning singer-songwriter Courtney Barnett, says, “The Internet lowers barriers to entry for nascent artists looking to explore niche content.”⁵¹

Open distribution platforms provide artists with a greater ability to connect and build relationships with audiences. The many new Internet-enabled distribution platforms have allowed nascent artists to gain access to a wider audience, and build deeper relationships with their fans, learning more about their likes and dislikes.

- Online music streaming services have been especially helpful to new artists such as Patrick James, who rose to fame thanks to Triple J Unearthed, which focuses on unknown Australian artists, and to Golden Features, Tkay Maidza, Safia, and Asta, whose popularity was a direct result of exposure on Spotify.
- SketchShe, an Australian comedy trio whose parody videos are filmed on phones with the support of friends, attained 765,000 subscribers in one year (by May 2016) to their YouTube channel; the group is now getting offers from TV agents who would never have talked to them before, says Shae-Lee, a member of SketchShe and its producer and director.
- Independent artists increasingly use social media platforms to connect with their audiences and build relationships. Says Emmanuel Candi and Gavin Perry, head of strategy and HR and head of digital, respectively, at Sony Music Australia, “We encourage artists to share as much about themselves as possible, not just their music content, in order to create a relationship with their fans.”⁵² Jane Huxley, managing director of Pandora Australia and New Zealand, concurs with this view: “We believe that true value is created in the link between the fan and the artist.”⁵³
- These platforms also allow artists to analyze listener profiles and to understand audience preferences more deeply. Artists can get information on the geographic locations of their listeners, helping them to more effectively plan their tours. Spotify, for example, provides artists with data on their popularity city by city, allowing them to decide which songs to play where. “We communicate with fans through YouTube and other social media to obtain direct feedback on our work,” says SketchShe’s Shae-Lee. “We incorporate their feedback in future creations. People are very honest online. You should take them into account.”⁵⁴

Increased support from platforms such as multichannel networks.

A variety of video platforms, led by YouTube, have also contributed to the rise of new Australian artists. Seven of the top 10 YouTube artists in Australia in May 2016 were represented by MCNs, which provide individual artists with assistance in production and distribution, as well as monetization and audience development. The most popular, HowToBasic, which appears on the Fullscreen MCN channel, had close to 7.2 million subscribers in May 2016.

The sheer number and popularity of these digital platforms and the local artists they promote are unleashing the creative potential of talented Australian youth. This is driving a wave of consumption of locally produced content as opposed to imported content.

The Van Vuuren Bros expand to TV

A further demonstration of the cultural power of the Internet is its role in bringing new artists into traditional mainstream media. The Van Vuuren Bros are a case in point. Among Australia's most popular television comedy talent, the team — Christiaan and Connor Van Vuuren — first found their audience online. When Christiaan was hospitalized for six months with tuberculosis, he and his brother made a series of satirical music videos starring the character the Fully Sick Rapper, which they uploaded to YouTube.

As of May 2016, the series had received more than 17 million views worldwide, and the duo's YouTube channel had more than 60,000 subscribers. Their popularity led to a series on ABC TV called *Soul Mates*, which was renewed for a second season and will air by the end of 2016.

Among the virtues of the Internet, according to brother Christiaan, is that it allows the duo to invest minimal capital into assets and equipment, and to employ a small team of writers, keeping production costs to a minimum. "We focus on creating content that can be produced quickly and cheaply," he said in an interview with PwC and Strategy&, conducted with Chloe Rickard, on Aug. 14, 2015. Without the need to invest significant capital, the brothers have been able to focus on developing ideas and content. Currently, they have seven TV and film projects under development.

"The major benefits of the Internet," Christiaan points out, "include the direct relationship between audience and creators, creating exactly what you want, and the consequent shift of power toward content creators."

Crowdfunding to fuel the creative economy. Among other creative sectors, Australia's film industry has benefited from the democratization of access to funds. The number of new platforms dedicated not just to funding but also to distribution is rapidly increasing. Pozible, the most successful Australian crowdfunding platform, is estimated to have secured more than \$3 million for new feature films between 2010 and 2013. Pozible enabled Tim Lea, an independent film director and writer, to finance his sci-fi film, *54 Days*, raising more than \$45,000 in just one month. Once finished, the film was made available to the public on three different video-on-demand platforms, and won considerable critical acclaim.

Similarly, Dean Francis turned to Tugg, a cinema-on-demand platform through which people can request film screenings, to distribute his 2015 independent drama, *Drown*. Tugg helped promote the film by preselling tickets, rewarding Francis with a percentage of the profits.

I Quit Sugar: From a \$100 investment into a \$1.8 million annual business

With an initial \$100 investment in a website, Sarah Wilson started writing her health and nutrition blog, I Quit Sugar, in January 2011; its popularity grew organically through word of mouth, reaching 1.5 million monthly page views in 2016, with 69 percent of the audience coming from outside Australia.

Wilson followed up her success with an e-book in 2011, and then a print edition, which became a bestseller in Australia and the United States. In 2013, she created and launched an eight-week online health and wellness program, which now brings in 60 percent of her business's revenues. All in all, following her initial \$100 investment she now generates \$1.8 million annually.

The consumer's surplus

Australia's consumers have benefited considerably from content variety, convenience, and flexibility.

The unique advantages of anytime, anywhere content. With the proliferation of distribution platforms such as Netflix for movies and Pandora for music, consumers benefit from greater variety, quality, convenience, and affordability. As a result, they are spending more time consuming content and their willingness to pay has increased. In fact, the Internet has given consumers access to all their favorite music in one place, and, as a consequence, more people than ever before are listening to music.

Sony Music Australia's Candi and Perry have been working to deliver a unique proposition to consumers by "moving to a global release date, where content is released globally on the same day," rather than staggering release dates across geographies, and by "making music legally accessible in a very broad way and very cost-effectively."⁵⁵

Streaming uptake has been significant in Australia and is expected to further increase as younger people grow up. In fact, a survey cited by the Australian Communications and Media Authority in June 2015 demonstrated that streaming-video-on-demand (SVOD) was particularly popular among young adults: One-third of those ages 18 to 34 use streaming services and consume an average of 9.9 hours of content each week, with only 11 percent of those 35 and older using streaming services, consuming an average of 5.2 hours of content weekly.

Being able to consume content in a timely manner was listed by 49 percent of respondents as one of the main benefits of streaming

services, while 44 percent cited greater choice and 21 percent named the lower cost.⁵⁶

Netflix's experience in Australia demonstrates that a combination of up-to-date content, accessibility, and affordable pricing is a winning strategy. Launched in Australia in March 2015, Netflix drew in 2.5 million users in the first half of 2015 and has been leading the country's SVOD services.⁵⁷

In addition, the introduction of Netflix and other legal distribution platforms has caused a decrease in casual pirates through a combination of high quality and more affordable content. In fact, according to Netflix CFO David Wells, a country's piracy rate is a significant factor when determining the pricing model. In Australia, Netflix offered its lower-tier services for a cheaper price than it does in other developed countries to give Australians an incentive to opt for legal options. Results were satisfying: In less than six months on the market, Netflix had already attracted 2.6 million people and 960,000 paying subscribers.

Spreading Australia's cultural wealth. Not only does the Internet facilitate the dissemination of creative content for commercial benefit, but it also supports the preservation of Australia's cultural and historical heritage. Historical documents and artifacts, as well as educational texts, have been digitized for private use and academic research. The State Library of New South Wales, which holds the world's most extensive collection of documents, manuscripts, journals, maps, books, objects, and artwork related to Australia and Oceania, including the region's indigenous prehistory and the history of European settlement, is three years into a 10-year program of digitizing the most valuable and fragile parts of the collection. This will allow it to preserve the material and increase its usefulness, ultimately enabling thousands of people to access it seamlessly. The collection has an estimated value of AU\$3.2 billion, according to Dr. Alex Byrne, the library's former CEO and state librarian. "Holding this collection is important, of course, but the real value is in making it available," he says. "We have a full-hearted commitment to making our materials accessible online to people constrained by health, age, geography, or a limited amount of time. We're now open 24/7 from wherever people can get connectivity."⁵⁸

The Internet doesn't only offer access to the collection; it enables the library to contribute to it more easily and enhance it. For instance, the library has launched a new transcription tool that allows volunteers to assist with transcribing hard-to-read materials such as World War One journals. "In the past, volunteers had to come in and sit with a photocopy of the original. Now they can do it from their home or garden," says Byrne. Users can also extract data to make new

connections and add to the collection's knowledge, taking images of land grants, for example, and combining them with geo-tagging to understand patterns of settlement, or searching digitized newspapers to discover when certain words became popular. And by collecting materials from the digital age, the library will give future audiences a better understanding of life in Australia today. Says Byrne, "In two centuries' time, people will want to get a good picture of life today — and we will have it."

Content majors gain access to bigger audiences and more consumer time

Although the Internet has yielded a much larger base of audience time and engagement for traditional content, it is simultaneously altering the business models for traditional content creators in many ways.

Some traditional players, notably print companies, are still struggling to recover revenues lost to online sources over the past decade, yet the Internet allowed them to expand their audience reach both locally and internationally while using analytics to gain greater insights into who their users are and their likes and dislikes.

The Internet has also forced media companies to innovate and experiment with new content offerings and new customer experiences, and to diversify their business models in their search for new sources of revenue.

Increasing the reach of content majors. Australians are rapidly coming to rely less and less on traditional print media for their news, and turning instead to online sources and social media. Between 2013 and 2015 alone, newspapers in Australia experienced an 11 percent decrease in print subscriptions.⁵⁹ A survey issued in the Reuters Institute Digital News Report 2015 shows that just 7 percent of Australians rely on print newspapers as their main source of news, compared with 12 percent relying on social media and fully 44 percent on online overall.⁶⁰

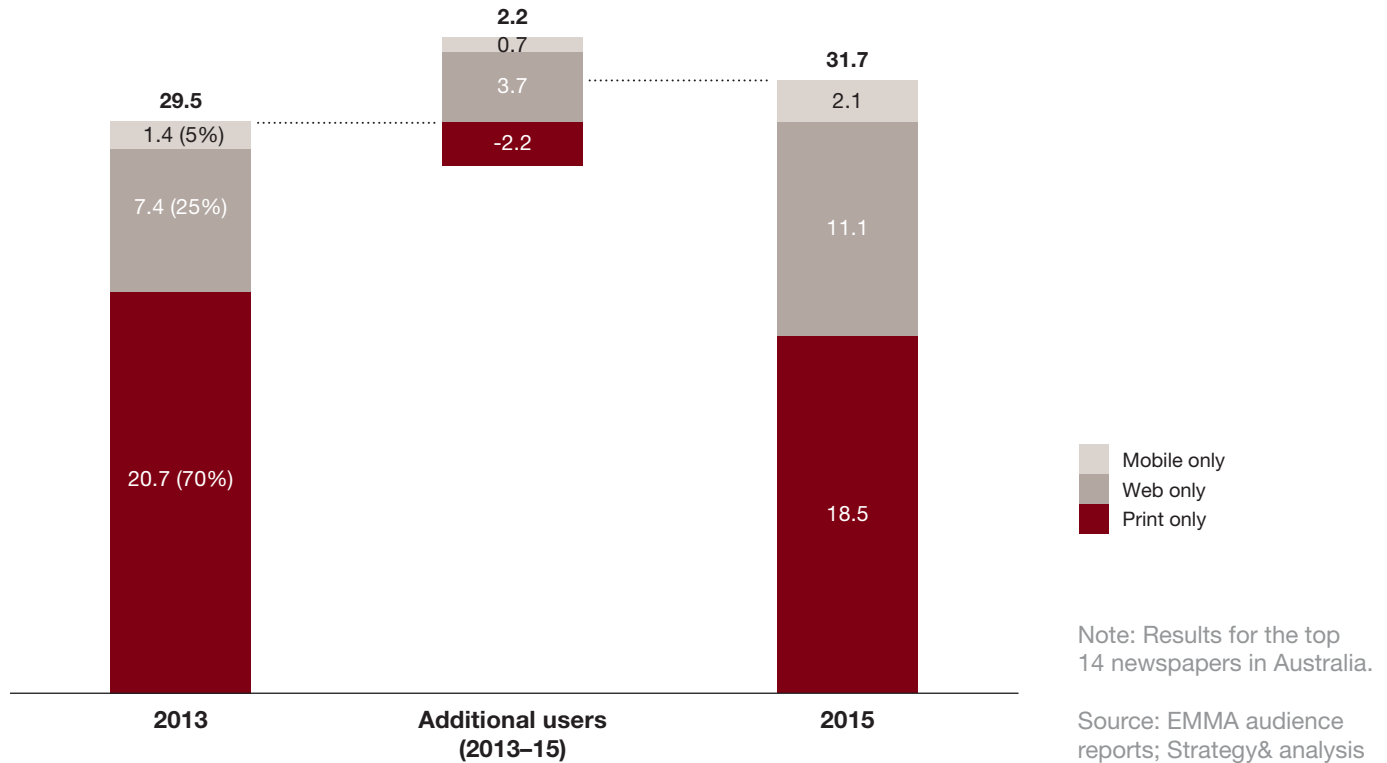
At the same time, however, subscribers on both online and mobile platforms have increased by 50 percent during the same period, contributing to a net increase of 7.5 percent in traditional publishers' total audience⁶¹ (*see Exhibit 23, next page*). In fact, all three of the country's top newspapers, the *Sydney Morning Herald*, the *Daily Telegraph*, and the *Herald Sun*, have boosted their overall number of subscriptions, even as print subscriptions have declined.

