

French media in the crisis: storm or tsunami?

Arthur D. Little France Media Flow of Funds



Content

Summary	3
Arthur D. Little key figures	5
First wave: despite the economic crisis, the market has still grown slightly	6
Second wave: continuous digital transformation	8
Third wave: digital transformation... and new rules	11
Implication for players	15
Conclusion	17

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Summary

The French media market is undergoing a profound transformation as a result of the economic crisis, but also because of structural changes such as the development of digital media and the emergence of new forms of consumption.

These changes have occurred in several waves.

First wave: the economic crisis. The crisis has affected the media and their sources of funding. Nonetheless, the French market has grown slightly during the crisis, mainly thanks to state funding.

Second wave: continuous digital transformation. The internet continues to shake up the media market, but also represents an opportunity, even for traditional players. The digital players, mainly distributors and aggregators, have helped stabilize the market by compensating for the weaknesses of the traditional players – press, television, etc. The potential for developing online media is still strong.

Third wave: the combination of these deeper tendencies has changed the rules of the game for each player. Growth in the online sector has had a strong impact on how value is shared out within the ecosystem, to the detriment of the traditional players. On the whole, internet players and producers have been the winners of this transformation, while the aggregators (television, press, etc.) and offline distributors (cinemas, ad networks, etc.) have, until now, tended to come off worse. The emergence of new models of revenue generation will give traditional players the chance to take more advantage of the digitization of their content by speeding up their development and the digital transformation of their activities.

In the coming years, migration from offline to online will continue, giving rise to new opportunities for all players:

- Consumers will have easier and wider access to content. The value of the offer generated digitally – a real and accessible abundance – is unprecedented in comparison with traditional media. However, ways must be found to stem illegal use and pirating.
- Producers of content will have access to a wider market. They are already among those that have come off best, and will see a rise in their revenues, fed by the multiplication of platforms and modes of consumption, particularly digital modes.
- Aggregators such as television channels and distributors will need to adapt their economic models. One solution that could be explored by these players is to generate value from within their channels through production.
- Policy-makers have a major role in supporting the digital migration of the players and the growth of the market as a whole.

Arthur D. Little Key Figures

+0,9% a year

growth of the media market since 2007 in France

+18% a year

average revenue growth of digital media since 2007

+131%

growth of value captured by online players since 2007

19%

online share in the media market as a whole in 2013

-5%

potential reduction of state funding of France Télévisions in the event of advertising being reintroduced after 8 p.m.

18 billion euros in 2013

value captured by copyright holders and producers in 2013 (+10% since 2007)

100 to 150 million euros

potential extra revenues for French producers following the launch of Netflix and CanalPlay

+1,3% a year

growth of media market in France by 2017

4 billion euros

new revenues of online media generated in France by 2017
(+50% compared with 2013)

First wave: despite the crisis, the market has still grown slightly

The French media and entertainment market has grown slightly since 2007, like most other European markets.

Arthur D. Little has conducted a complete study of the recent development of the media and entertainment market in France. In this study, which focuses on the 2007–2013 period and is complemented by a projection to 2017, we analyze the sources of funding in the sector, as well as where the funding goes.

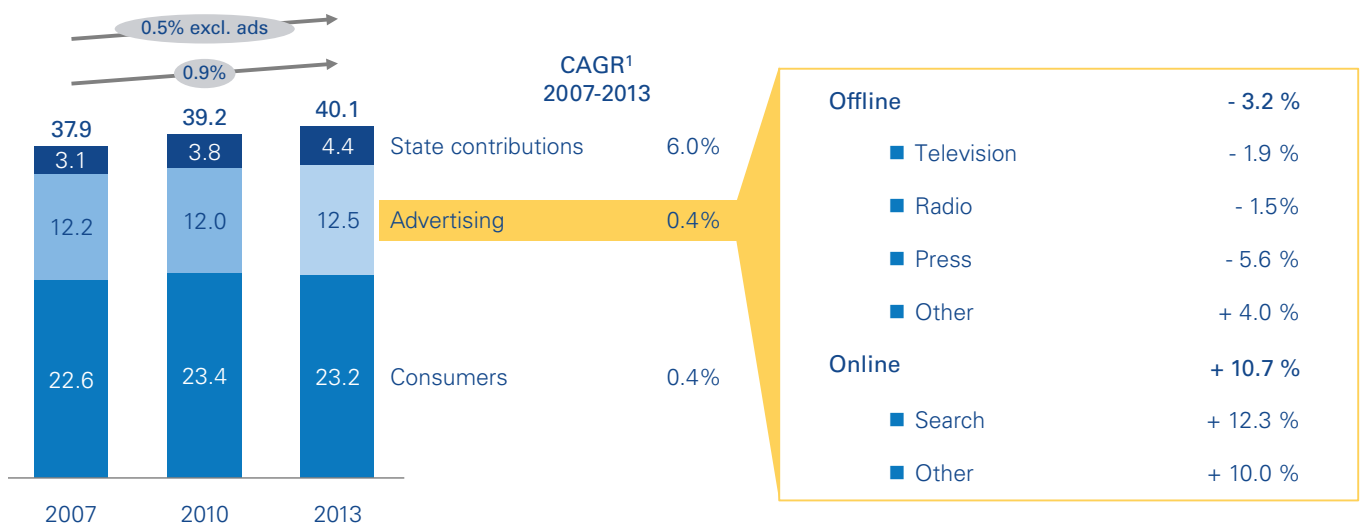
The media and entertainment market in France grew slightly in the 2007–2013 period (see figure 1 – Size of media market in France by type of funding), but this situation hides highly diverse dynamics according to segments. We can also see that the media market, excepting state contributions, has been virtually stable, with an annual growth rate of 0.5%.

