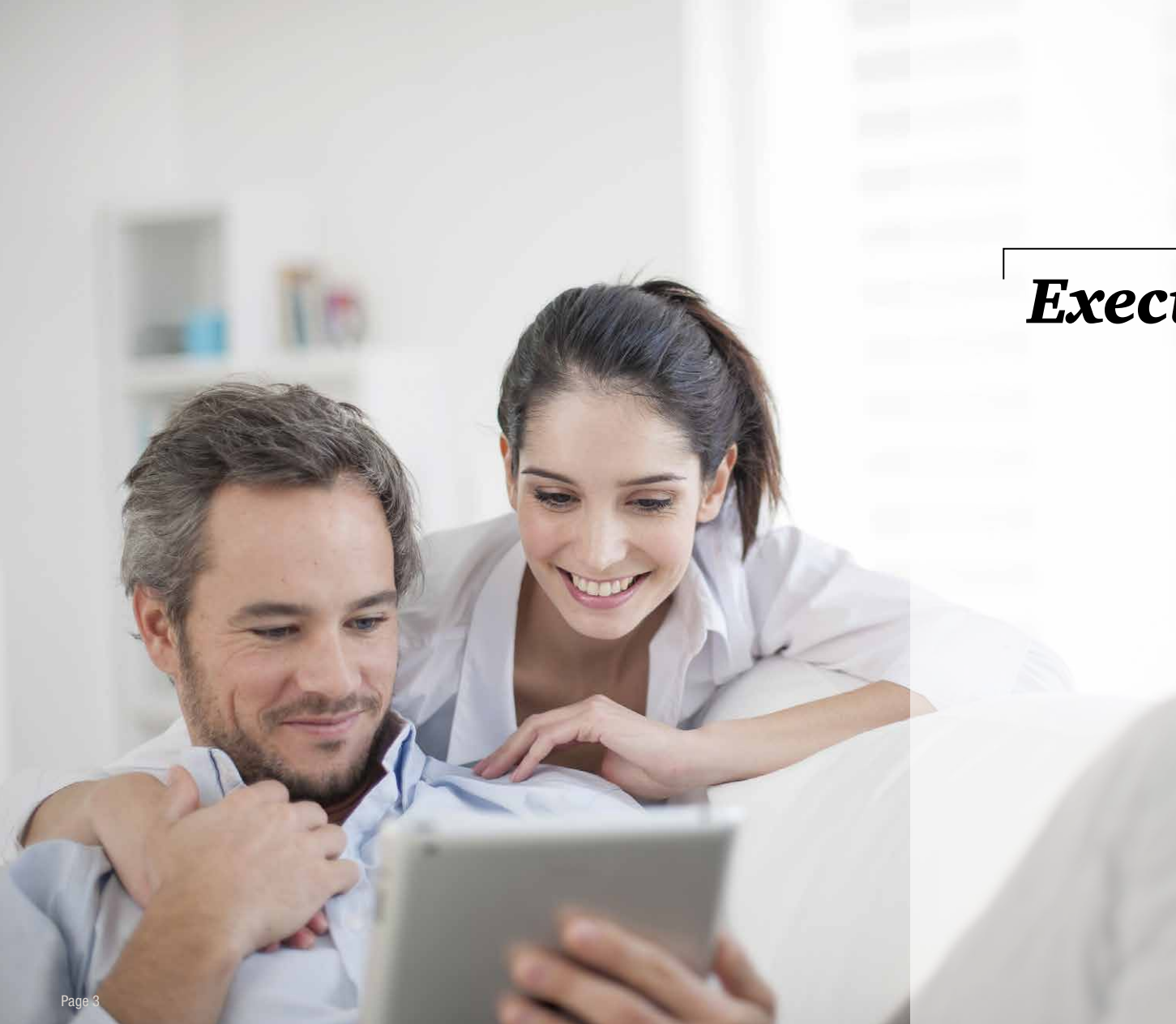


# *Swiss Entertainment and Media Outlook 2015*



# Contents

Executive Summary	3
Consumer Needs Drive the Market	9
Internet Access Spending	14
Internet Advertising	20
TV Subscriptions and Licence Fees	26
Television Advertising	32
Music	38
Filmed Entertainment	44
Video Games	50
Radio	56
Out-of-Home Advertising	62
Consumer Magazine	67
Newspaper	73
About	79



# *Executive Summary*



## Swiss Market Situation

In 2014, the selected segments of Switzerland's entertainment and media market grew by 3.8 per cent in comparison to the previous year, which is slightly higher than the 2.7 per cent growth recorded in 2013. The total consumer spend was CHF 13 billion, excluding hardware spending, while the highest growth rates were achieved in Internet advertising. Music stagnated with only slightly positive growth, while Filmed Entertainment, Radio, Consumer Magazine and Newspaper declined in comparison to 2013. Internet Access, TV Subscription and License Fees, TV Advertising, Video Games and Out of Home reported significant growth rates of over three per cent.