The changing nature of Australia's print publishing business can be seen clearly in the case of Bauer Media Group, the country's largest consumer

Exhibit 23

Growth in news consumption in Australia

Breakdown of publishers' audiences (in millions of people)



magazine publisher, with 60 titles and more than 65 million copies sold annually. (See “Bauer Media diversifies on the Internet,” next page.)

As with print, TV content majors are looking to the Internet to make up for their decreasing offline reach. Between 2012 and 2014, the percentage of Australians watching ABC’s broadcasts declined 3 percent, while downloads of videos on iView, ABC’s online offering launched in 2008, rose 41 percent. In 2015, iView became the 19th most visited site in Australia, thanks largely to the ability of its audiences to watch all kinds of content anytime, anywhere.

Southern Cross Austereo (SCA) has been very successful in its efforts to leverage digital opportunities. SCA is Australia’s largest regional radio

Bauer Media diversifies on the Internet

Bauer Media Group is Australia's largest publisher of consumer magazines. Its flagship titles include such well-known magazines as *Cosmopolitan*, *Elle*, and *Harper's Bazaar*, all licensed from Hearst in the United States. Marina Go, former general manager of Bauer's Hearst titles, has a strong interest in new digital business models and how publishers can use the opportunities (and challenges) brought by the Internet to prove the value of magazines as well as to build audiences and explore new avenues of creativity.

Despite the challenges she faces in bringing her business to the Web, Go has already made a number of moves online that she expects will pay off with more subscribers and increased revenues.

- **An audience pipeline.**

Cosmopolitan, Bauer's most popular title, has doubled its online audience since the mid-1990s, from 1 million to more than 2 million. These new online readers are younger — in their 20s, versus mid-30s for the print magazine. Go expects online readers to serve as a pipeline for subscribers to the print edition, which offers a different experience.

- **Diverse business models.** Go's division is exploring a variety of new revenue streams for the magazines she manages, as circulation and advertising revenues from their print editions decline. Events and licensing will certainly be part of the mix — *Cosmopolitan*, for example, is launching a branded fragrance, and *Elle* has started up a line of home furnishings and children's wear.
- **Interactive content.** In addition to video, Go is focusing on offering useful tools, such as a "try this hairstyle" tool, and interactive games and quizzes. Offering sponsorships can help monetize these tools, which are also boosting return visits and social media shares.
- **Quality versus quantity.** Despite all the new options at her disposal online, Go is not willing to sacrifice quality for quantity in the effort to compete with digital-only players. Maintaining high standards for content, both online and in print, is a key reason her company has never lost an advertiser to a digital-only player, Go believes.

group, with 71 stations, including in the country's five biggest markets. SCA's online numbers are equally impressive: It has the largest online audience of any terrestrial broadcaster in the world, with more than 1.1 million users and 3.7 million fans on Facebook, and it is the 10th-biggest mobile publisher in Australia.

Content majors leverage the Internet to make wiser programming decisions. SCA's former chief digital officer, Vijay Solanki, notes that the company's complex, multipronged digital strategy is dependent on data analysis and richer content to build audiences and drive revenues. Key digital initiatives undertaken by the group include the following:

- **Offering innovative and creative content for youth** through efforts such as a curated video channel, called YouTube Hits, and SCA's partnership with YouTube on Fan Fests, live events where popular YouTube creators can meet their fans. The partnership will enable SCA to introduce younger audiences to its youth-oriented presenters.
- **Reaching listeners in a different way** through digital platforms like Facebook, YouTube, Twitter's Periscope, and its own popular online sites, which allow SCA to create (and monetize) videos to supplement its audio content.
- **Using data to analyze** how content is consumed online to inform better content decisions. Understanding when users turn off videos and podcasts enables SCA producers and content professionals to offer better, more popular content. SCA has also built a tool that analyzes listening patterns on social media to provide insights into the kinds of content of greatest interest to listeners.
- **Providing on-demand and "snackable" content** such as podcasts, on-demand highlights packages, and YouTube videos. These allow listeners to consume SCA's content whenever they want to, and in bite-sized portions.
- **Selling advertising in a different way**, such as a partnership with Triton Digital to bring the first programmatic audio and mobile ad exchange to Australia, giving SCA automatic access to ad revenues from programmatic purchases. SCA has also partnered with music-streaming app Shazam to create the "Shazam Top 20" show.

A turning point

Australia's creative industry is at a turning point, which is clearly exhibited by the following developments:

Local content boom and cultural renaissance. Digital has contributed to Australia's growing demand for local content from traditional media such as newspapers and from emerging artists, while increasing its supply at the same time.

- Online Australian news sources are increasingly popular: 61 percent of total traffic on the top 12 sites is devoted to visiting local news websites, up from 55 percent in 2012, according to Nielsen. And the number of Australian visitors to “.au” websites is growing faster than visitors to “.com” websites.
- Local short-form audio/video content is much more popular on digital platforms than on long-form box office platforms. Local YouTube artists are capturing and engaging with a much larger share of the Australian audience than is the box office; there was just one local movie in the top 20 box office films in Australia for each year between 2010 and 2015.
- More and more local artists who began their careers on digital platforms are securing deals with traditional media outlets. The Van Vuuren Bros have produced content for TV; and I Quit Sugar, SketchShe, and Draw with Jazza have all been approached by TV and publishing companies following their success online. As more local emerging artists enter the traditional realm, the local content industry in Australia is likely to strengthen further.
- All in all, the Internet is driving a much wider variety and volume of the creative sector's output with a higher share of local production.

From content import to content export. Besides being popular at home, many of Australia's new Internet-based artists have also been able to establish themselves in markets across the globe thanks to the diminishment of physical borders, affording them significant additional revenues. Unsurprisingly, Australia's cultural exports are especially popular in English-speaking countries like the U.K., the U.S., Canada, South Africa, and New Zealand. However, they are also proving popular in non-English-speaking countries like Germany, Sweden, Singapore, Malaysia, and even El Salvador.

Josiah Brooks launched his Draw with Jazza YouTube channel in 2012 to offer tutorials on the art of animation, allowing him to communicate with audiences and respond to their comments. Since then, the channel's format has evolved to include hosting other people's content and competitions. Draw with Jazza generated 5,000 subscriptions in its first six months, and boasted more than 585,000 subscribers in May 2016. The majority of Brooks's followers are in the U.S., with another 20 percent in Europe and the United Kingdom. Recently, thanks to his

international reach, Brooks was asked by an American publisher to create a book on the subject of animation. “If you build a large enough audience on digital, traditional media will want to work with you,” Brooks notes.⁶²

Australian film distribution platforms have also found success in international markets. Beamafilm, for example, offers niche content via video-on-demand that has not necessarily been released theatrically, focusing on independent films that are prizewinners and film festival favorites. It also licenses its films to libraries, where patrons can access its full collection for free. These distribution models allow Beamafilm to sidestep the barriers put up by traditional theatrical models, and it now reaches audiences across Australia and New Zealand, and farther afield, in the U.K., the U.S., France, Germany, and Mexico. The company’s dual public and institutional offerings give independent filmmakers much greater exposure than they’ve had in the past.

Increased adoption of legal distribution channels. Finally, the proliferation in Australia of legal distribution platforms such as Netflix for movies and Pandora and Google Play Music for music offers consumers more variety, quality, convenience, and affordability, increasing their willingness to pay and reducing piracy rates. More and more consumers are signing up for paid streaming services, which is a positive for the music industry. As it is, indeed, for the creative industry overall. And as consumers become more willing to pay for digital entertainment, they will also likely become more willing to pay for all kinds of quality digital content, allowing traditional players such as newspapers and TV and radio broadcasters to more effectively profit from their own digital traffic.

These trends point to a brighter future for the entire creative sector in Australia if the full potential of digital can be harnessed.

Conclusion

The Internet has propelled a notable increase in the daily consumption of media in Australia, at a rate much greater than in the other countries in this study. Almost all of this incremental time is spent on digital platforms, resulting in a democratization of content creation. Many nascent artists are emerging, along with new business models and financing mechanisms to support their growth. In addition, content majors of every type have been able to significantly broaden their audiences and share of their time.

As traditional media businesses adapt to the online environment, the growth they are now achieving through digital technologies is more than making up for all the losses experienced in traditional outlets.

In addition, the rise of nascent artists and their passion for creating local content is driving a cultural boom in Australia. “Born-digital” artists in Australia are crossing over into mainstream media and making use of traditional platforms at a faster pace than we’ve seen anywhere else in the world. Not only is the local content catering to the untapped demand of the Australian people, but it is also generating a new appreciation for Australian content in international markets, as the country shifts its status from importer of international content of traditional media to exporter of digital-only content.

Chapter 4

South Korea: Opening the creative sector to the world

South Korea is the most digitally advanced market in our study, and its creative sector has the second-highest share of digital content, after Japan, among the five countries we researched. It is characterized by a high level of mobility and adoption of messaging platforms for content sharing. South Koreans are more willing to pay for digital content than are consumers in most other countries (*see Exhibit 24, next page*), and they regularly pay through micropayment platforms. Accordingly, though per capita consumption of media content is lower in South Korea than in the other countries in our study (six hours per day, 33 percent lower than the average), the country has a robust creative sector. And time spent on media content has been growing, largely due to incremental extra time being spent on the Internet.

Trends shaping South Korea's creative market

South Korea's creative sector grew 6 percent annually from 2011 until 2015 to reach \$25.5 billion in revenues. That growth is very largely attributable to revenues from digital, which grew 21 percent over the same period, compared with 0.7 percent growth for traditional media revenues. Indeed, digital media continues to grow multiple times faster than South Korea's overall GDP (*see Exhibit 25, page 82*).

Video, including TV and home entertainment, was the largest creative industry in Korea in 2015, contributing 37 percent of creative market revenues. The overall video market grew at a healthy rate of 6 percent per year from 2011 to 2015. Indeed, South Korea tops the global ranking in terms of online video consumption: 96 percent of Internet users regularly watch online videos, whereas the comparable numbers for the U.K. and the U.S. stand at 80 and 78 percent, respectively (*see Exhibit 26, page 83*).

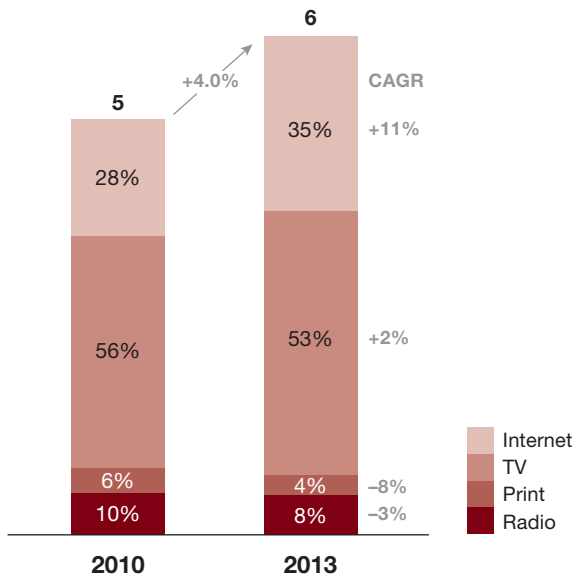
Despite a large online video penetration, online TV revenues are still nascent and constitute only 1 percent of the TV market; they are expected to grow at 19 percent per year from 2015 to 2020.

Exhibit 24

Increasing willingness to pay for online media in South Korea

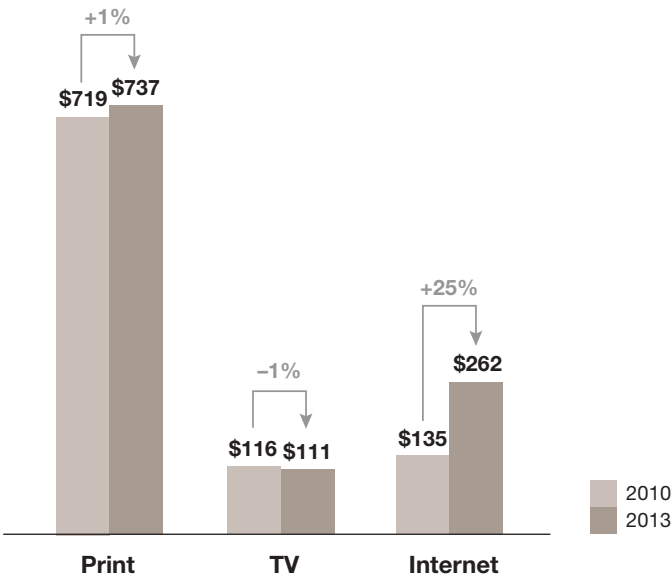
Time spent on media

(in hours/day)



Monetization by hour of usage

(in US\$ per 1,000 capita for print and TV, and per 1,000 Internet population for digital)



Note: Results of calculations may not be exact due to rounding.