Consumer spending generated the biggest source of revenues for the media, accounting for more than half of the market. This spending grew slightly from 2007 (+0.4% a year on average in the 2007–2013 period) as a result of the economic crisis, and reached 23.2 billion euros in 2013. However, this growth is still double the growth in household spending in France over the same period.

Advertising spending, the second source of revenues, accounted for 12.2 billion euros in 2007. It also grew slightly, at an average rate of +0.4% a year. However, there are marked differences between the media. Newspapers and magazines, largely replaced by the internet, saw a very sharp fall in advertising revenues (around 30% in six years). Logically enough, online advertising experienced very strong growth (+80% in six years).

Figure 1: Size of media market in France by type of funding

Spending in billions of euros at current rate



Source: IREP, SRI, ZenithOptimedia, Arthur D. Little analysis
1) Compound Annual Growth Rate

→ % CAGR

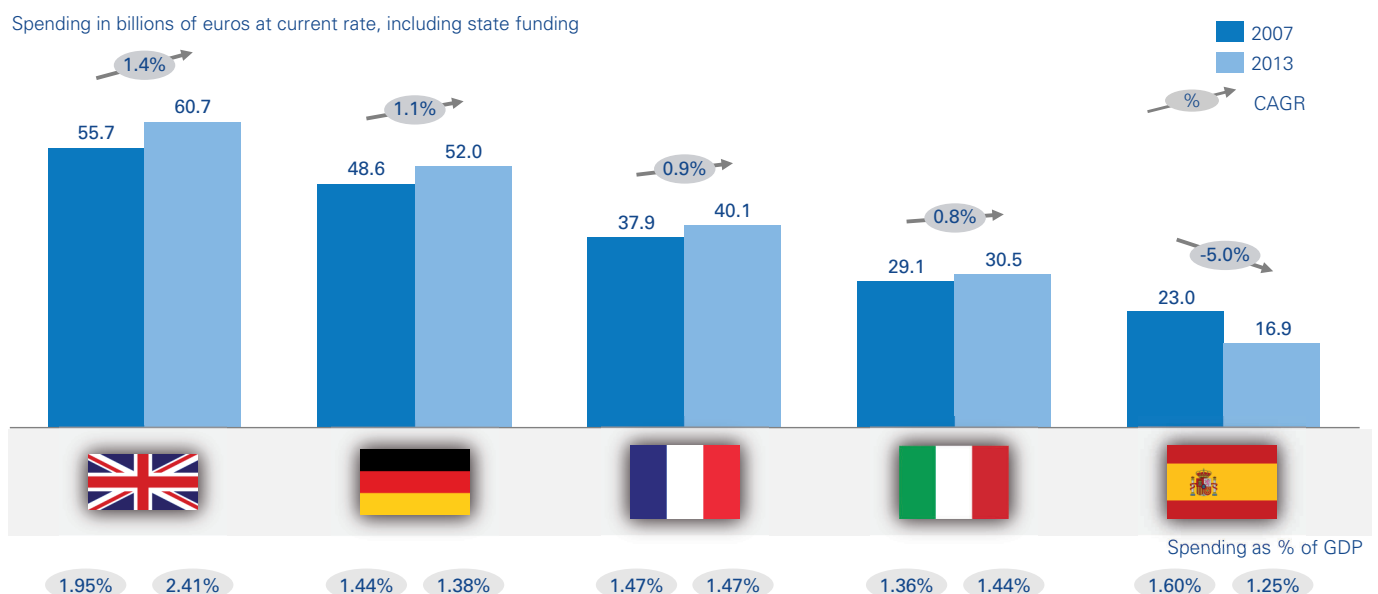
Public funding rose sharply from 2007, from 3.1 billion euros in 2007 to 4.4 billion euros in 2013. This accounts for over half of the growth in the market during this period. This strong growth is due to the increase of state audio-visual funding, and of taxation for the COSIP (audiovisual industry fund) of the CNC (National Cinema Centre), and particularly the TST (tax on television services) on telecom operators, notably with the inclusion of "triple-play" offers, including IP television.

However, part of this public funding has been called into question by the authorities, particularly the funding of France Télévisions. The reintroduction of advertising on the group's channels after 8 p.m. has been evoked in order to compensate for any future reduction in public funding. We assess that the reintroduction could generate some 220 million euros in extra advertising revenues for the group in 2015, which would mean state funding could be reduced by 5%.

In comparison with other European countries, the French market has weathered the crisis relatively well. (See figure 2 – Evolution of the media market in different European markets between 2007 and 2013.) In fact, France experienced growth that is comparable to the UK, German and Italian markets and resisted much better than the Spanish market, which collapsed (-26% in this period).

The fall in the Spanish market was mainly due to the sharp slump in consumer spending (-25% between 2007 and 2013) and advertiser spending (-41% between 2007 and 2013). State funding in Spain, meanwhile, strongly increased (+62% between 2007 and 2013), mainly due to the new funding model of the state media group RTVE.