Nevertheless, the entertainment and media industry was still growing at an above-average pace compared to the overall Swiss market, whereas the great expectations for economic growth in 2014 couldn't be met. Crucial popular votes like the mass immigration initiative with its unpredictable results caused uncertainties within the country. A globally weak economy, especially within the eurozone influenced the economic balance sheet. Still, Switzerland managed to realise a GDP gain of two per cent in 2014. After the abandonment of the euro/franc exchange rate floor, the Swiss GDP growth forecast for 2015 was adjusted downwards to only -0.2 per cent.



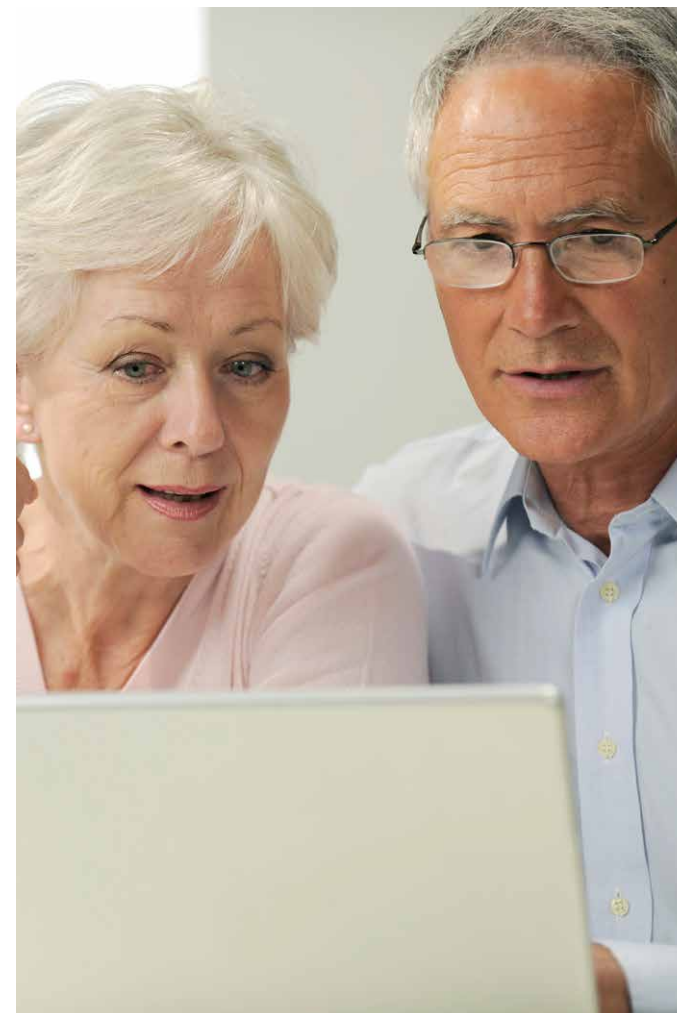
*“Services, tailored to customers’ needs, are the future of Entertainment and Media. If the services are more valuable to the customer, the willingness to pay for them is much higher. Swiss companies have to keep track of their international competition. The companies need to develop new ways of cooperation, innovative products and business models as well as new pricing strategies to keep up with the new, creative international players that enter the market.”*

**Patrick Balkanyi**

E&M Expert | PwC Switzerland

For the current year, we expect that the TV and print market will suffer most from the strong Swiss franc. Filmed Entertainment is still on the decline, but digital sales are expected to rise. Across all segments, we observed that growth is being mainly generated by digital offerings. Heightened mobility and a broader range of crossmedia applications are having a favourable effect on the revenues of Internet Access, Internet Advertising and TV Subscription and License Fees. Video Games are still benefitting from the release of the latest console generation and an increasing gamer base for casual games. Radio and Out of Home Advertising are expected to report higher revenues than in 2014. Internet Advertising is likely to continue its strong growth and thereby remain the driver for the entire industry.

On the whole, we believe that the entertainment and media sectors covered in this report will exceed the revenue total for 2014 and reach CHF 13.3 billion in 2015. This would equate to a 2.2 per cent increase, i.e. a slightly slower pace of growth than in the previous year, but still above Switzerland's overall economic growth rate, which is projected to be -0.2 per cent.