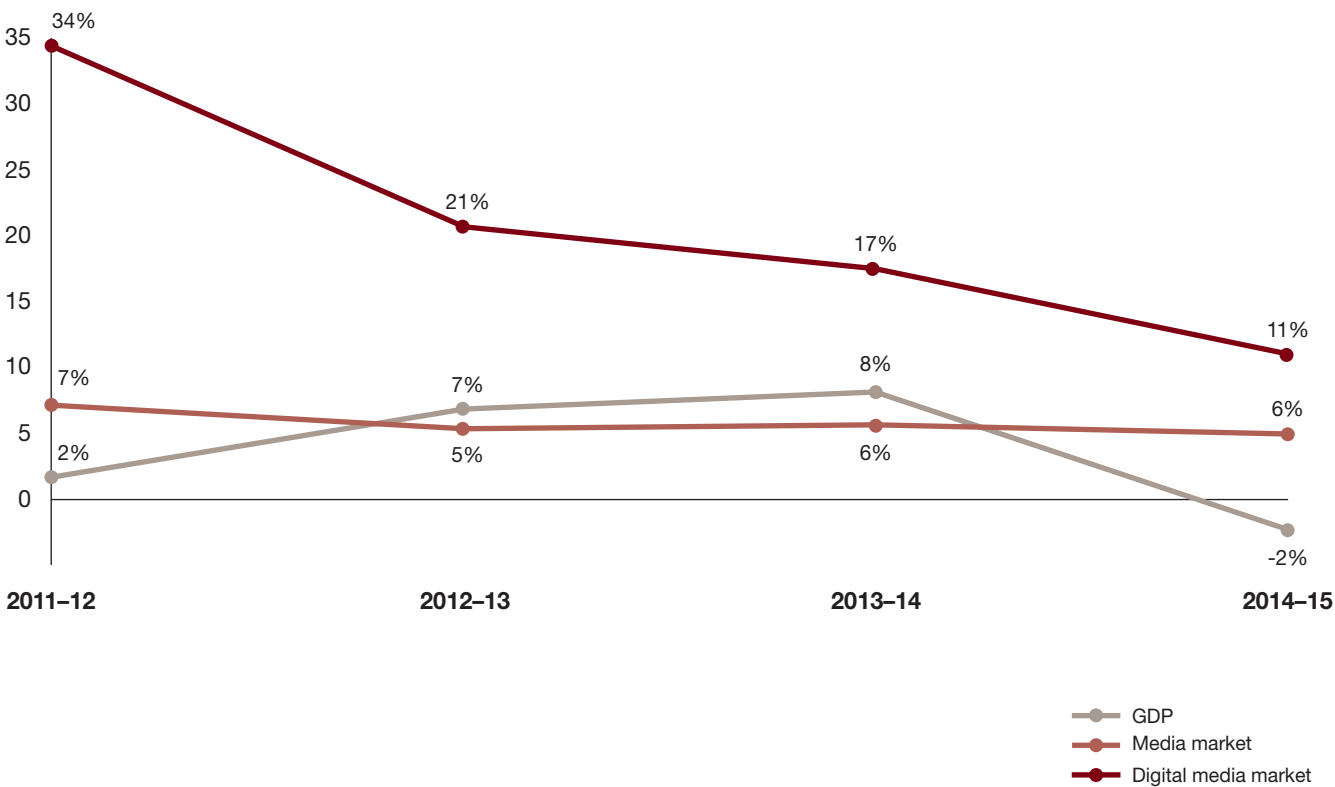
Source: Newswire, 2014; Strategy& analysis

Source: PwC’s Global Entertainment and Media Outlook; eMarketer; Statista; Strategy& analysis

Exhibit 25

Growth in South Korea's digital media

Growth of nominal GDP, media market, and digital media market
(year-over-year growth)

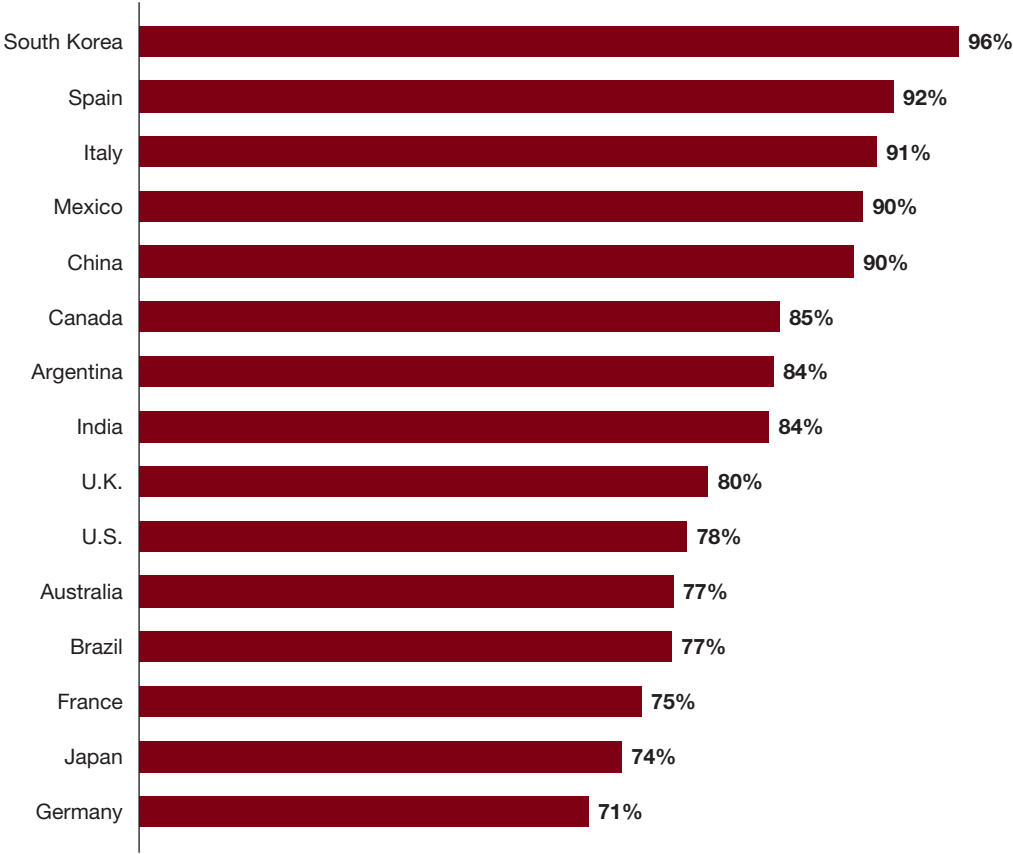


Source: PwC's Global Entertainment and Media Outlook; Euromonitor; Strategy& analysis

Exhibit 26

South Korea leads in online video consumption

Penetration of online video content by Internet users, 2014



Source: eMarketer; TNS

South Korea has a vibrant local film production industry. In 2014, local movies, such as *My Love, Don't Cross That River*, outperformed Hollywood blockbusters such as *Interstellar* and *Exodus*, earning more than \$71 million at the box office.

South Korea has a large newspaper market with about 300 titles. Some of them — such as the *Chosun Ilbo* and *JoongAng Ilbo* — rank among the best-selling papers in the world. Print players, however, have lost a consistent 5 percent of their top line over the past five years as social networks and digital videos gain in popularity and news content becomes freely available online.

South Korea has the ninth-largest book market in the world. Consumption is shifting from physical books to e-readers. As a consequence, brick-and-mortar bookshops have suffered: According to the Korean Publishers Association, the number of bookshops fell from 2,042 in 2007 to 1,752 in 2014.

Music revenues are growing slowly in Korea, mainly driven by digital sales, which have witnessed an average 12.7 percent growth per year from 2011 to 2015, compared with 1.9 percent for non-digital music.

The electronic games industry, however, has been the key driver of growth in the creative market in South Korea, contributing 26 percent of the entire media sector's revenues in 2014, compared with 12 percent in Japan, 6 percent in Australia and Thailand, and 3 percent in India (*see Exhibit 27, next page*).

Several trends characterize this rapid growth:

Powerful culture of mobile usage and micropayments. South Korea benefits from a highly connected population exhibiting a propensity to pay for digital content. With 99 percent of the population owning smartphones in 2016,⁶³ a strong broadband Internet infrastructure, and convenient mobile payment methods, more than half the country's population spends regularly on digital content.

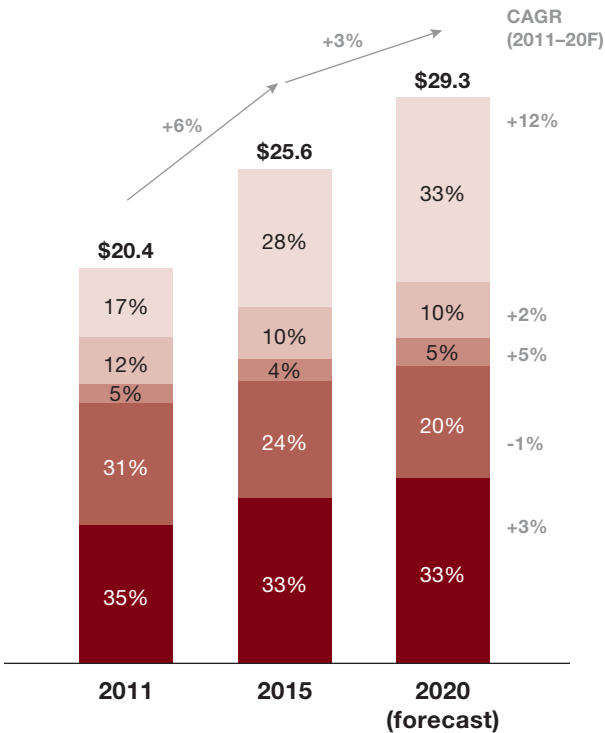
The use of mobile devices accounted for about a third of the country's total Internet traffic in 2015.⁶⁴ In August 2015, South Korea was ranked as the fourth-highest market worldwide in terms of smartphone penetration. Mobile has become a vital part of South Koreans' lifestyles and media consumption: More than 50 percent of smartphone users watch online videos on a weekly basis, and 40 and 30 percent use their phones for music and game consumption, respectively (*see Exhibit 28, page 86*). Indeed, digital games account

Exhibit 27

Digital media and games drive growth

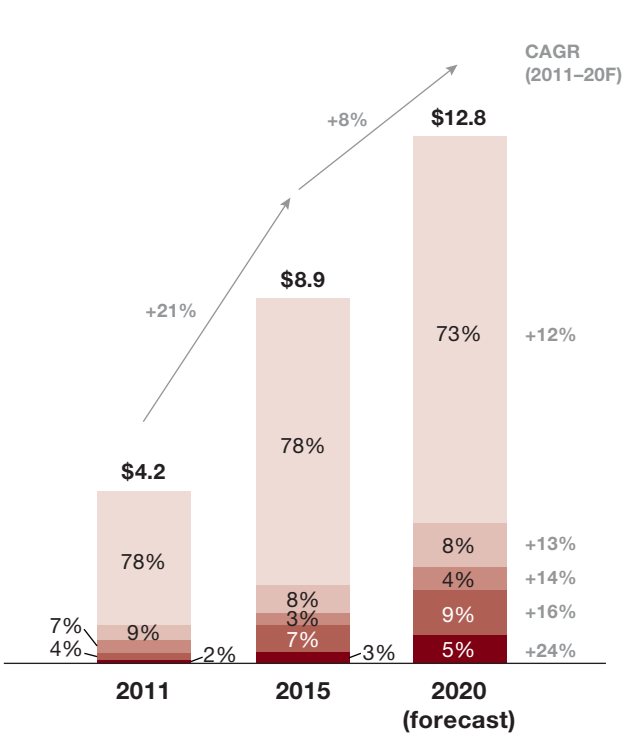
Creative sector market size by sector

(in US\$ billions)



Digital creative sector market size

(in US\$ billions)



- Games
- Books
- Music
- Print
- Video

Note: Results of calculations may not be exact due to rounding.