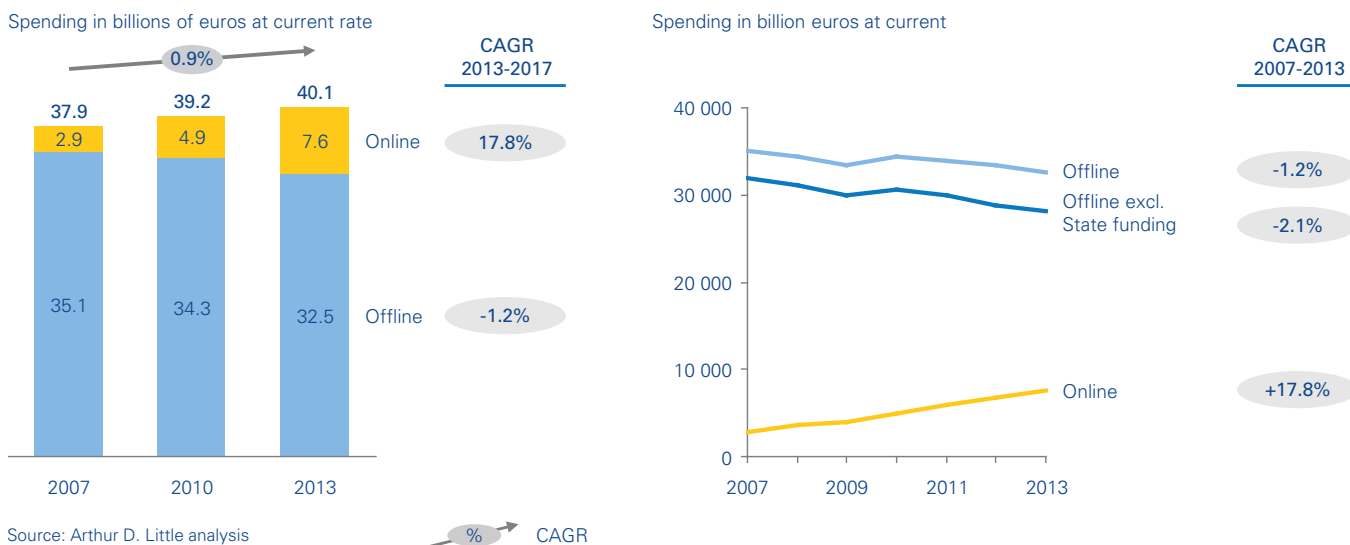
Figure 2: Evolution of the media market in different European countries between 2007 and 2013



Source: Arthur D. Little analysis

Second wave: continuous digital transformation

Figure 3 : Size of media market in France



Online media is the main contributor to growth in the media market, with differing levels of maturity according to the sector.

In France, market growth has mainly been driven by the development of online media (+17.8% a year, on average, in this period), whereas offline business has decreased by 1.2% a year. (See figure 3 – Media market share in France). The decrease in offline business was even more marked outside of public funding (-2.1% a year).

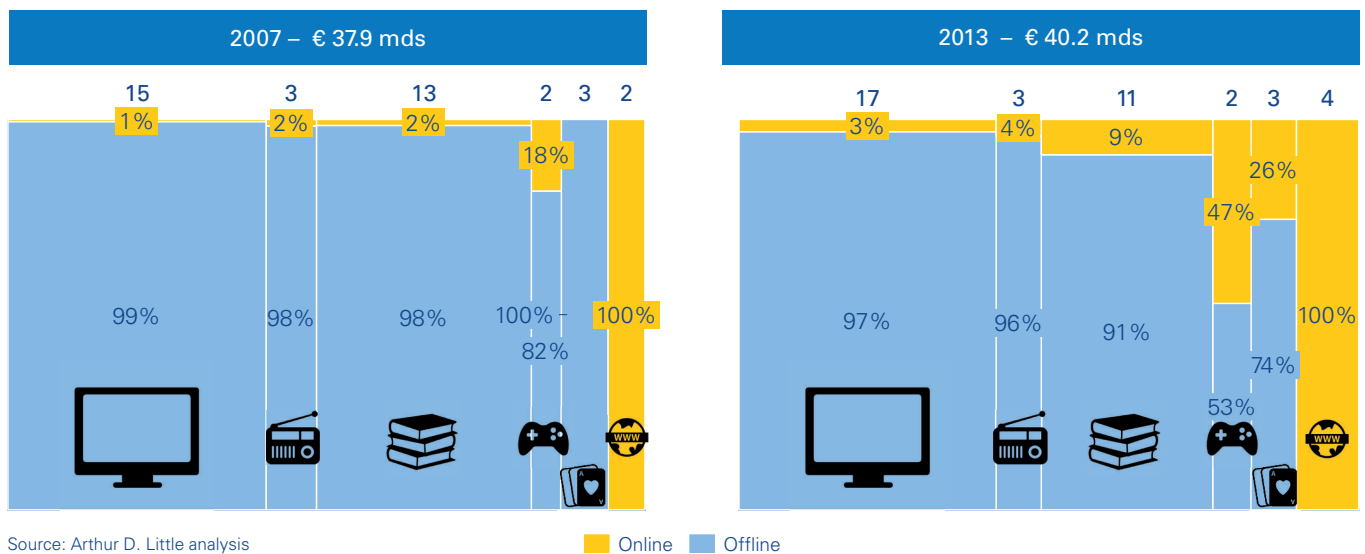
Television and video, particularly, are lagging behind in digital terms, with only 3% of revenues generated online, despite a high level of migration of consumer practices; the growth of catch-up television services illustrates this development well. This weak migration can be explained in particular by the large revenues generated by “traditional” television channels at the market level.

Another sector that is migrating is publishing, including press and book publishing, which generates only 9% of digital revenues, despite digital practices that are now widespread. To take an example, 43% of readers of the press read the news on the internet... including two-thirds only via the internet.

This difference between consumer migration and revenues is symptomatic of poor revenue generation from online content. User behavior and practice differ greatly, however, according to age range.

