

# Executive Summary

**Contracting demand** stemming from the economic crisis, combined with the business model **transformation process**, is producing a rather complex scenario within the digital content sector. All these factors are accelerating the evolution of the physical media market towards devices based on the digital distribution model.

## Digital Content Market Around the World

Embracing the digital content market, the media and entertainment market has grown over the last four years at an annual rate of 6.6%, which sets this sector apart as one of the most dynamic in the world economy. In 2008 it reached the figure of 1.16 trillion euros<sup>1</sup>.

The data for 2008 reveal that the sector has not been immune to the crisis. Despite the fact that the contents market keeps on growing, it can be noted that growth rates are dropping off in most of the different sectors. Among the sectors enjoying greatest growth are Internet access and advertising, as well as videogames. The sectors of least growth are music, which is still in decline, cinema and video, publishing and the press sector.

In 2008, revenue from the **online distribution of music reached a figure of €2,586M in the whole world**. This figure represents an increase of 24.1% when compared to the €2,084M obtained in 2007. In 2008, 21% of the recording industry's revenue came from online distribution. In South Korea, the leader in this segment, the online distribution of music already accounts for 60% of the music market<sup>2</sup>.

**The VoD services associated with pay television** have become the principal business model worldwide for distributing digital content from the cinema and video sector. The United States remains the world's number one market for VoD services with a figure of €1,864M – and a 20% growth rate – in 2008. Globally, 2008 saw VoD services reap **€3,848M in revenue, this representing an increase of 34.2% with respect to 2007**<sup>3</sup>.

The new business models represent an important source of income for the videogame market worldwide. In 2008, the two principal business models for the **online distribution of videogames (over the Internet and games for mobile phones) exceeded €10 billion**. Altogether, online distribution worldwide in 2008 accounted for

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<sup>1</sup> PricewaterhouseCoopers (2008), "Global Entertainment and Media Outlook: 2008-2012"

<sup>2</sup> IFPI (2009), "Recording Industry in Numbers"

<sup>3</sup> PricewaterhouseCoopers (2008), "Global Entertainment and Media Outlook: 2008-2012"

32.6% of the global videogame market, headed by the Asia-Pacific region, where 43.5% of the revenue from the videogame market came from online channels<sup>4</sup>.

The principal business models associated with digital content in the television sector are the **video-on-demand (VoD) and pay-per-view (PPV) formats**. In 2008, VoD surpassed PPV for the first time as regards generating revenue. The pay-per-view model is well established in the **USA**, so much so that the money users spent on PPV in 2008 represented **67.8% of the world market**<sup>5</sup>.

**The Spanish media and entertainment market reached €27,199M in 2008**, an increase of 12.1% with respect to 2007. Of this figure, **€2,515M** correspond to the **sectors in which the business models linked to the online distribution of digital content**<sup>6</sup> (music, cinema, videogames and interactive advertising) are most highly developed.

### Music Market in Spain

Despite the fact that, in Spain, users are consuming a growing number of hours of music via a multitude of media, the global sales revenue figures for music keep falling. The music sector is not managing to cash in on the increased demand and consumption.

The year 2008 saw the launch of new business models based on subscription services. The sector has deposited great hopes in these models, seeing them as a possible means of reversing the slipping revenue trend. Likewise, 2008 marked the practical disappearance of DRM systems, as the industry strove to revitalise sales.

### *Evolution of Income*

The traditional Spanish music market saw its revenue drop 12.4%, with respect to 2007, to a figure of €242.2M. **Between 2004 and 2008, the distribution market for music on physical media was slashed by a half**<sup>7</sup>.

The digital music distribution market reached €31.1M in 2008, an **increase of 8.1% with respect to 2007**. Despite this representing significant growth, it was nonetheless considerably down on that achieved in 2007. Online music now accounts for 11.4% of the Spanish music market.

As regards reproduction devices, most **significant is the decline in revenue from sales of MP3 players**, which fell from the 2007 figure of €116.7M to €40.5M (a drop of 65.3%). MP3 players are now giving way to new reproduction devices (in MP4 format) and to converging technology communication devices (new generation mobile telephones known as Smartphones).