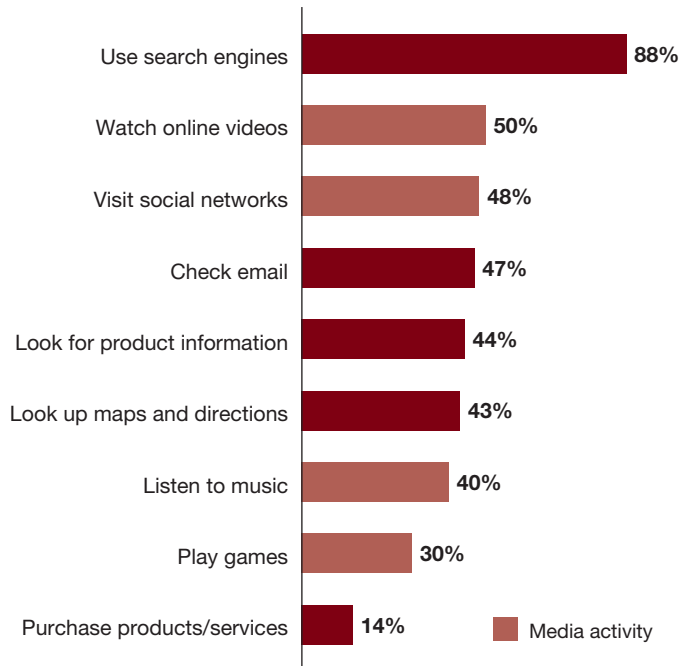
Source: PwC’s Global Entertainment and Media Outlook; Strategy& analysis

Exhibit 28

Mobile devices in South Korea

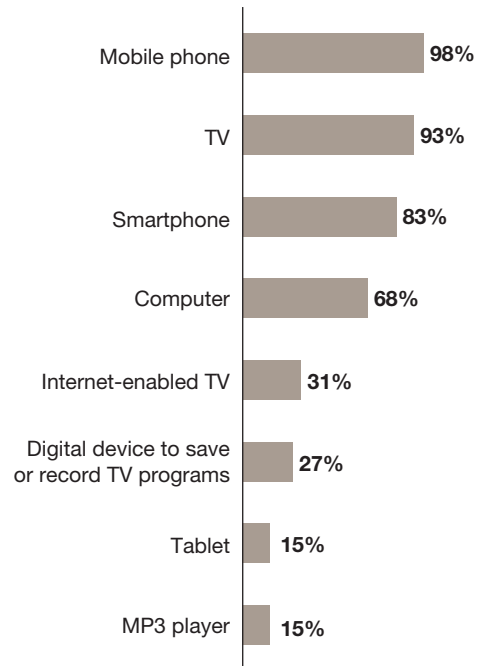
South Koreans' smartphone activities, 2015

Which of the following do you do on your smartphone at least weekly?



South Koreans' electronic device usage, 2015

Which, if any, of the following devices do you currently use?



Source: TNS Infratest;
Google; Strategy& analysis

for 92 percent of the country's spending on digital content; only Japan comes close among the five countries we studied (*see Exhibit 29, next page*). Game expenditures in 2013 were \$153 per capita in Korea, compared with \$77 in Japan, and just \$46 in the United States.⁶⁵

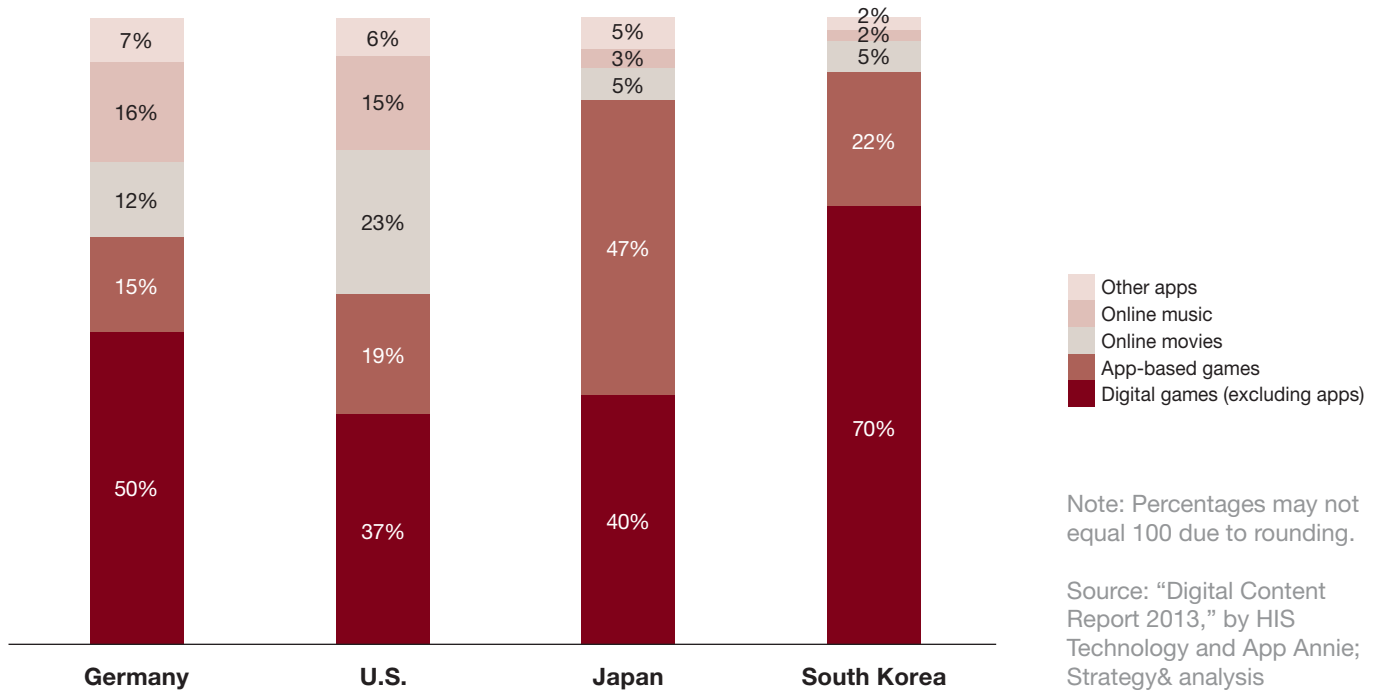
South Korea's efficient payment schemes allow game makers to easily profit from their games. The majority of games are paid for through online micro-transactions, which have enabled revenues to grow at a remarkable 23 percent annually from 2011 to 2015. The freemium model — the game is given away, but new elements or levels must be paid for — is overtaking the physical and digital sales of games. Social gaming is also growing robustly, by 10 percent per year from 2011 to

Exhibit 29

Spending on digital content by country

Composition of digital content spending

(% of total content spending, 2013)



2015, thanks mostly to app-based games and the rapidly expanding trend to mobile gaming.⁶⁶

The strength of South Korea's digital industry demonstrates just how vibrant a country's creative sector can become. In the following sections, we'll look at how the Internet has positively affected several other aspects of Korea's thriving creative industries.

Korean consumers embrace social and mobile platforms for content. A key virtue of mobility is that it allows users to consume games and music socially, sharing the activities with friends. Kakao Talk, South Korea's most popular mobile chat app, is a case in point. In 2012, Kakao Corp., the company that owns the app, introduced Kakao Games, its gaming service, which allows users to download games and play with each other and share scores through the Kakao Talk

messaging app. Players buy virtual items and make in-app purchases using Kakao Talk's virtual coins, called choco. In just three months after its release, Kakao Games had been downloaded 82 million times by 23 million unique users, and since then it has consistently grown its audiences and revenues. The company's music app, called Kakao Music Room, has proved almost as popular. The app offers users a personal space that displays all songs purchased as well as comments left for users by their friends. Launched in September 2013, it had been downloaded 15 million times by August 2014.⁶⁷

The revival of South Korea's music market. As with the music industry everywhere, South Korea's CD sales began to contract in 2002 and continued shrinking through 2005, thanks to fast-growing broadband adoption and the explosion of illegal downloading. During that period, 85 percent of physical music retailers in South Korea closed up shop. But in 2006, P2P file-sharing services for the transfer of MP3 files, long viewed as a detriment to the country's multibillion-dollar music industry, were ruled illegal by South Korean courts. The result was rapid growth in the digital sale of music through a number of online distribution platforms. That same year saw digital sales of music in South Korea outpace physical sales for the first time (*see Exhibit 30, next page*).

Online music distribution platforms such as MelOn, Mnet, Bugs, Soribada, Dosirak, and Cyworld, all of which offer high-quality services with flexible pricing and the convenience of entertainment anytime, anywhere, and anyhow, have become key drivers of the growth of digital music sales. Between 2011 and 2015, online music sales in South Korea grew 13 percent annually, compared with 0.4 percent growth in India and declines of 10 percent in Japan and 1 percent in Thailand.⁶⁸

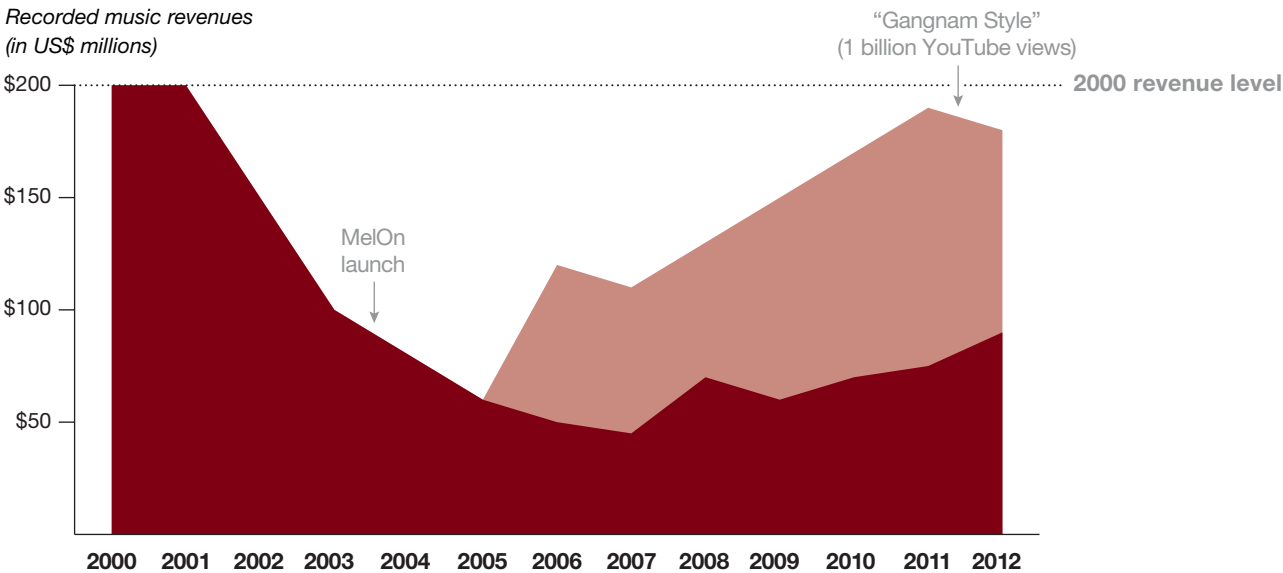
Now, thanks to the country's high rates of broadband and mobile penetration (70 percent of which is 3G or better), South Korea's music consumption market is shifting from ownership to access via streaming, the same trend we've seen in the equally mature music markets of Sweden, Finland, and Norway.

Consider the success of MelOn, the leading music distribution site in South Korea, with a market share of more than 50 percent in 2015.⁶⁹ Founded in 2004 by SK Telecom, MelOn allows users to download or stream music over the Internet on PCs, mobile phones, and even digital cameras; create personal playlists; and post recommendations of songs and artists. The site increased its registered users by 19 percent annually between 2011 and 2014. In 2015, registered users reached a total of 28 million (more than 55 percent of the country's total Internet population). The number of paying users rose 75 percent annually

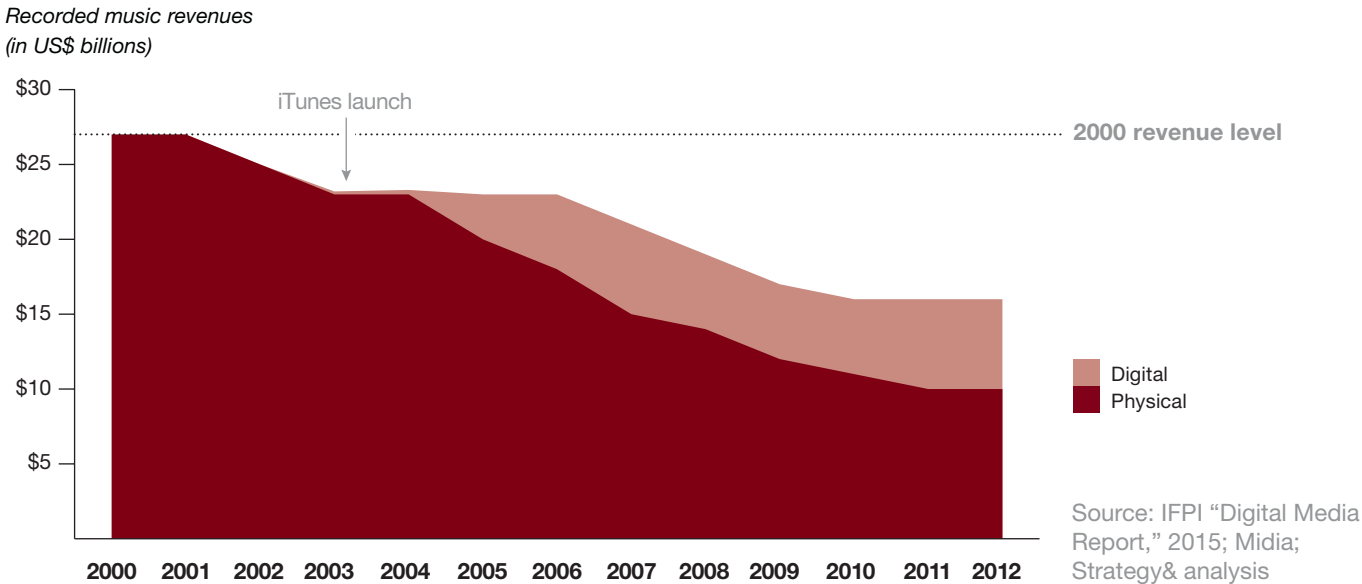
Exhibit 30

The impact of online distribution platforms on the Korean music market

South Korean recorded music revenues



Global recorded music revenues



between 2011 and 2013, thanks to MelOn's 16 different pricing plans (see *Exhibit 31, next page*). And the site has expanded internationally, with a strong user base in Indonesia. Today, MelOn is one of the largest subscription services in the world.