The move online, moreover, brings about a fragmentation in the offer. So, for linear television, viewers are shared out between a few dozen channels, compared with several thousand internet sites. This fragmentation in the offer results in stronger competition between buyers and more difficulty generating revenues from content.

Figure 4: Changes in revenues by media and mode of consumption



Source: Arthur D. Little analysis

Despite strong growth, market development remains below its potential.

Media market growth fell from 3.6% a year between 2005 and 2007 to 0.9% a year between 2007 and 2013. This sharp drop can mainly be explained by the economic crisis and the low generation of revenues from digital practices.

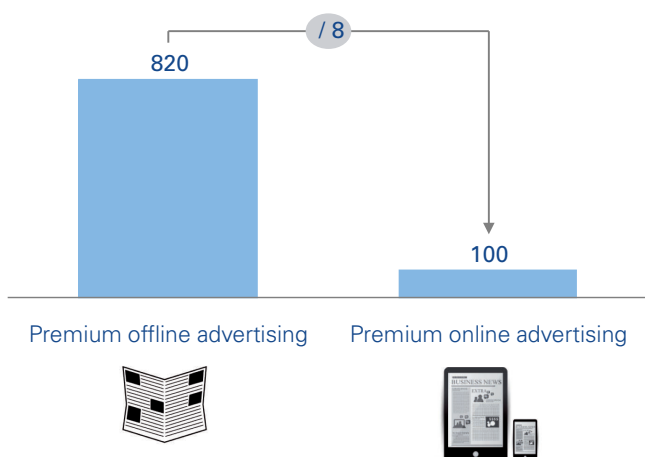
So the challenge for the players in the sector is to develop new models for generating revenues.

Online practices are soaring. To take an example, the number of active viewers of catch-up television has grown by 25% a year since 2010, and today has reached 11 million people.

The press industry has suffered quite seriously from the same developments. Today there is a large gap between revenues generated by the “online” and “print” versions of the same content. (See figure 5 – CPM comparison.)

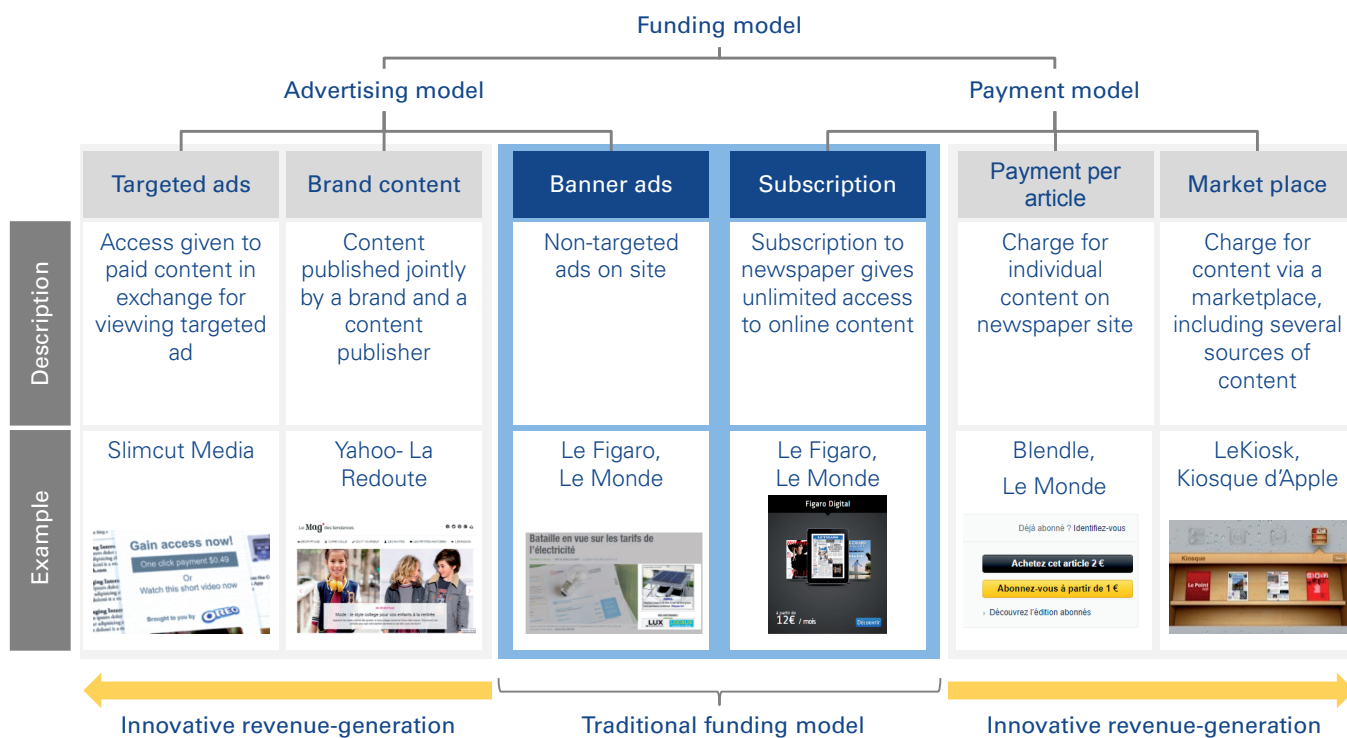
So the press industry is looking for new ways to generate revenues. Twenty years after the beginning of the migration of newspapers towards digital formats, and after having applied “traditional” models (banner ads, subscriptions, etc.), the players of the press are moving progressively towards new models that are better adapted to the new practices. (See figure 6 – New models for generating revenues for the press online.)

