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The Global Digital Content Market

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BACKGROUND PAPER FOR DELEGATES

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INTRODUCTION

The global digital world is changing long-established business models at a rapid pace. The last few years have seen the emergence of a “shared economy” with Uber offering lower priced and more flexible taxi services, Airbnb offering the same for accommodation and Vizeat just emerging for what the company refers to as “meal-sharing”.

The creative content economy has seen radical change to access and business models for more than a decade. The tensions between increased access and a sustainable economic value chain are the essence of WIPO’s Conference: “The Global Digital Content Market”.

The conference first showcases best practices and reviews issues by sector: music, film, broadcasting and publishing. The final two sessions consider digital infrastructure, collective management and the implications for the market and policy makers.

I. MUSIC

Overview

The music industry is in a state of flux as it continues to adapt to the digital era. While the digital market is becoming increasingly sophisticated, increases in digital sales have yet to compensate for the decline in sales of physical formats. This is shifting the value chain, changing the career paths of artists and introducing new players into the music industry.

Market Size and Growth

The global recording industry is worth USD15 Billion¹. 2014 saw a decline of 3.9% in revenue from 2013. Revenues from digital sources grew to USD6.8 Billion and are now equal to those from physical sources. Subscription and streaming services continue to grow quickly with a 51% growth rate in 2013 to USD1 Billion.²

Digital

The music industry was the first to be impacted by the advent of the Internet. Online commerce (e-commerce) introduced retail opportunities as consumers purchased CDs online. This changed when digital music files were introduced to the market in the 1990s. Much of the early distribution of digital music files occurred outside the licensed channels. Value creation is shifting to new entrants including manufacturers of music players and online retail platforms.

Digital music decreases the costs of creating, distributing and storing copies of music. The result is a decrease in retail outlets and CD sales as a whole.

The digital market has yet to reach equilibrium. A common retail model is the sale of digital files which the consumer then owns. In subscription services, consumers typically pay a fee for access but do not own the content. A popular online streaming subscription service is Spotify, primarily available in Western Europe and the Americas. There are disputes between artists

¹ The recording industry is the industry that focuses on recording and selling of music. A wider definition of the music industry includes live performances, merchandising, and a variety of music-related activities.

² All figures based on 2013 data from the International Federation of the Phonographic Industry (IFPI) (2014) 2014 Digital Music Report <http://www.ifpi.org/global-statistics.php>

and digital sellers as artists argue remuneration is not commensurate with the value of their music.

As profits shift, live performances are becoming an important source of revenue. Record companies issue special editions of albums and merchandising to compensate for declining revenues.

The digital era is changing the career path of artists. Many artists build fan bases independently by distributing their music online. However, the end goal of this career path often remains being signed to a record company.

Emerging Models

In 2015, www.InyaRwanda.com, a cultural Rwandan website, launched Afriframe, a service for independent artists. The service allows unsigned artists to distribute and monetize their content online. Afriframe contracts with the artist and distributes to other online platforms such as iTunes, Spotify and Shazam. Initiatives like these make it possible for independent artists to sell globally.

II. FILM

Overview

The global film industry is in a state of flux as some markets continue to expand into cinema sales, while others are seeing fast increases in digital content. This is accompanied by a shift in the value chain as digital lowers costs, disrupts traditional business strategies and introduces new opportunities for smaller players.

Market Size and Growth

The global box office revenues for film were USD36.4 billion³ in 2014. The top five largest producers of films are India, the United States of America, China, Japan and the UK⁴, with Nigeria ranking high on informal productions.

Growth in box office revenues has been slow in the last decade. 2014 showed a growth of only 1%⁵, which follows a number of years of mixed growth⁶. While ticket sales are falling or flat in North America and Europe, growth in the Asia-Pacific region, particularly China, has been strong; the Chinese market grew 34% in 2014 to USD4.8 billion⁷.