MelOn plans to continue to boost its user base while retaining current customers through value-added services such as music recommendations and promotions, and expanding further into Asian markets. Still, challenges remain: The South Korean government has mandated increased subscription prices, partly in response to the negative press attention that music-streaming services have gotten because of their perceived unfair royalty payments to artists, which may hinder MelOn's ability to increase its paid subscriber base. In January 2016, MelOn sold 76.4 percent of its shares to Kakao, valuing the company at \$1.6 billion.⁷⁰

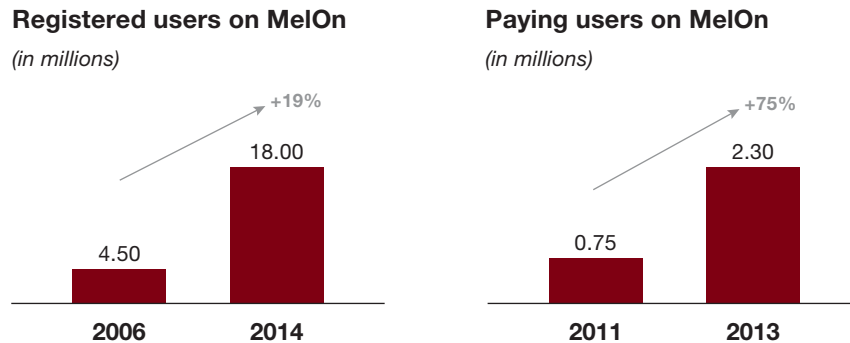
Stronger local creative sector enhances global appeal for South Korea's creative content. South Korea's unique Internet culture is driving growth of the local economy. In turn, the quality of local talent and content is enhancing the global appeal and competitiveness of South Korea's creative output. This is most visible in the music (K-pop) and gaming sectors.

Widespread adoption of legal online music distribution platforms (MelOn, Mnet, etc.) has led to the revival of the music sector. Consequently, South Korea's music market more than doubled in value from 2006 to 2012. The resurgence of the local music industry is vitalizing the impact of K-pop in international markets. Today, K-pop is being searched for on global Internet platforms more by international users than by users in Korea.

The gaming sector, too, has helped drive international interest in Korean content. Online sports games are increasingly popular on TV, with e-sports competitions now at the very heart of sports channels' television programming. The championship tournament for League of Legends, for instance, was streamed around the world, attracting an audience of 8.5 million — the same as the peak viewership for the deciding game of North America's professional hockey league's June 2014 Stanley Cup finals. Game competitions are also becoming a key category in online videos and the largest category in terms of YouTube subscribers after music. South Korea's game export revenues have increased from \$1.6 billion in 2010 to \$2.9 billion in 2014, while K-pop music is finding growing appeal in every corner of the globe, including the U.S., the U.K., and Japan.⁷¹

Exhibit 31

Increase in MelOn's paying subscriber base



Source: Korean Insight; Pitchfork; *Korea Times*; IFPI "Digital Music Report," 2015; Midia; PwC; Strategy& analysis

Content majors reach new audiences

A further benefit of the Internet is the boost in terms of audience reach and relations it has given content providers in several key sectors of South Korea's creative industries — video, radio, books, and music. Consider the following case studies:

Online video. Video is perhaps the best example of this effect. South Korea's traditional broadcasters have been actively expanding their distribution of both broadcast and original online videos, through their own as well as third-party channels. That's because online video offers multiple advantages for content owners — the ability to reach new, younger demographics; to target specific niche audiences; to build an in-depth understanding and relationship with audiences; and to monetize this understanding through relevant advertising.

Moreover, according to experts, online video does not lead to a loss of offline users who "cut the cord." Indeed, the effect appears to be quite the opposite; online video can complement and support offline TV by attracting new demographics to particular shows, by offering the opportunity to catch up with missed episodes, and the like.

MBC, a leading traditional TV broadcaster, was an early adopter of online video programming. In 2000, it launched its digital arm, iMBC, which features video-on-demand (VOD). Since then, the service has consistently updated the quality of its offerings and its pricing schemes. In 2009, MBC began making some of its most popular shows available

on YouTube, and now the company offers six YouTube channels, with more than 140,000 videos uploaded, to its fast-growing subscriber base. It had 4.4 million subscribers by April 2016.⁷² Combined revenues from its VOD and YouTube offerings reached \$46.8 million in 2014, up from \$41.9 million in 2012.⁷³

Radio. The Internet is rapidly transforming the traditional broadcast radio business in South Korea as well. As a producer at South Korea's SBS Radio notes, "The Internet has brought positive effects to the radio industry by enabling users to listen to the radio through their phone or computer. You don't need to be in your car or have a radio device to listen to radio anymore." At the same time, however, says the SBS producer, "traditional radios have long had a distinct advantage — the bond they can create between DJs and the audience, which is very difficult to replicate on online streaming sites."⁷⁴

Now, however, South Korea broadcasters like SBS and Arirang Radio are learning how to take better advantage of the Internet. Both offer several online features, including radio sites featuring various programs throughout the day, smartphone apps for both iOS and Android, dedicated YouTube channels, and dedicated pages on social media such as Facebook. DJs and users can communicate through both sites' increasingly popular online messaging services. Their online forums allow the stations to collect users' opinions on shows and songs. "We have opened communication channels with our audience and welcome their feedback," says SeoungHa, Kim, a director at Arirang Radio.⁷⁵

And thanks to data analytics, Arirang and SBS can measure the responses to each show online by number of views and by consumer age group. One result of the move online is that these radio sites have significantly increased their audience reach, especially among listeners ages 10 to 20.

Retail book sales. The Internet has also vastly expanded the ability of South Korean readers to buy books online. Among the earliest online bookstores, and currently the most popular, is Yes24, founded in 1999. By 2014 it controlled 42 percent of South Korea's online book market. It offers discounted pricing, online author interviews and video clips introducing new books, and a mobile-enabled payment service. The site gets 7.3 million monthly unique visitors⁷⁶ — fully 16 percent of the country's entire Internet population — and its 9 million registered users buy 100,000 e-books every day.⁷⁷

Kyobo, South Korea's largest chain of physical bookstores, has taken a somewhat different approach. It launched Sam, an e-book subscription service that allows subscribers to buy as many as five e-books a month and offers a bundled package of e-book rentals and Kyobo's proprietary

e-book reader. Its family-based model allows four individuals to share as many as 12 e-books for six months.⁷⁸

Online music. SM Entertainment, a leading South Korean record label, has profited considerably from the increased popularity of Korean pop music and its ability to reach substantial audiences outside its home country. Founded in 1995, the label now provides film production, event management, concert production, and talent agency services, in addition to developing new artists and recording and distributing their music.

Now, says Juhan Kim, general manager at SM Entertainment, “with the Internet, the reach is definitely broader. We can launch [an] artist internationally at the same time.”⁷⁹ According to Kim, SM grew 35 percent annually from 2007 to 2013, and continues to grow quickly, thanks in part to increased Internet penetration in China and developing countries in Southeast Asia. As of 2014, almost half of SM’s revenues came from overseas sales.

Access to global audiences

SM Entertainment’s international success should come as no surprise, given just how popular Korean pop music — and indeed many of South Korea’s cultural exports — have become worldwide. Much of the success of what’s known as K-pop can be attributed to one song: “Gangnam Style,” by the artist Psy (Gangnam is a particularly trendy Seoul neighborhood). Released in 2012, the song’s YouTube video was the first YouTube video to surpass 1 billion views, and it has since been viewed more than 2.6 billion times.⁸⁰ Thanks to “Gangnam Style,” interest in K-pop has grown exponentially throughout the globe, as illustrated by how frequently it is searched for on YouTube (*see Exhibit 32, next page*). And the popularity of the many Psy parodies available online has only further increased his appeal to an international audience and contributed to a whole new image of South Korea.

Dae-Yong Lee, CEO of Rich World Record Label, notes a further virtue of the Internet: “[R]eaching both domestic and international markets has become much easier. Most of the major record labels now showcase their artists in various countries through Internet outlets. And because artists don’t have to physically appear in specific countries for promotional purposes, the costs of promotion are greatly reduced.”⁸¹

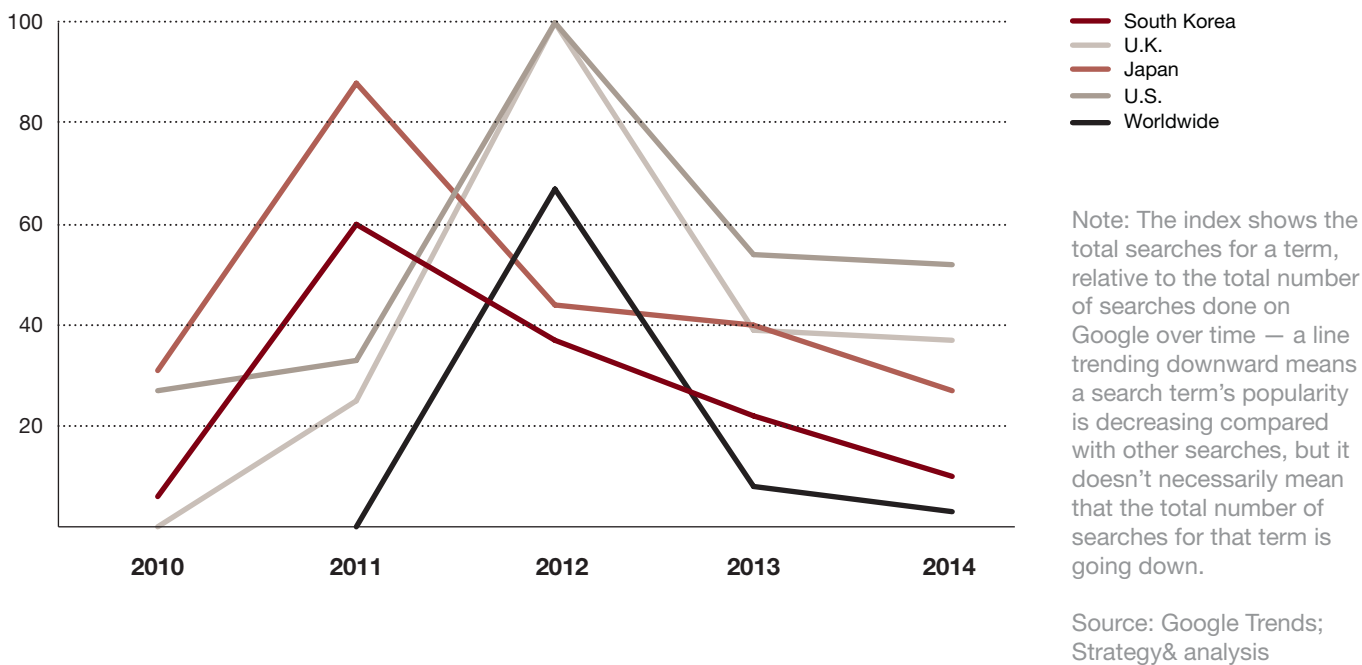
South Korea’s gaming industry, too, has benefited substantially from the Internet’s ability to cross borders. As noted, gaming already contributes a large portion of the creative sector’s digital revenues, and exports are bringing in an increasing proportion of those revenues. The industry

Exhibit 32

Booming export of K-pop music

Search of K-pop by country

(index of YouTube search, September 2010–14)



took in a total of \$9.29 billion in revenues in 2015, and exports made up a third of that, up from a quarter just four years earlier. And while online games represent the majority of the gaming exports, mobile games have become the key driver of the growth in exports, up 13 percent annually between 2010 and 2015 (see *Exhibit 33, next page*).⁸²

One particularly successful export example is MapleStory, a 2D, side-scrolling online game developed by Nexon and launched in April 2003. The game brought in an average of \$176 million in revenue annually through 2013. In 2014, 18 million Koreans, along with 150 million people more worldwide, played MapleStory.