Figure 5: CPM comparison of a print medium vs. online



Source: Arthur D. Little analysis

Figure 6: New models for generating revenues for the press online



Source: Arthur D. Little analysis

Many players turn to a hybrid economic model combining physical and digital activities. These transformations call for organizational changes, in particular to better meet online needs, as can be seen by what was done by the New York Times and the Finnish group Sanoma.

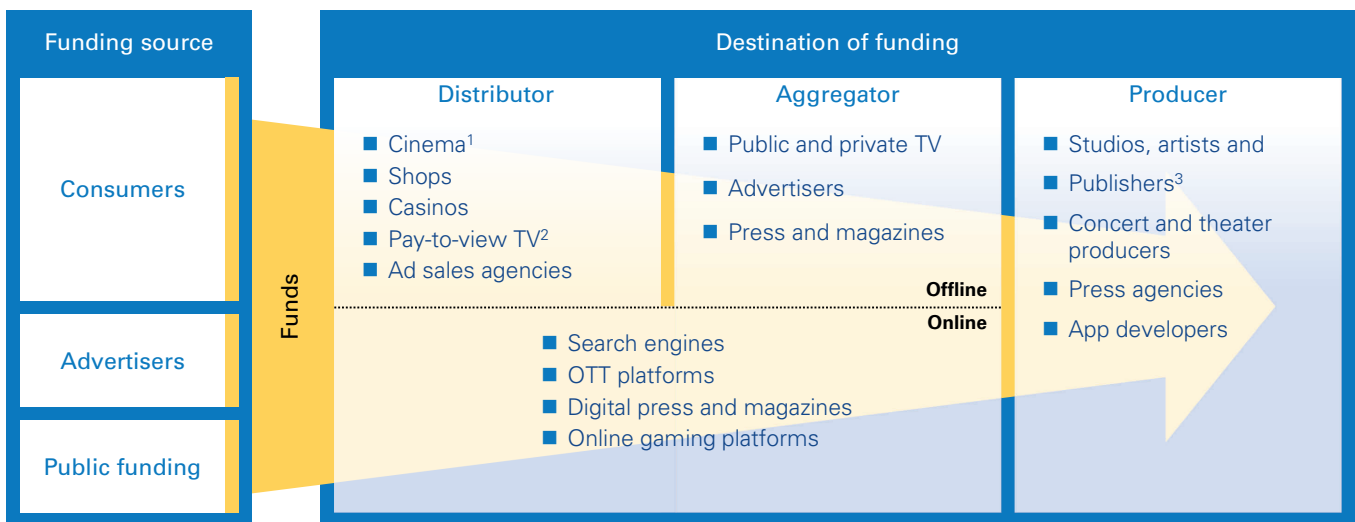
The pure internet players, however, manage to develop innovative approaches to generating revenues, including the ways revenues are generated from content. For example, the startup Slimcut Media has developed a premium tool for generating revenues for press groups by displaying selected advertising.

Moreover, freemium models are gaining ground, as in the music sector (Spotify, Deezer, etc.): the free, limited versions, financed by advertising, attract customers, while the subscription-based services offer unlimited listening and extra features.

Finally, programmatic buying is revolutionizing the online advertising sector. Ad exchanges and real-time bidding (RTB) are bringing more fluidity to the speed of execution and making ad targeting more precise. RTB already accounts for over 15% of online advertising and should grow strongly in the years to come.

Third wave: digital transformation... and new rules

Figure 7: Segmentation used to share out values created



Source: Arthur D. Little analysis

1) cinema, theatre and concerts 2) includes, among others, Canal + and Canalsat, 3) includes music labels, book publishers and studios (videos and games)

Arthur D. Little has analyzed changes in how value is generated among players in the media and entertainment sectors.

The way revenues are shared out has been analyzed over time according to two aspects:

- The source of flows: consumers, advertising/advertisers, public funding of media
- Destination of funding: distributors, aggregators, producers and beneficiaries

The values generated by a segment of the market correspond to the difference between the segment's revenues and the flows going to other players in the ecosystem.

Winners and losers: attracting value through digital transformation.

The analysis of Arthur D. Little helps identify and quantify changes within the market, and shows three major tendencies:

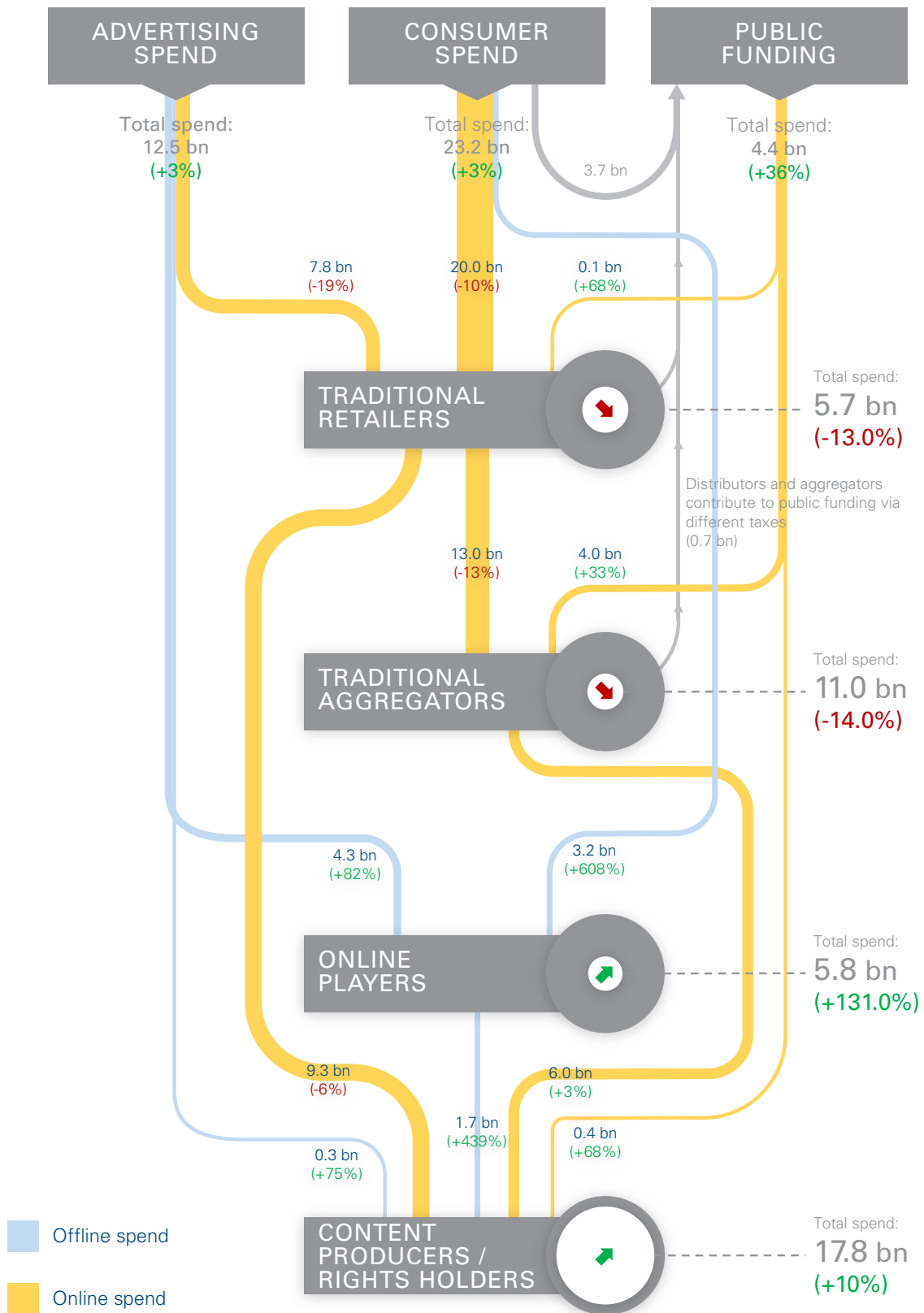
1. Internet players attract more and more value, but this increase will probably be less strong in the future.

Until now, internet players have only paid a small part of their revenues into the media ecosystem. This small ratio can be explained by a model that is strongly based on free content of the search engine type, reference platforms (i.e. Google News), etc. In the next few years, more value will be attracted online – but the relative share of value will be lower, due to new models of abundance such as music and video streaming (Deezer, Spotify, Canalplay, Netflix, etc.), which redistribute more.

2. The other winners are copyright holders and producers. They attract a large share of the ecosystem's value (17.8 billion euros in 2013), and earned more in 2013 than in 2007 (+10% during this period).
3. Despite receiving a large amount of financial flows, offline distributors and aggregators attract relatively little value. This is because of the intermediary role of distributors and the heavy funding of content paid by aggregators.

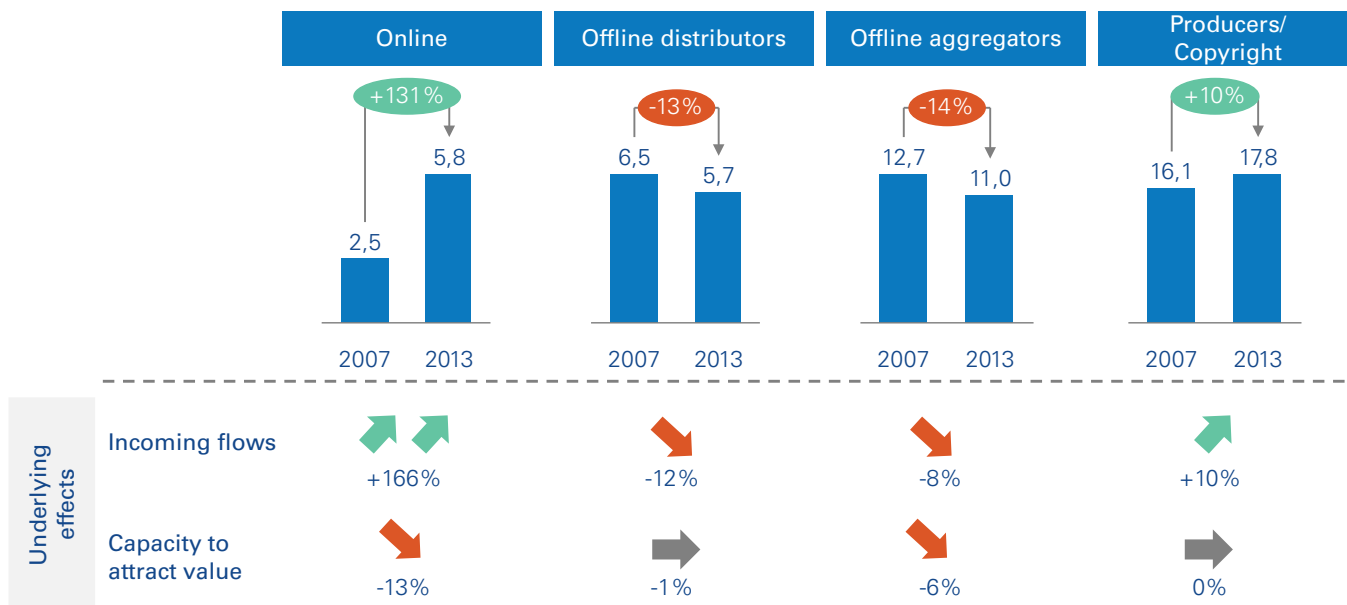
France is not an untypical case. For example, the Spanish market has undergone a similar process, despite the stronger impact of the economic crisis. The online sector is generating more and more value (+136% between 2007 and 2013).