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<sup>4</sup> PricewaterhouseCoopers (2008), "Global Entertainment and Media Outlook: 2008-2012"

<sup>5</sup> PricewaterhouseCoopers (2008), "Global Entertainment and Media Outlook: 2008-2012"

<sup>6</sup> PricewaterhouseCoopers (2008), "Global Entertainment and Media Outlook: 2008-2012"

<sup>7</sup> Promusicae (2008), "Record Industry"

### *Evolution of Media and Players*

The number of music CDs sold in 2008 reached 26 million, a drop of 7.9% with respect to 2007<sup>8</sup>. For the first time in five years, sales of MP3 players failed to surpass the one million mark, while MP4 players sold well over 2.2 million units<sup>9</sup>.

### **Video Market in Spain**

The Cinema and Video sector is timidly incorporating new business models. The digital distribution of video content through services associated with the audiovisual and telecommunications operators has become consolidated in 2008, while new initiatives have appeared in relation to distribution over the Internet. In the cinema sector, the news is not at all good, given the continued downward spiral in box-office figures that started several years ago. However, there was some more hopeful news last year, such as major producers pledging their firm commitment to 3D cinema, which leaves room for optimism regarding the future of cinema.

### *Evolution of Income*

Revenues from the traditional business models in the video sector stem, on the one hand, from the box office – which, in 2008 exceeded €619.2M, a reduction of 3.8% – and, on the other, from the sales and rental of films and series on physical media, with €203.3M in 2008, a decrease with respect to 2007 of 23%. Revenue from sales of high-definition films exceeded €12.2M, a rise of 140.9% with respect to 2007<sup>10</sup>.

Revenues from sales of DVD players dropped 17.9% to a figure of €278.41M. Specifically, sales of set-top DVD players dropped 18.5%, while portable DVD players, following the boom of 2007, fell by 15.4%. With the market pinning its hopes on the *Blu-Ray* format, sales of high-definition video players have soared four-fold, reaching €6.83M<sup>11</sup>.

Revenues in 2008 under the pay-per-view and video-on-demand models for pay television services on the various transmission media (satellite, cable and IPTV) reached a figure of €243.8M, showing a growth rate of 7.1% with respect to 2007. For the first time, 2008 saw revenues from the new business models (PPV & VoD) overtake income from the traditional models (sales and rental of films in a physical format)<sup>12</sup>.

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<sup>8</sup> Source: Promusicae (2008), “*Record Industry*”

<sup>9</sup> Source: ASIMELEC/GFK

<sup>10</sup> UVE (2008, 2007), “*Video Market*”

<sup>11</sup> Source: ASIMELEC/GFK

<sup>12</sup> CMT (2008), “*Annual Report 2008*”

### *Evolution of Media and Players*

**In 2008, the number of cinema-goers dropped by 7.8% to a figure of 107.81 million.** The accumulated decline from 2005 to 2008 was thus 15.5%<sup>13</sup>.

**The number of films in DVD format sold in Spain came to 22.32 million.** Between 2007 and 2008, this number experienced a fall of 18.4%. The number of high-definition films sold in our country rose sharply in 2008. The figures soared from 273,860 copies to 745,716, thus enjoying an increase of 172.3%<sup>14</sup>.

The overall number of **events contracted for viewing under the VoD and PPV business models, associated with pay television services, fell by 4.4% in 2008.** As regards football matches specifically, the reduction in 2008 was 17.5%. On the contrary, there was a **notable increase in the consumption of films**, largely due to the success of the VoD services of the pay TV operators. In 2008, the number of films contracted increased by 13.8%, reaching 13.05 million events.

### *Videogame Market in Spain*

2008 was a year of stagnation for the videogame sector, as it managed to resist the impact of the economic crisis better than most. It was a year of consolidation for those new markets which burst onto the scene in 2007, such as that of the “casual” players and new synergies have been created with the music and video sectors.

The new business models revolve around three basic principles: the digital distribution of videogames (online gaming subscriptions, payment per download or advertising-supported services), complementary online services for games distributed on physical media and videogames for mobile telephones.

### *Evolution of Income*

**Sales revenue for videogames on physical media exceeded €740M in Spain in 2008**, this representing a growth rate of 3.5% with respect to 2007. Revenues have risen 59.6% between 2004 and 2008<sup>15</sup>.

**Videogames for consoles account for 90.6% of the market.** In 2008, revenues amounted to €674M, an increase of 6%. **The videogame subsector for PCs experienced a significant drop in the year 2008.** Sales of videogames for PCs fell by 15.7%, ending the year at €70M.