Several versions of the game are customized for specific countries; for example, in the Japanese version, cherry blossom backgrounds and items are used during the cherry blossom season. MapleStory's success is mainly driven by such localization of gaming experiences. However, South Korea's gaming market isn't just an export success: Domestic sales grew by 6 percent per year from 2010 to 2015, reaching \$6.4 billion by 2013.⁸³

Emerging artists flourish, bringing new types of content to audiences

The Internet's ability to democratize content creation, in both South Korea's gaming and music industries, has led to the rise of many new artists and game creators.

Emerging artists enjoy direct access to audiences. In music, digital platforms such as YouTube, MelOn, Mnet, and others are serving as open distribution channels for independent artists to promote their music and reach new audiences. Under these circumstances, it is fans, and not the record labels, the media, or large companies, that build the careers of these new artists, based solely on their likes and dislikes. Singer Sungha Jung, for instance, released his first YouTube video in 2006; since then his videos have been viewed more than 1.2 billion times. With 3.9 million subscribers by April 2016, he is the biggest YouTube music creator in Korea today.⁸⁴

Social media, too, is playing a major role in this process. The band Hyukoh, for instance, went mainstream following the release of its concert video feeds, uploaded through social media channels.

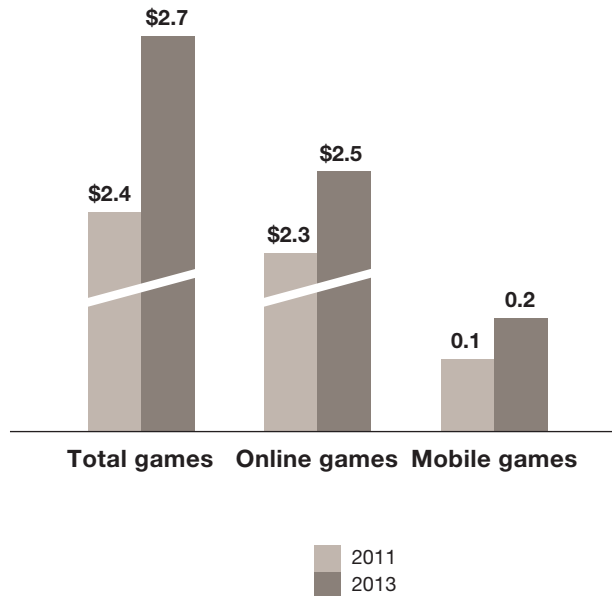
Young game creators also have found real success thanks to the openness and transparency of the Internet. Traditionally, it was difficult for independent game makers to release their games on consoles, as large game makers exerted virtually absolute control over the physical

Exhibit 33

Increasing export revenues for the South Korean gaming industry

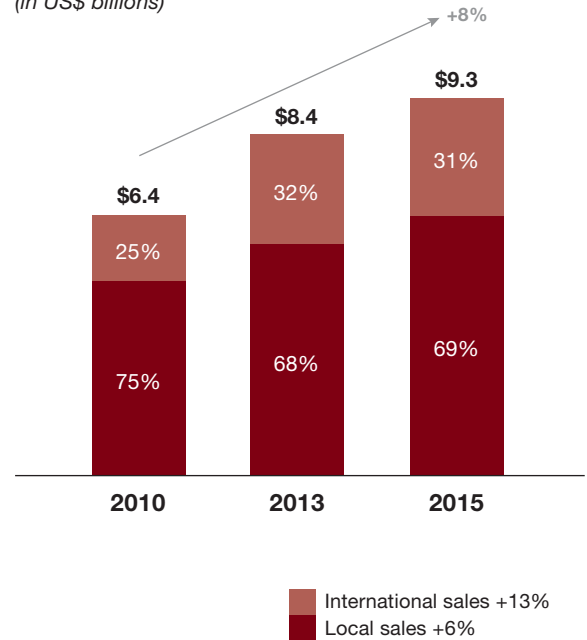
Korean game exports

(in US\$ billions)



Korean game industry

(in US\$ billions)



Source: KOCCA and Korea Economic Institute; "White Paper on Korean Games," KOCCA, 2012 and 2014

release of new games on CDs and DVDs. Digital distribution platforms have changed all that, allowing independent developers to distribute their games online without having to negotiate deals with publishers, and with little or no distribution cost.

Moreover, online platforms allow developers to interact with consumers and build a following even before their games are released. Steam's Greenlight system for PCs and Macs, for instance, encourages users to pick the games they want to see released on its platform through ratings and feedback. In one example, an experimental PC game called 6180 the Moon, developed by the independent Korean studio Turtle Cream, was "greenlit" by consumers and then released on Steam, to rave reviews. Since then, the game has been released on other platforms, including Desura and Nintendo Wii U.

Designers of mobile games have benefited as well. Buff Knight, a role-playing app developed by Buff Studio, an independent studio run by a single individual, was initially released as an Android app. Within a few weeks of its launch in October 2014, Buff Knight had been downloaded more than 100,000 times, and it has since become the top paid app in both Japan and Taiwan.⁸⁵

More recently, indie game developers who are short on money and distribution ability have been integrating their new games with mobile messaging and social apps such as Kakao Games — a business model that is boosting both parties. Developers benefit from social apps because they can effectively promote their games through the apps' social invite function, and the messaging and social platforms can expand their user base and thus boost revenues.

A case in point is AniPang, a casual game offered by social game developer SundayToz and first launched in 2009 on a regular Web-based platform, meeting with limited success. Then, in 2012, it was chosen as the first game to be launched on Kakao Talk's new gaming platform, Kakao Games. The new, mobile version integrated Kakao's social media and messaging platforms, where friends can send each other virtual goods and compete for the top score. Within a year, AniPang became the most popular mobile game in South Korea, reaching more than 25 million downloads and 20 million active users from 2012 to 2013. AniPang was estimated to bring in \$500,000 in revenues per day within a year of its release.⁸⁶

Passions converted to successful businesses. Games are also at the heart of another Internet-driven shift in South Korea's creative sector. Online video platforms have unleashed any number of user-generated video commentaries on games and other creative pastimes such as makeup entertainment (in which cosmetics artists show how to create various looks), and succeeded in converting the artists' passions into careers, profiting from content they create. More than 15 YouTube channels of independent artists in all genres are ranked in the top 100 Korean channels with the most subscriptions.

Indeed, the largest video category on YouTube in South Korea is commentaries about gaming. One of the most popular is the YD Gaming Channel, which offers user-generated content about video games and commentary from players. On average it takes just two weeks for videos on the channel to reach 200,000 views, and its subscriber base grew 34 percent, to 1.67 million, in the past year alone. South Korean YouTube star Na Dong-hyun began his Great Library channel with video commentaries of live gaming sessions, then moved on to offer more general information, including movie reviews and cooking advice. In 2014, Na's channel drew in 200,000 subscribers; since then, the number has increased to 1.2 million.⁸⁷

In another genre altogether, Ssin has become a pioneer of makeup entertainment, popularizing the art of makeup. As of May 2016, she had 971,000 followers on her YouTube channel, and she is soon to release a how-to book on makeup.

South Korea's new artists have also benefited from the rise of MCNs — companies that provide individual creators with assistance in production, distribution, monetization, and audience development, and then place the results of their creative efforts on distribution platforms like YouTube.

Korean MCNs, less powerful than their counterparts in other countries such as Australia and India due to the country's dominant record labels, are starting to attract interest from investors — in November 2015 the MCN startup Makeus secured a \$17 million investment from four venture capitalists.⁸⁸ MCNs have created an ecosystem for bringing emerging creators into the video business by incubating their content and helping them succeed along their journey. Currently, through YouTube, Facebook, and Kakao Story, Makeus has more than 25 million subscribers. Its popular channels include Il-So-Ra, Snack Video, and comedy channel Sae-Ut-Dong. Makeus aims to further enhance its video production capabilities by creating a digital content studio and securing leading content developers to strengthen its market share in mobile broadcasting in Korea and other parts of Asia.⁸⁹ Other MCN companies that have received investments include Treasure Hunter (\$13.6 million), Kongdoo (\$1.7 million), Sandbox Network (\$860,000), and Video Village (\$500,000).

Alternative funding models support independent artists.

Crowdfunding — raising money for specific projects over the Internet — has become a popular means of supporting new artists and gamers in South Korea, as in the other regions we studied. The country has more than 10 local crowdfunding platforms. Many South Korean game makers use international platforms such as Kickstarter. *Magicians*, a role-playing PC game that helps users learn Korean, was developed by Kyle Simmons, a student turned game developer living in Seoul, with \$35,000 he raised on Kickstarter. There are also several local platforms, including Tumblbug, Fundu, and Upstart, that specialize in creative and cultural projects, including *Pied Pipers Entertainment*, an independent Korean startup that raised almost \$17,000 on Tumblbug to fund *Army* and *Strategy: The Crusades*, its PC-based strategy game.⁹⁰

Crowdfunding sites offer the further benefit of putting game developers in direct contact with their many funders, which helps build demand for the game even before its official release.

Conclusion

South Korea's high level of Internet penetration and its people's propensity to pay for digital content have had a significant impact not only on the growth of the local creative sector but also on the global appeal of its creative content and the ability of new artists to find an audience. Indeed, South Korea has one of the most robust creative sectors in the world — its market for digital media grew an impressive 21 percent annually between 2011 and 2015.

In short, digital media is leading the way in South Korea's creative sector. Revenues from digital are growing much more quickly than revenues from offline cultural content, and that will likely continue well into the future.

Chapter 5

Thailand: Transition to digital creative content

Thailand has a vibrant creative sector, growing faster than the country's GDP — 4 percent annually from 2011 to 2015,⁹¹ compared with overall GDP growth of 2 percent⁹² — and at about the same rate as consumer spending during the same period. Thai consumers are eagerly adopting digital platforms for accessing creative content — especially on smartphones, as the market is characterized by a 144 percent penetration of mobile broadband. Thailand is already among the world's most active markets for online video usage, ahead of developed countries such as the U.S., the U.K., and Australia in terms of percentage of video viewing time on digital platforms.

But Thailand's creative sector is still making the transition between traditional and digital development and distribution of media content. Fixed broadband connectivity is still relatively low, at about 30 percent of households in 2015,⁹³ but mobile penetration has grown rapidly — now, more than 147 percent of the population has mobile phones, some people owning more than one device.⁹⁴ And more and more Thais can access the mobile Internet, thanks to improved 3G coverage and the recent introduction of 4G services, affordable data plans and mobile devices, and a government determined to digitize the country's economy and boost digital inclusion.

Trends shaping Thailand's creative market

Traditional media also has good penetration in Thailand; 98 percent of households had TV sets in 2015.⁹⁵ As such, Thailand benefits considerably from the tools required to consume creative content both through traditional means and on digital devices.

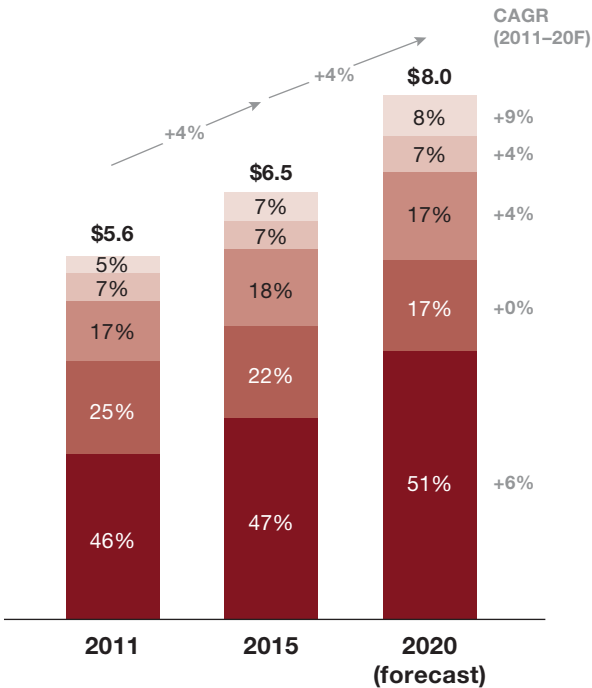
Despite Thai consumers' healthy appetite for content, however, the economic contribution of digital offerings is still relatively low. Digital made up just 9 percent of the sector's total revenues in 2015, yet that figure is expected to grow to 13 percent by 2020, driven mainly by gaming (*see Exhibit 34, next page*).