Figure 8: Flow of Funds in the Media industry, 2013



Source: Arthur D. Little analysis
 Note: All figures in EUR, all percentages are CAGR 2007–2013

Figure 9: Variation in value attracted by different segments (€ bn.)



Source: Arthur D. Little analysis

The difference between the markets concerns, above all, the Spanish producers, who, unlike their French counterparts, saw their capacity to attract value fall by 17% between 2007 and 2013.

The perspectives are positive for the French market, thanks to digital alone.

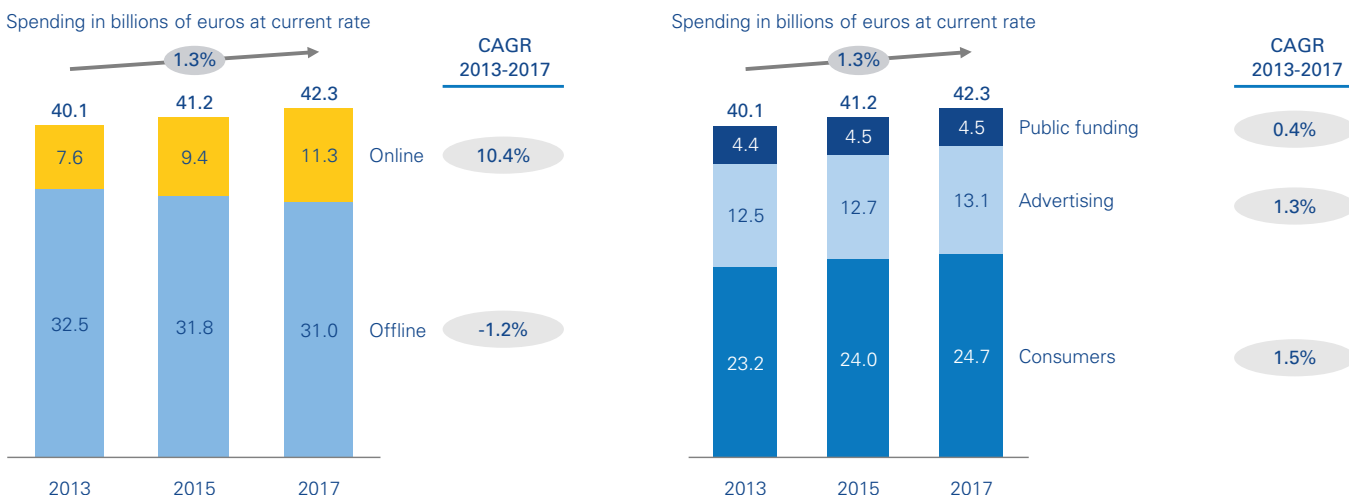
Arthur D. Little forecasts moderate growth in the French media and entertainment market in the years to come (around 1.3%

a year for the 2013–2017 period). This slight rise will be sustained by a resurgence – albeit modest – of consumer and advertising spending.

Growth will be entirely generated by the online sector, which should increase by 4 billion euros and account for over one-quarter of media revenues in 2017.

This growth will strongly vary according to the levels of progress made by the sectors in digital migration. For instance, the

Figure 10: Forecast of size of media market in France



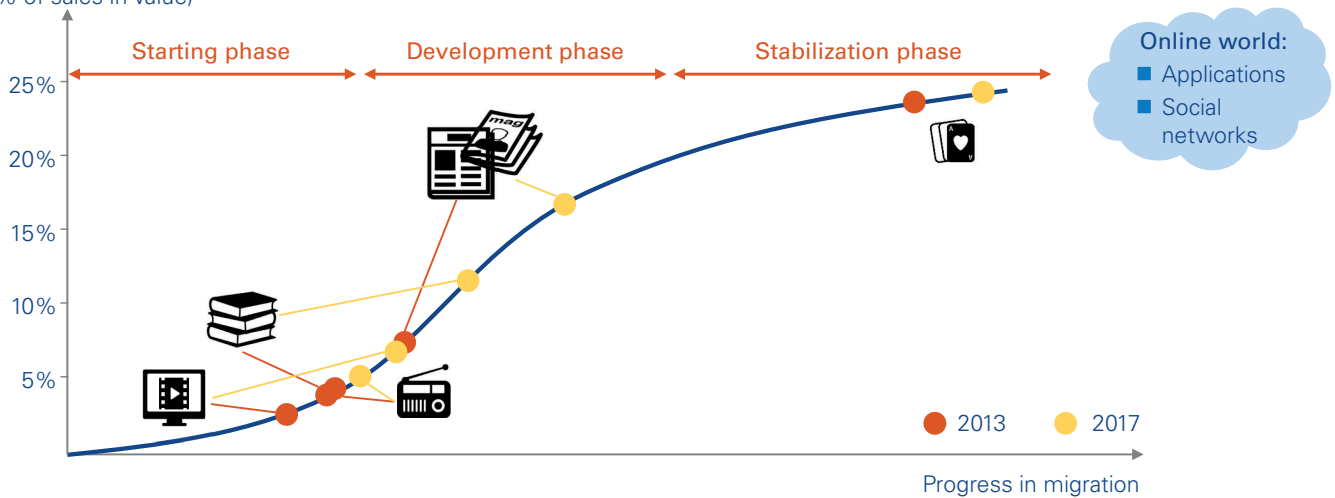
publishing and video markets are still at an early stage, while the betting sector has made more progress. (See figure 9 – Progress in migration online.)