Digital film sales from online sources are increasing. In the United States of America, the home entertainment sector is rapidly growing and electronic sales of new releases grew 60%⁸ in 2014; this increase accompanies a decline in the sales of DVDs and other discs. In the United Kingdom, digital purchases of film were estimated to be USD490 (£323) million in 2013, an increase of 400% since 2002⁹.

³ Motion Picture Association of America (MPAA) 2014 Theatrical Market Statistics.

⁴ UNESCO Institute for Statistics (2013) Emerging Markets and the Digitisation of the Film Industry.

⁵ MPAA 2014 Theatrical Market Statistics.

⁶ This compares to increases of 4% in 2013, 6% in 2012, a decline of 4% in 2011, and a growth of 6% from 2006 to 2011. MPAA

⁷ MPAA 2014 Theatrical Market Statistics.

⁸ The Digital Entertainment Groups, Year-end 2014 Home Entertainment Report. "theatrical new releases delivered exceptional

⁹ British Film Institute 2014 Statistical Yearbook.

Digital

Digital affects the value chain in a number of ways. In the production phase, digital technology has lowered the costs of production and expanded the possibilities of visual effects. Similarly, digital has lowered costs in distribution. However, the largest impact of digital is on the traditional reliance on windowing¹⁰. The physical constraints of film reels and DVDs are no longer relevant. Instead, the possibilities of online streaming have changed audiences' expectations and the time between windows is shortening. This makes it more difficult for the industry to benefit from premium release cinema tickets and revenues are shifting to online sales.

The shift to digital has opened up new possibilities for smaller players in the industry. Video-on-demand (VOD), in which online or interactive services allow the consumers to choose the film and to view it at a time of their choosing, is an excellent example of the change digital can make. Independent film makers can forgo the interim steps of licensing and distribution and sell directly to the audience. Subscription streaming services, in which audiences pay monthly fees for access to content, are becoming more popular.

Emerging Models

In May 2015, the Brazilian start-up Setima launched as a dedicated VOD platform for independent Brazilian films. It seeks to enable independent filmmakers to store, manage, promote and display their films, bringing them together with their audiences. Profits from the platform will be used to create new films. Projects such as Setima demonstrate how digital can promote cultural heritage and support smaller filmmakers.

III. BROADCASTING

Overview

The outlook for TV broadcasting is mixed as analogue services decline and digital and Internet services grow. This increases competition for advertising revenues and audiences for commercial broadcasting. Growth is weak in developed countries but stronger in developing countries. Radio is experiencing similar trends.

Market Size and Growth

Global pay-TV (which includes satellite and cable) revenues were USD183 billion in 2012 and the number of subscribers increased 32% from 2008. Growth stems from developing countries where 34% of households have pay-TV¹¹. While TV subscription revenue is growing 3.5% annually, government cutbacks mean public broadcast funding is growing at less than 1% annually¹².

The majority of households own a TV: 79% in developed countries, and 72% in developing countries. Africa has the highest growth rate in TV ownership, growing 18% between 2008 and

¹⁰ The process by which films are released in staggered 'windows', to maximize revenue, eg cinema/theatre, then video then television

¹¹ Figures from the International Telecommunications Union (ITU) (2013) "Measuring the Information Society" available at <http://www.itu.int/en/ITU-D/Statistics/Pages/publications/mis2013.aspx>

¹² Estimates published in 2015 in PWC (2015), "TV Subscriptions and license fees Insights at a Glance" 6, available at <http://www.pwc.com/gx/en/global-entertainment-media-outlook/assets/2015/tv-subscriptions-and-licence-fees-key-insights-6-tv-public-licence-fee.pdf>

2012¹³. Global TV advertising revenues are predicted to reach USD7 Billion in 2016¹⁴. Online TV advertising¹⁵ is growing at 20% per year¹⁶. Brazil, India and China are predicted to contribute 23% of growth in TV advertising revenues in the next five years¹⁷.