Exhibit 34

Increasing growth from digital

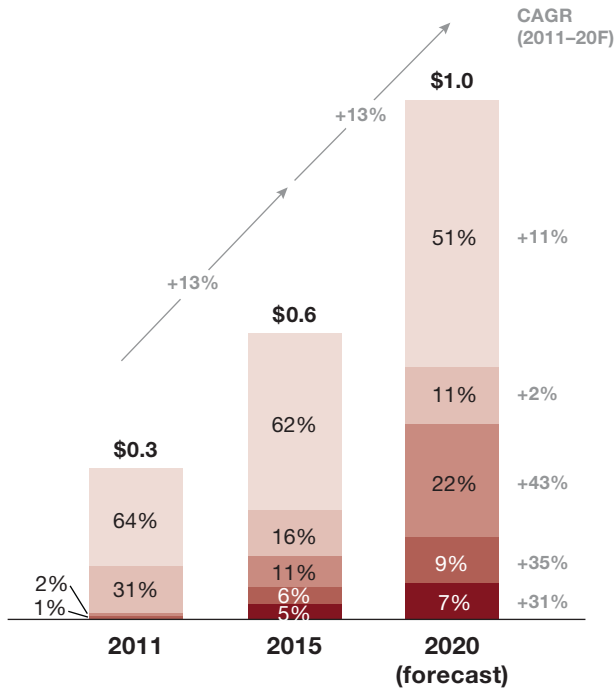
Creative sector size, by industry

(in US\$ billions)



Digital creative sector size, by industry

(in US\$ billions)



- Games
- Music
- Books
- Print
- Video

Note: Results of calculations may not be exact due to rounding.

Source: PwC's Global Entertainment and Media Outlook; Strategy& analysis

Thailand's gaming sector, the largest in Southeast Asia, is driven primarily by PC and console users, but app-based and social gaming is on the rise. Gaming is the most digitized of the country's creative industries, and the fastest growing.⁹⁶

Thailand beats most developed nations in online video viewing.

Thais spend much more time accessing online videos than people in developed countries. Fully 55 percent of the time people spend watching video takes place online; 45 percent goes to traditional TV. That's an average of 12.3 hours per week on Internet video compared with 10.3 hours on broadcast TV.⁹⁷ By contrast, just 16 percent of viewing time is spent online in the United States.⁹⁸

"The Internet is gradually replacing traditional TV as viewers take advantage of the flexibility and convenience of accessing online content anytime, anywhere. Once viewers get used to watching the show online, it is hard to bring them back to the traditional TV platform," says K. Issada, creator of Choc Chip Channel.⁹⁹

However, viewership on online channels is not yet a significant source of earnings. More than 99 percent of the revenues from video in Thailand still come from broadcast TV. Although top online channels are funded by ads, they have not yet been able to bring in enough ads to grow revenues significantly.

Overall, the prospects for the creative sector in Thailand are positive, and the Internet will play a major role in its continuing growth. In the following sections, we look at how the Internet is positively affecting numerous aspects of the country's creative industries.

Digital drives deeper engagement for consumers and open access to content

The rise of digital platforms in Thailand's creative sector has driven greater end-user participation and has further enabled all of Thailand's population to access informational and educational content.

Improved variety and accessibility of video content. One particularly noticeable effect of the Internet in Thailand has been the rapid increase in so-called dual-screening — watching videos on a traditional TV and online at the same time. By 2014, the percentage of Thai Internet users consuming online and traditional TV simultaneously had reached 94 percent, with 76 percent doing so on a daily basis.¹⁰⁰ Currently, the consumption of stand-alone TV is still slightly higher than that of dual screening, but by 2020, TV-only and dual-screening consumption are expected to reach parity.¹⁰¹

The popularity of dual-screening demonstrates just how successful the TV industry has been in its efforts to benefit from the Internet, providing a differentiated, interactive, and personalized viewing experience. Two new online video companies, Hollywood HD and iFlix, have been particularly successful in taking advantage of this trend.

Access to information. In addition to facilitating better engagement with consumers, the Internet has been a key factor in increasing the spread of information in Thailand. New platforms such as forums and blogs allow Thais the opportunity to participate in all kinds of experiences, from rating restaurants to uploading videos to commenting on articles. Today, even political campaigns require candidates to be present in social networks and answer the concerns of their constituents.

Engagement with Thailand's blogs and forums is among the highest in the world, reaching more than 71 percent of Internet users in Thailand in 2013, versus 54 percent in the rest of the world and 44 percent only in Asia.¹⁰²

Pantip, one of Thailand's largest forums, with more than 1.7 million registered users and 3 million non-registered users as of January 2015,

Hollywood HD

Launched in March 2014, Hollywood HD was modeled after Netflix to provide a high-quality movie and TV service and the convenience of watching anytime, anywhere, anyhow, at a sensible price. The company offers movies from Hollywood and from Asia, TV series, cartoons, and live TV. At any given time, subscribers can watch more than 1,000 titles, and more than 100 new titles are being added each month. The content is available via iOS and Android smartphones and tablets, through Apple TV, and on PCs.

A few months after its launch, Hollywood HD was ranked the top entertainment app in Thailand for

iPhones and iPads, and in the top 10 across all categories.* More than 100,000 videos have been downloaded in six months, and the company's subscriber base was expected to have reached more than 1 million in 2015. Prices start at \$5 a month, cheaper than illegal DVDs, and the expanding subscriber base demonstrates that people won't buy pirated content if there is a reasonably priced legal alternative.**

* "Netflix of Thailand wants you to stop illegally download movies and start paying for them," TechInAsia, Apr. 3, 2014.

** "Hollywood HDTV On Demand Movies and TV Shows in Thailand," thaitech by thaivisa.com, Apr. 20, 2015.

An even more recent entrant into Thailand's video market is iFlix. Already present in Malaysia and the Philippines with 100,000 subscribers just six weeks after launch, iFlix launched in Thailand in September 2015, and currently offers online movies, TV series, and children's content from Hollywood and throughout Asia. Much as with Netflix, the content can be accessed anytime, from anywhere, and on any device, with a focus on mobile devices; unlike with Netflix, the user is able to download content for later viewing.

Within a week of its launch in Thailand, iFlix had attracted 15,000 subscribers, mainly young people living in urban areas. And because iFlix is already spreading across Asia, its shared cost structure allows it to offer among the cheapest legal streaming services in Thailand. A monthly subscription costs just \$2.80.* And, as with Hollywood HD, iFlix's attractive pricing helps reduce the high level of piracy in Thailand.

* PwC and Strategy& interview with K. Artima Surapongchai, country manager for Thailand at iFlix, Sept. 2015.

allows participants to discuss political news, religion, celebrities, education, sports, and other hot topics.¹⁰³ The site's most talked-about recent topics included a comfort food recipe by Mun-kaew-kub-hua-moo, which was chosen as the top topic of 2014, and "My little office" by Mommam777, a collection of photos taken by a pilot that was shared on Facebook more than 170,000 times, with 1 million "likes."¹⁰⁴

Says Apisil Trungkanont, co-founder of Pantip, "We depend on and support user-generated content. We have a culture which encourages sharing of such content by allowing votes on high-quality content and popular posts."¹⁰⁵ The result of this support is impressive: With 4.5 million unique visitors and 16 million page views daily by September 2015, Pantip was ranked as Thailand's top local site in terms of traffic, and the fifth site overall after Google (Thailand and U.S.), Facebook, and YouTube.¹⁰⁶

Remote access to educational resources. In addition to the benefits the Internet has brought to the commercial side of Thailand's creative sector, it has played a considerable role in widening social inclusion by improving access to educational and cultural content for Thais living in remote areas. Platforms such as YouTube and blogs not only can break down the geographic barriers that leave people in rural areas feeling isolated, but also can remedy the problem of teacher shortages by making educational material readily accessible to all users.

Weerachai Martluplao, for example, is a music teacher in Thailand who has been using a mix of YouTube, SlideShare, and his blog to teach Thais

how to play the khaen, a type of mouth organ. In the past, aspiring khaen students had to train directly with teachers, with the shortage of qualified teachers greatly limiting access. But Martluplao's digital videos on YouTube, which had been viewed more than 350,000 times by May 2016, have extended his reach not just in Thailand but beyond.¹⁰⁷ Designed for all skill levels, the videos can be watched by students as many times as needed, while the blog lets them reach out to Martluplao for more information on how to play the instrument.

On a larger scale is Ormschool, an online tutoring service for high school and university students launched in 2005 that had been gaining more than 300,000 new viewers a month by September 2015. The company offers free, high-quality educational content to students all over Thailand, who can access content through a variety of channels.

Ormschool reaches its audience primarily through YouTube videos, which provide the actual content, and Facebook, through which it promotes its content and other events. These tools let the company test the effect of content by uploading sample versions and allowing students to choose how they want to receive and interact with content. And it plans to launch an application that will establish even closer connections with its audience and enable it to answer student queries in real time.

Further benefits of Ormschool include access for students in rural areas who have an Internet connection, students who want to work from home if they are sick, and those who want to rerun a specific class or program. And it has extended its reach to include students in other countries, including Laos, whose language is similar to Thai.¹⁰⁸

Traditional players are using digital platforms to build new audiences

As Thailand's creative sector becomes more digitized, traditional players in virtually every creative industry are boosting growth and driving profitability through the integration of their offline and online businesses. Moreover, they are reaching new consumer segments — most notably people younger than 30, who have been drifting away from traditional offline media consumption — and their increased reach has driven additional revenues, making up for the decline of traditional advertising. The Internet has helped these old-line players to boost margins too, since it makes it cheaper to distribute content or market it. The following case studies indicate how companies in several industries have leveraged the Internet to keep growing and increasing their reach.

Newspapers. *Thai Rath*'s popular online news offering has been instrumental in enabling the Thai-language newspaper — the country's oldest and most widely read — to rapidly expand its audience and capture younger consumers.

The website had 5.8 million users in September 2015,¹⁰⁹ compared with 2.4 million readers of the print edition.¹¹⁰ "Our paper and online versions cater to different readers. Online news is more appealing to the 30-and-under age group. This group was not a big reader of our offline newspaper, and online has helped us increase our reach to them," says Vachara Vacharaphol, CEO of online and digital TV business at *Thai Rath*.¹¹¹

Television. TV3, Thailand's first commercial television station, was launched in 1970, and it is now the second most popular traditional TV station nationwide, after Channel 7. By May 2016, more than 18,500 videos had been uploaded to TV3's official YouTube channel, and with more than 1.9 billion views, TV3 now ranks number one among traditional TV station channels on YouTube and 16th among all YouTube channels in Thailand.¹¹² Overall, while TV3's traditional TV ratings declined by 21 percent between October 2014 and April 2015, monthly views on YouTube increased by more than 300 percent during the same period, from 16 million to 62 million views.

Books. Although Kledthai, a traditional publisher and distributor of academic books and novels, has not yet begun publishing e-books, by adapting its sales and marketing efforts to the Internet, the company has improved its financial performance by 10 to 20 percent annually, thanks primarily to lower sales and marketing costs. Kledthai leverages the social application Line as a sales channel as well as a customer service channel. The Internet also allows Kledthai to market its books through Facebook, Twitter, and Instagram, to identify new book-buying trends, and to target new customers.¹¹³

Music. The music industry, too, has benefited from the Internet, as traditional record labels promote their artists online and on social media platforms, with impressive results. Thailand's largest music company, GMM Grammy, for example, is taking advantage of the rapid digitization of the country's music industry. In 2010, it launched the GMM Grammy Official YouTube channel, which posts several music videos featuring the label's artists every day. The channel is now ranked first in terms of total video views in Thailand, with its 5.3 million subscribers bringing in more than 160 million views in January 2015. Since its launch, the channel has attracted more than 4.5 billion views.¹¹⁴

The Internet as catalyst for emerging artists' growth

Increased engagement with fans is not happening only in the music business.

Capturing consumer insights and engaging with users. As companies in every creative industry in Thailand move online, they are finding new ways to take advantage of better interaction with audiences, learning more about audience preferences by gathering and analyzing customer data, and tailoring content to the audience's needs and expectations.

Thailand's Nation TV has pioneered the integration of broadcasting with social media. In July 2015, the company launched its "Social TV" project to collect and analyze consumer insights on social media platforms in collaboration with Computerlogy, a Thai software company. The project uses real-time social media data analytics to better understand audience preferences in all the company's news programming covering the economy, politics, and entertainment.¹¹⁵

Digital platforms as a catalyst for entrepreneurship. Before the advent of the Internet, content distributors were confined to a finite amount of inventory space, and so had to be highly selective in deciding which content they would distribute. It gave them little room to experiment. The Internet has changed that entirely. Now, distributors in every creative industry can make available a virtually unlimited library of content and freely experiment with all kinds of niche offerings. Non-mainstream content creators now have the opportunity to distribute their content and reach audiences at little cost, while providing consumers with much more choice.