The offline market should progressively stabilize for a number of reasons:

- The continuing sale of certain “symbolic” material products or taking advantage of a generational effect. To take an example, the sale of CDs in France rose in 2013, after over 10 years of decline.
- The existence of services and events that are difficult to dematerialize (casinos, concerts, etc.)
- The continuation of public funding for traditional media

Figure 11: Progress of migration online

Share of online revenues in total revenue of sector
(% of sales in value)



Source: Arthur D. Little analysis

Implication for the players

Growth in the sector, the acceleration of digital and changes in attracting value will have a strong impact on the media sector in France. They will create new opportunities for those involved in the sector, and also result in the need for a strong movement of transformation.

The transformation of the media has meant, for example, that internet players and hybrids have become international champions after only a few years (Spotify, Meetic, etc.), which seemed impossible in the offline world.

The migration towards online represents a major opportunity for consumers, who are entering into an era of real abundance, choice and diversity of content.

This opportunity has taken concrete form, for example, with Deezer and Spotify for music content, Google News and ePresse for newspapers, Amazon and Fnac for books, and Canal Play, OCS and Netflix for video.

Streaming video offers developed prior to the arrival of Netflix, and give comparable or even better services than Netflix. (See figure 10 – Evaluation rating of main SVOD offers and some comparable offers in France.) CanalPlay, the unlimited VOD offer from Canal+, had attracted over 520,000 subscribers by September 2014.

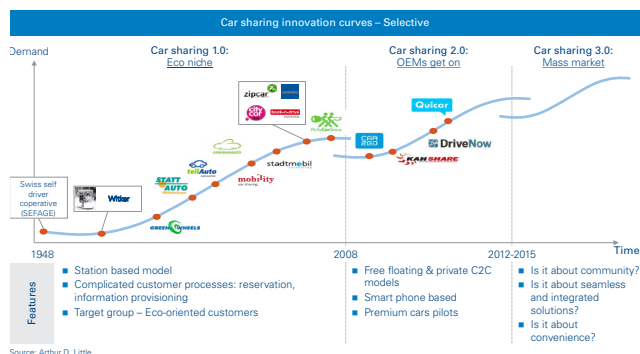
According to our analyses, Netflix and CanalPlay have comparable offers in terms of quality, with evaluation ratings of content above 25 (ratings made by Arthur D. Little on the basis of catalog size, with the quality of content evaluated using a selection of recent films and whether an offline mode existed).

However, SVOD services in France sometimes come up against the media’s regulatory timescale, which imposes a period of 36 months between the release of a film and its availability through a VOD subscription service.

The development of SVOD (Subscription VOD) offers will enable producers to generate large extra revenues.

The online migration is an opportunity for producers and copyright holders. In fact, online media already finance the

Figure 12: Car sharing innovation curves



“production” element to the tune of 1.7 billion euros, a level of funding that grew 500% between 2007 and 2013.

Netflix France and CanalPlay could account for 100 to 150 million euros in extra revenues for French production in five years’ time, if French producers manage to bring 25% of their content to users of these services in France. (In comparison, the supply of French fiction accounted for around 45% of the overall offer in the French audio-visual sector in 2012.)

There are real opportunities for development for offline aggregators and distributors.

Value migration has an impact on offline distributors and aggregators. The renewal will call for strategic decisions to be made by companies.

Aggregators will be able to access client data and move to online distribution, targeting content and advertising, and so generating more revenues from content. This advancement will involve further development of catch-up services, for example, by setting up joint platforms with television channels and being attentive to client access so as to keep track of clients’ habits and needs.

Alternatively, aggregators might decide to extend their activities into production to ensure the viability of their economic model with, in particular, opportunities to export content. A move of this kind would mean modifying the present regulations, which forbid channels from producing content (vs. funding).

Policy-makers can play a major role in online migration and in supporting market growth of the media as a whole.

A number of measures can be considered to support the sector:

1. Allowing television channels to play a role (under certain conditions) as producers, enabling them to renew and assure their traditional economic model
2. Applying the same fiscal and financing roles to all players distributing content in France, allowing French distributors to introduce online offers in more competitive conditions
3. Making the media regulatory timescale more flexible by shortening the SVOD deadlines for some players that take part in funding, allowing players in the sector to produce more attractive offers and accelerate the generation of revenues online
4. Enabling telecom operators to differentiate the quality of service by type of flow, meaning they could finance major investments in networks, which is made necessary by the very strong growth in video traffic
5. Making the law on media concentration more flexible, as has been done in other countries in the European Union, allowing media groups to reinforce their economic models

Conclusion

Having weathered the economic crisis well and grown slightly in the 2007–2013 period, the French media market is continuing its digital transformation.

The transformation of media is characterized by the development of the digital sector, both in uses and in revenues. The increase in uses is, however, more marked than the migration of revenues, and new models for generating revenues will need to be developed.

These changes open up many opportunities for players and consumers. Online players and producers are, at the present time, the main beneficiaries of digital migration. However, the winners and losers of these changes have yet to be decided, and offline aggregators and distributors need to speed up their transformation and renew their economic models.

Notes



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