The slowdown in the videogame market is most evident in the case of hardware. For the first time in recent years, **revenues from sales of videogames for consoles fell with respect to the previous year.** The saturation of the market, together with the falling prices of consoles, led to revenues decreasing 6.4% to €688M in 2008.

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<sup>13</sup> <http://www.mcu.es/cine/MC/CDC/Evolucion/MercadoCine.html>

<sup>14</sup> UVE (2008, 2007), “*Video Market*”

<sup>15</sup> ADESE (2007, 2008), “*Videogames: annual results*”

2008 saw revenues from new business models (distribution online and over mobile networks) accounting for 31.7% of the worldwide videogame sector<sup>16</sup>. Despite the fact that these are highly significant figures, there is no available breakdown of the revenues obtained in Spain.

### *Evolution of Media and Players*

**20.4 million videogames were sold in Spain in 2008, which represents a drop of 6.7% in the number of videogames sold, compared to the figures for 2007.** The number of videogames for consoles fell by 3.04%, while the decrease in the case of PC videogames was 21.08%.

**A total of 3.18 million consoles were sold in Spain in 2008<sup>17</sup>,** this representing a decrease of 6.2% in the number of units sold from 2007 to 2008. This negative result is a direct consequence of the sales of portable consoles which, with a 15.2% drop in the number of units sold, more than offsets the 5.1% increase achieved by the set-top consoles.

### **Television Market**

The impact of the economic crisis, in the form of reduced advertising revenue, and the imminent disappearance of analogue television broadcasting have led to those in the sector developing new corporate strategies (mergers of TV channels, more active presence in Internet, etc.) and defining new business models which can take advantage of the benefits of digital television (e.g. pay DTT, High-Definition TV).

Although not without problems, the deployment plan for DTT continues apace, with full implementation scheduled for April 3rd 2010. The first phase of the analogue switch-off was completed between June and July 2009, affecting over 5.1 million users<sup>18</sup>.

The pay television sector remains stagnated, as regards the number of subscribers to their TV services by satellite and cable, while IPTV keeps increasing its customer base.

The TV-over-the-Internet model underwent significant development in 2008, principally due to the firm commitment of the general-interest channels. The growing consumption of Internet or online television has spawned interest among the general-interest channels in the Internet as a distribution channel for their contents.

### *Evolution of Income*

The principal source of income for the television sector, **advertising, slumped 11.1% in 2008 to a figure of €3,082.1M<sup>19</sup>.**

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<sup>16</sup> PricewaterhouseCoopers (2008), "*Global Entertainment and Media Outlook: 2008-2012*"

<sup>17</sup> ADESE (2007,2008), "Videogames: annual results"

<sup>18</sup> Source: ImpulsaTDT

<sup>19</sup> Infoadex (2009), "*Infoadex study of advertising investment in Spain 2009*"

**Revenues from subscriptions to pay TV services rose 3.3% in 2008 to reach €1,439.2M.** This is the lowest rate of growth in the last four years.

**As for income from sales of television sets, this increased by 4.2% in 2008 to reach €2,596M<sup>20</sup>.** LCD technology continues to head the market for television sets in our country, accounting for 91% of all sales income.

Among the new business models related to the television sector, the most noteworthy are **VoD services offered through pay TV (analysed in the chapter devoted to cinema and video), Internet television financed by advertising and television on mobiles.** Despite representing a very small proportion of the turnover for the whole television sector, this latter model has doubled its revenues, soaring from €8.7M in 2007 to €16.2M in 2008<sup>21</sup>.

### *Evolution of Media and Players*

The proximity of the analogue switch-off is resulting in DTT's screen quota rising month on month. In May 2009, for the first time ever, the screen quota for analogue television was less than the combined quota for DTT and pay TV.

Subscribers to pay TV exceeded the figure of 4.19 million in 2008, thus achieving an increase of 5.4% with respect to 2007. In 2008, subscribers to satellite television represented 50.6% of the total. Subscribers to IPTV services represented 17.6% in 2008, while subscribers to cable services accounted for 31.8%.

Over 4.1 million advanced television sets were sold in Spain in 2008<sup>22</sup>, up 20.9% on the 2007 figures. LCD televisions – which surpassed the figure of 3.9 million units sold in 2008 – represented 94.6% of the total number sold.

### **Social Networks Market**

2008 was the year of the explosion of social networks in our country. Spain has a solid base of Internet users who habitually access these services. This large number of users is the major appeal for the business models which are structured around the social networks.