Digital

New technologies, including digital video recording, online streaming, and digital media players, are transforming broadcasting. Internet transmissions decrease the industry's reliance on cable or satellite. With the increase in transmission outlets comes increased competition for audiences as new entrants join the marketplace and viewers are less constrained by fixed broadcast schedules.

The core value chain of the broadcasting sector continues, as production, programming and distribution are still key activities; advertising and subscriptions are important sources of revenue for commercial broadcasters.

Radio

As with TV, the radio broadcasting market is experiencing changes in advertising and new formats such as premium radio channels, online radio stations and podcasts. Radio's market penetration is declining.

Emerging Models

The American company Netflix demonstrates the digital transformation of transmission methods. Originally a mail order DVD media rental company with an online interface, Netflix migrated to online streaming. In 2013, the company launched streaming services for original content in which Netflix is the primary, instead of secondary, distributor of shows like *House of Cards*.

IV. PUBLISHING

Overview

The book publishing industry is undergoing change as the rise of e-commerce and electronic publishing shifts the value chain. Emerging technologies and changing retail environments suggest the market continues to evolve. Magazines are experiencing similar changes.

¹³ ITU, *ibid*.

¹⁴ PWC statistic as reported by Statista.com, Global TV advertising revenue from 2012 to 2017, by source (in billion U.S. dollars) accessed October 12, 2015 from <http://www.statista.com/statistics/260123/global-tv-advertising-revenue-by-source/>

¹⁵ While TV's share of global advertising revenues is decreasing, it continues to enjoy modest growth of less than 5% in developed countries and higher growth rates in developing countries.

¹⁶ Estimates published in 2015 in PWC (2015), "TV Advertising Key Insights at a Glance" 1, available at

<https://www.pwc.com/gx/en/global-entertainment-media-outlook/assets/2015/tv-advertising-key-insights-1-global-tv-advertising.pdf>

¹⁷ 2015 to 2019, Estimates published in 2015 in PWC (2015), "TV Advertising Key Insights at a Glance" 6, available at

<http://www.pwc.com/gx/en/global-entertainment-media-outlook/assets/2015/tv-advertising-key-insights-6-brazil-china-and-india.pdf>

Market Size and Growth

The market is worth €114 billion¹⁸. Books account for 15%¹⁹ of all consumer spending on media and entertainment. Sales of e-books are increasing and the global market for e-readers has increased nearly twenty-fold²⁰ since 2008.

Growth in the market is mixed. While the share of e-books is increasing, overall sales of books are decreasing or flat in developed countries while sales in some developing countries are moderately growing. Overall, revenue growth in the market has been 0% over the last five years.

Digital

The largest impact of digital on book publishing is that of the introduction of e-commerce in online book retailers such as www.Amazon.com. Competition from e-commerce has reduced the viability of bookstores and pushed prices for books down by about 40% in the U.S. market.

E-books create a new window as publishers may sell electronic versions. E-books reduce the cost per book and make it financially feasible to sell books by chapters. New pricing strategies, such as subscription services, like France's Izneo and Germany's Tolino, change the concept of ownership.

Print-on-demand, where copies of a book are printed only when ordered may decrease wastage from unsold, traditionally printed books.

E-books and print-on-demand have also contributed to the rise in self-publishing and authors can now self-market directly to their readers.

Unlike other areas of the creative industries, the traditional hard copy has proven resilient. Growth in the market for e-readers is slowing and consumer preferences suggest that printed books will remain a viable business model.

Emerging Models

The Chinese website, www.Qidian.com, publishes both amateur and professional authors and has over one million works. Stories are initially offered for free, while successful stories and authors become paid content. Readers pay in instalments as they read the stories. Founded in 2002, the website has made millionaires out of some authors.

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¹⁸ Wischenbart, R. (2013). IPA Global Publishing Statistics. World, 114(12,189), 7-046.

¹⁹ Wischenbart, *ibid*.

²⁰ Simon, J. P., and G. De Prato. "Statistical, ecosystems and competitiveness analysis of the media and content industries." (2012).