At the most basic level, this has enabled creators to turn their passions into businesses, often through videos they post on YouTube. Some examples¹¹⁶:

- Thanks to her videos, Pearypie is now one of the most famous makeup artists in Thailand. Views of her YouTube channel increased more than 50 percent, to almost 200,000, between February and July 2015. Her success has given her opportunities to work with fashion magazines and host her own makeup workshops.
- Bie the Ska is one of the biggest user-generated content channels in Thailand, with 1 million views of its videos in July 2015. The channel posts scripted comedy videos including vlogs and parodies twice a week.
- Begun by a group of Thai youngsters posting videos shot with their mobile phones, Fedfe is now the biggest comedy content creator in Thailand, with 1.2 million views in July 2015, making it the 57th most popular YouTube channel in Thailand in July 2015.

Digital startups serve the untapped demand for niche and local content. SpokeDark TV is a TV production company that struggled to sell its content to traditional outlets because its non-mainstream content — including political shows and niche offerings in beauty and style — was a tough sell to advertisers. So the company created its own YouTube channel and launched a website, and it is now thriving. The website now is ranked as Thailand's 96th most popular on Alexa, while the viewer and subscriber numbers for its YouTube channel are all up significantly (*see Exhibit 35, next page*).

The recent success of SpokeDark TV on digital distribution channels is a testimony to the untapped demand for niche and local content in Thailand. The digital online distribution platforms will continue to play a key role in filling this gap.

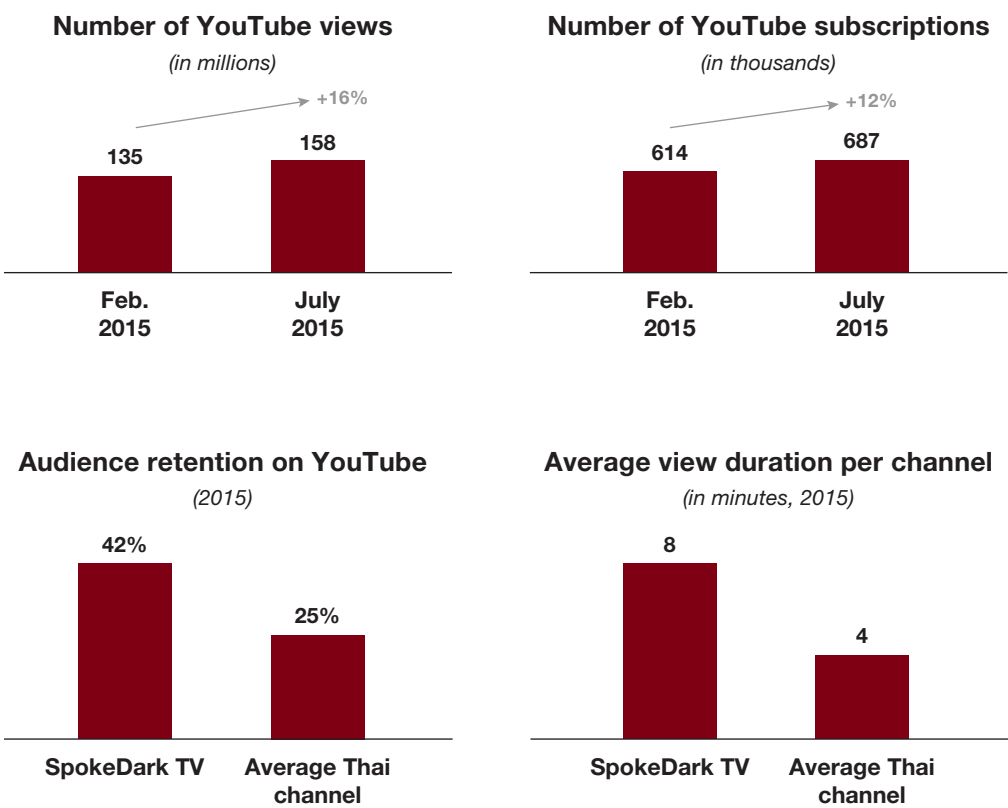
Emerging artists lead Thailand's gaming sector into exports. It has long been difficult for independent game makers to distribute their content on traditional gaming consoles. But now, thanks to the advent of digital distribution platforms, independent game developers in Thailand can distribute and sell their games widely and negotiate deals with publishers. Such platforms are an easy way for indie game makers to release their creations with minimal distribution costs — indeed, new titles pop up regularly. Some independent game makers turn to well-known global distribution platforms like Apple's App Store, Google Play, and Steam, while others have found success on local platforms such as Thailand's Sanook and Kapook.

In 2009, for example, Thai indie developer Kirakorn Chimkool launched a puzzle game, called Unblock Me, designed on a \$700 Mac Mini bought with a 10-month installment loan. Just a few days after he submitted the game to Apple's App Store, the title went live with both a paid and a free version. Within a few days of its release, the free version of Unblock Me became the 60th most downloaded game and the most downloaded app in every category on the App Store.¹¹⁷ Since then, the game has been released on Google Play, HTML5, and the Tizen OS. By May 2016, it had been downloaded almost 120 million times.

Room 39 is another concrete example where a hobby was turned into a profession: The Thai pop music band, casually formed in an apartment in Los Angeles in 2010, performs remixes of popular Thai and international songs. Boyd Kosiyabong, the co-founder of record label Love Is, discovered Room 39 on YouTube in 2010. Today, more than 25 of Room 39's videos have surpassed 1 million views, and the group's latest single reached the top five just three weeks after its debut, bringing value and fame to both Kosiyabong and the artists.

Exhibit 35

SpokeDark TV's YouTube channel gains momentum



Yet another example is Jannine Weigel, a teenage YouTube star living in Thailand. She records covers and achieved 1.7 million subscribers and 300 million views between 2013 and May 2016. More than 60 of her videos have garnered more than 1 million views. Her YouTube channel was ranked number 30 in Thailand in September 2015.

Digital distribution models allow for more favorable economics for authors

New distribution platforms enable independent creators not just to reach an audience but also to allow their fans to assist in the process of content creation. One example is Ookbee, a digital magazine and book platform launched in 2010. It acts as a distribution platform for nascent writers to publish their work, but it also provides a digital community where writers and readers can interact, and a complete end-to-end support solution for writers, including help and advice with content preparation, storage, delivery, and even billing and payment for their publications. Ookbee currently has an 85 percent share of Thailand's e-book market and a more than 90 percent share of the Thai digital magazine market. With virtually no printing or distribution costs, Ookbee's business model is easily exported to new geographies — it now has a leading market position in the Philippines, Malaysia, and Vietnam. Already, the company has delivered more than 6 million e-books and its app has been downloaded more than 8.5 million times; as of May 2016, it had 5 million active users.

The success of distribution platforms like Ookbee has also opened up opportunities for content creators to gain their rightful share of the sales of their creations. Book publishing is a clear example of this phenomenon. By lowering the cost of marketing, production, and distribution, online publishers can give authors a larger percentage of sales revenues (*see Exhibit 36, next page*). Authors also benefit from direct access to their readers, through online forums and reviews.

This development has prompted considerable growth in the number of self-published authors in Thailand, where in 2014, the number of self-published books increased by five times according to Ookbee. As a result, while online book distribution made up just 1 percent of the Thai book market, it is expected to more than double in 2016.

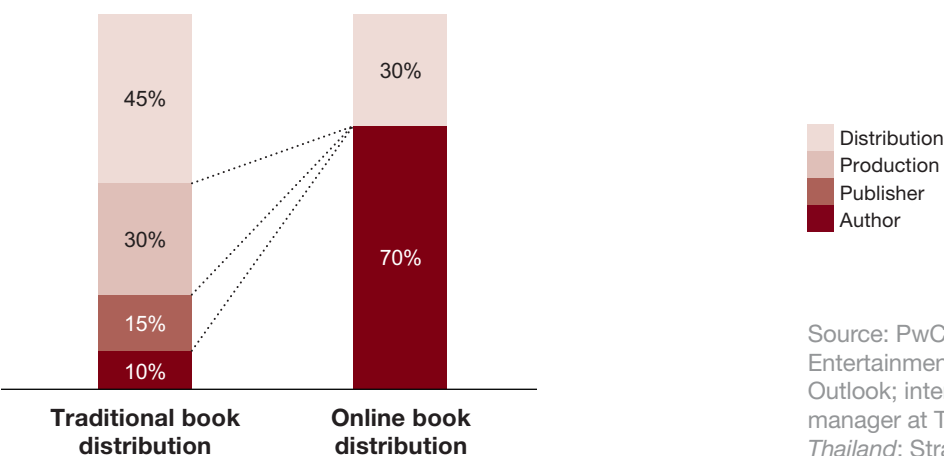
Conclusion

Players in Thailand's creative sector are working hard to leverage the growing demand for digital content. Content majors are integrating digital platforms into their mainstream businesses not only to gain

Exhibit 36

Financial benefits of self-publication

Revenue allocation from books in Thailand



Source: PwC's Global Entertainment and Media Outlook; interview with manager at TCDC; *Forbes Thailand*; Strategy& analysis

access to incremental audiences but also to drive increased efficiency. Newspaper *Thai Rath*, for instance, doubled its audience in 2015 by accessing new demographic segments through its online news offering. Similarly, book publisher Kledthai actively deploys its online channel for improving the efficiency of its marketing, which has enabled the company to enhance its profitability by 10 to 20 percentage points.

On the other hand, emerging artists are leveraging digital platforms to create sustainable businesses and take advantage of new business models that yield a greater share of the income their products generate. For instance, independent writers are deploying online channels such as Ookbee to distribute their content without having to negotiate deals with book publishers, thereby benefiting from the higher revenue share of 70 percent as opposed to 10 percent in traditional models.

Efforts of emerging content creators are enabling a more easily accessible and wider selection for consumers, who have a richer access to niche and local content than was ever before served on mainstream media channels. Populations in remote areas are also benefiting from access to educational resources delivered to them through smartphone apps.

Finally, emerging artists are leveraging digital platforms to tap into international audiences. This trend is most notable in the gaming sector, where nascent creators such as Kirakorn Chimkool use global online distribution outlets to access international markets and contribute to Thailand's exports.

The integration of digital platforms into the creative sector is well under way in Thailand, although in its early stages of development. There is no doubt that an increasing proportion of the growth of Thailand's creative sector in future years will be driven by the digital creative economy.

Conclusion

Digital models, driven by the proliferation of Internet, are fueling a renewed growth in creative sectors. Increasingly, the power is shifting to the consumers, who decide what they want to make, what they want to consume, and how and when they want to consume. This change has been the primary driver of innovation and investment in creative sectors. Succeeding in this digital environment requires a different approach and recipe than in the past. Players that have managed to adopt these new models have benefited from this growth.

Although this report focuses on the impact of the Internet on creative sectors, the Internet is a powerful tool that has impacted all of society. Transformative as the Internet is to individuals' lives, it also creates new economic opportunities. The increase in Internet activity has stimulated economic expansion, job growth, and poverty reduction (especially in developing countries).

The Internet's impact on the creative sector follows a similar evolution. From 2011 to 2015, across the five countries studied here, the penetration of mobile broadband increased at a CAGR of 5 percent and smartphones by a CAGR of 31 percent. During the same period, the digital creative sector grew at a rate of 7.5 percent. In aggregate, 84 percent of the \$15 billion of revenues added to the creative sectors can be attributed to digital. Consequently, digital share of total creative sector in these countries increased from 11 percent to 18 percent in the same period.

Consumers have embraced the digital world. They are spending more time interacting with creative products. The quantity and relevance of creative products have increased steadily, and the barriers to becoming a creator have been lowered. Consumers are actively engaged in the creation of content, with many reaching global audiences. New creators and companies that have emerged are providing locally relevant content in new genres, adding to the variety of offerings. In developing nations such as India, the Internet is also driving social inclusion by enabling consumers in remote areas access for the first time to information, education, and entertainment content.

Although the demand for creative content is increasing, it is also fragmenting. Traditional media players must now compete with purely digital brands and platforms for the time and attention of the consumer. In this world, traditional offline media strategies will be very hard to defend. Agility and speed are as important as size, and often favor new players. Some established players have been held back by cannibalization of traditional revenue streams and fear that their current assets will be devalued. New propositions, frequently technology-led, need to be launched quickly, tested in the market, and adapted in the market. This approach can be challenging, especially for large corporations. But as long as the consumer benefits and spends more time with media, the creative sector will find a way to thrive. Many new digital media possibilities will augment, rather than replace, old media channels.

We are in the early stages of digitization of the creative sectors. The evolving digital ecosystem in creative sectors will be much more fluid than its predecessor, but it will also present abundant opportunities for all players. We expect the Internet to contribute another \$15 billion to the creative sectors of the five countries studied here in the next five years. Traditional players that are able to embrace the new models, in the same way consumers have, stand to benefit immensely.

Endnotes

Highlights

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