The chief business model exploited by the social networks is advertising. Advertisers can include their publicity on all the different services the social networks offer their users. The principal added value of the social networks revolves around the number of registered users and the time they spend on them.

So-called “microblogging” networks (such as *Twitter*) proved to be one of the major players in 2008. These networks are based on the constant updating of the users' profiles by means of short text messages, which cannot exceed 160 characters.

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<sup>20</sup> Source: ASIMELEC/GFK

<sup>21</sup> CMT: “*Annual Report 2008*”

<sup>22</sup> Excluding conventional CRT televisions

### *Quantitative User Analysis*

In early 2008, some 43.2% of over-15 active web users in Spain belonged to some social network<sup>23</sup>, a similar percentage to that of other Western countries. In absolute terms, the number of regular Spanish web users who belong to some social network exceeded 6.7 million<sup>24</sup>. Over one third of social network users are in the 15-24 age group and 7 out of 10 social network users are less than 35 years of age. By the end of 2008, the percentage of web users who belonged to some social networks stood at 75%.<sup>25</sup>

There are two clear leaders on the international stage, by number of users: *Facebook* and *MySpace*. In early 2009, *Facebook* stole first place from *MySpace* in the number of unique visitors. While *MySpace* appears to have levelled off with around 56 million unique visitors, *Facebook* had shot up to 113 million in May 2009 from the 32 million it had just a year ago. At a national level, here in Spain the most popular social networks are *Facebook*, *MySpace*, *Windows Live Space* and *Tuenti*, the latter a Spanish creation.

### **Advertising Market**

If free-to-air television has for years been the principal exponent of the advertising-based business model, nowadays this model has gone on to become practically the only successful model on the Internet. An analysis of the sources of income for the top 100 Web 2.0 sites in the *Alexa* ranking indicates that, for 86% of them, advertising is the cornerstone of their business model<sup>26</sup>.

### *Evolution of Income*

**Estimated real investment in the Spanish advertising market fell 7.5% in 2008 to €14,915.3M. This was the first decrease in the last five years.**

**Advertising on the Internet experienced a rise of 26.5% in 2008, reaching €610M.** The chief components of the online advertising market are the sponsored links and the graphic formats (*banners*, *boxes*, etc.), which accounted for €324.4M and €285.6M, respectively, in 2008. For the first time ever, revenue from sponsored links surpassed that from graphic formats in 2008.

### **Press Market**

The press has had a presence on Internet for some time now and has already explored different business models ranging from subscription to various advertising formats. The

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<sup>23</sup> Universal McCann, data as of March 2008.

<sup>24</sup> To reach this result, the figure used is the number of frequent web users furnished by the 20<sup>th</sup> Wave of the Household Panel of Red.es: 15.578 million.

<sup>25</sup> **Nielsen (2009):** “*Global Faces and Networked Places. A Nielsen report on Social Networking’s New Global Footprint*”

<sup>26</sup> Multiplica.com: “*Web 2.0 and its business models*” Sept. 2008

crisis in the advertising market, which started back in 2008, is only serving to accelerate the transition towards the digital press.

Few would dare to predict the demise of the printed press, yet the rising trends linked to new reading devices – together with the need to moderate costs at a time when advertising revenue is falling – are fomenting the consolidation of the editorial offices of printed and digital press, and the greater relevance of the online press.

### *Evolution of Income*

**Income in the press sector in our country came to €2,806M in 2008, down 9.1% on the 2007 figures<sup>27</sup>.** This decrease was due, fundamentally, to the falling advertising revenue (16.1% down in 2008).

Revenue from copy sales dropped by 1.9%, ending the year slightly below the €1,500M mark. Revenue from online advertising rose 16.7% in 2008 to stand at €285.6M.

### *Evolution of Media and Players*

Controlled distribution figures in June 2008 exceeded 4.1 million copies, an increase of 1.41% compared to the same month in 2007.

The indicators analysed reveal a mature sector, with no major fluctuations, both as regards print-runs and distribution and reader figures. Nonetheless, its heavy dependence on advertising (46.8% of all revenue in 2008) helped to bring about the sharp decrease in its market volume in 2008.

The daily average of unique users of news and information services increased between June 2008 and June 2009 by 27.5% to a figure of 2.65 million. In the same vein, visits to news and information services rose by 4.1% to surpass the figure of 6.6 million.

### **Book Market**

This year of 2009 saw digital books burst onto the market as a mature option, already a viable reality. Even though digital books have barely made their mark in our country, the success of Amazon's *Kindle* reader, launched in the USA in 2007, and the expectations raised by the second version of this reader, the *Kindle 2* launched in 2009, has once again made digital books a burning debate issue in our country.

### *Evolution of Income*

Book sales in Spain have not stopped growing in recent years. In the absence of data for 2008, revenue in 2007 from book sales amounted to €3,468M<sup>28</sup>.

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<sup>27</sup> AEDE (2009): "*White Paper on the Daily Press*"

<sup>28</sup> Ministry of Culture (2007) "*Statistical data on the Spanish publishing sector*"

The implementation phase of the new business models is still in full flow, with the result that, as yet, there is no breakdown of sales income data for books in electronic format.

### *Evolution of Media and Players*

Over 250 million books were sold in 2007, this representing a 9.9% rise on the 2006 figures.

7,503 ISBNs were registered for books in electronic format in 2007, 88.2% more than in 2006<sup>29</sup>.

## **Analysis of Trends in the Contents Sector**

### *Music*

The most important trends in the Spanish digital music market in 2009 and 2010 will be inextricably linked to subscription-based business models, both for downloading and streaming music content. We shall also witness the practical disappearance of DRM systems, as the industry strives to revitalise sales.

Great attention must be paid to synergies between the music sector and the video and videogame sectors, which will be consolidated in the short and medium term.

### *Digital Video*

The principal trends in the Spanish digital video market in 2009 and 2010 will be related to the industry's commitment to 3D technology, as a way for the cinema to recover from the crisis. Other trends that must be mentioned include high-definition broadcasting, the appearance of televisions that can be connected to home networks and the Internet and the appearance of device-oriented business models (for video consoles and specific devices).

### *Videogames*

Despite the slight contraction of the videogame market, this sector remains the most dynamic within the digital content world. Throughout 2009 and 2010 we shall witness the consolidation of the trend towards the new gesture interfaces taking centre stage. This new approach, initiated by Nintendo with their Wii console, is being followed by all the other players. This tendency is also leading to the peripherals associated with the games playing an increasingly important role in the videogame market.

The new online gaming models which combine free gaming with micro-payments (*freemium* models) stand out as the most promising evolution, offering great prospects for growth in this segment.

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<sup>29</sup> <http://www.mcu.es/libro/MC/PEE/estadisticas/soportesEvo.html>

## *Television*

In the television sector, the Spanish government's decision to authorise a pay channel for each multiplex opens up new possibilities for the players in the audiovisual sector. As regards significant trends in 2009 and 2010, to the emergence of the pay DTT services, we must add the widespread adoption of high-definition and the growing importance of Internet TV.

## *Social Networks*

Networks such as *Facebook*, *Tuenti* or *Twitter* have gone on to form part of our lives in 2008 (70% of those on social networks have been members for less than two years<sup>30</sup>). The spectacular increase in the number of users has afforded these web services a tremendous social and economic relevance, which is bound to continue increasing throughout 2009 and 2010. We shall most likely see these consolidated networks joined by new vertical networks, where the contacts share special interests, whether professional, cultural or specific pastimes (music, cinema, etc.).

## *Advertising*

An important factor for boosting the volume of advertising on the Internet is the possibility this medium offers for controlling advertising investment. The search for greater returns on advertising investment will continue boosting the volume of Internet advertising throughout 2009 and 2010. To this trend, we must add the emergence of new advertising formats such as the *widgets* (small applications in the form of games, videos and other tools users can freely download and customise), which allow for the creation of a brand image, especially through the social networks. Likewise, mobile telephony advertising is sure to play an important role in the next few years.

## *Press*

We can expect a revision of the business models for the digital press sector in 2009 and 2010, in the light of the dramatic fall in advertising revenue for the printed press. It is likely we shall see a return to payment for access to certain contents of special value. Moreover, the increasing use of mobile Internet services may present the possibility of a new business opportunity for the press sector. Subscriptions to digital newspapers for downloading to these devices is already common practice in the USA and will soon appear on the Spanish market.

## *Books*

The electronic book is the forthcoming revolution in the field of digital contents. A large number of publishers are starting to see the enormous potential of these devices.

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<sup>30</sup> Zed Digital: "*The phenomenon of the social networks*" Nov. 2008