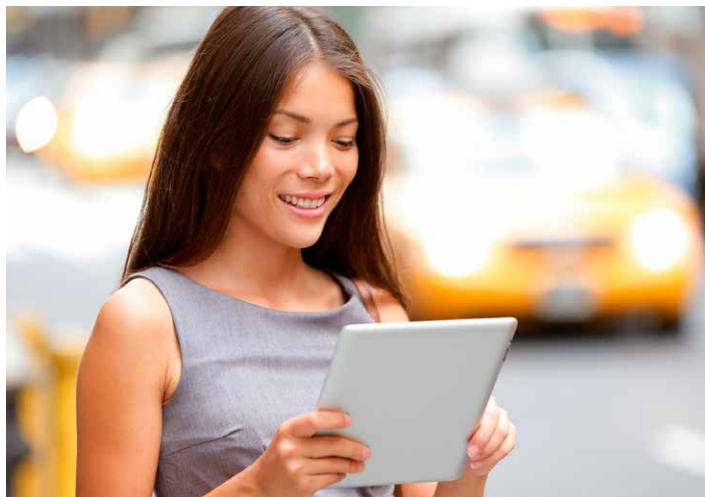
## Principle Drivers of Entertainment and Media

### Mobility

Mobile digitisation is not stationary digitisation and must be viewed differently.



Increasing numbers of smartphone users and cheaper access to mobile networks are influencing the Swiss market. Better infrastructure allows the mobile dissemination of complex content like videos, which amplifies the demand for mobile data volume. Mobile data consumption also fosters mobile advertising, a significant growth factor in the advertising industry. Most consumers are so accustomed to mobile internet connectivity that it has become an important element of the average purchase journey. In this way, advertisers and retailers are able to connect with potential customers at a specific time and place.



### Crossmedia

Users expect a seamless media experience over all devices.



Today's customers desire flexibility and freedom of choice when it comes to where, when and how media is consumed. Rather than being bound to a certain schedule, the content should be offered on demand and retrieved seamlessly across devices. That makes it difficult for media companies to measure reach and usage time, numbers that are of tremendous importance for advertising clients. To enable crossmedia offerings without incurring substantial extra costs, smaller companies usually join a network to distribute their content. Platforms and ecosystems are gaining in significance and represent tough competition for smaller players.

### Big Data

More data than ever can be gathered, analysed and used; however, consumer concerns must be taken into account.



Enhanced measurement systems in an interconnected environment, an increasing number of sensors, and smart devices that include those sensors are personalised items that allow for huge amounts of data to be gathered. Through social media networks, customers themselves feed the data pool. Although the analysis is still complicated, this data can already be used to enhance the user's experience, for example by suggesting content based on personal preferences, location or the time of day. It can also be used to improve the production of new content by enabling a better understanding of customers or tailoring advertising exclusively to customer needs. However, as the topic is a quite new one and standards have yet to be established, staying in close contact with consumers is important if their personal data is to be used for analytical purposes. An inconsiderate violation of privacy could seriously damage a company's reputation.

## Digitisation

All customers and businesses have arrived in the digital age.



## Monetisation

Monetisation of digital content is beginning to improve.



## Content

The focus on consumption rather than ways of consumption leads to new business models.



By now, digital products and services have become a part of the everyday routine for almost every person in Switzerland. Smartphone penetration and acceptance is at an all-time high and still increasing. So-called Silver Surfers open up a whole new consumer group that is willing to pay for high quality content and appreciates the convenience of digitisation. Especially younger user groups, on the other hand, have been spoiled by the amount of offers the digitised world provides and today expect an outstanding user experience, one that is personalised, intuitive and flows seamlessly across all digital devices. To meet these needs, content generation needs to evolve hand-in-hand with the persistently expanding capabilities of the devices.

Digitisation and the Internet have reduced the marginal cost of content distribution to almost zero. Legal and illegal file-sharing resulted in declining purchases throughout the entertainment and media industry. However, users distributing and promoting content to others, especially friends and family, became an important way to spread and promote products. Furthermore, content producers and distributors now focus on specialised products and services that consumers are willing to pay for as they enhance the added value. Micropayment and freemium models are bringing paid content closer to free versions and target especially younger user groups.

The quality and complexity of today's content is continuously increasing and thereby becomes a differentiating factor for its producers. Not only content itself, but also the distribution and pricing models as well as the "crossmediality", are turning out to be more and more relevant. The availability of content at the right time as well as in the right format and the desired quality, combined with an unmatched user experience – these are the factors that today's content providers are faced with as they compete against each other for the favour of the consumer.



*"I would say that for some media companies up to 95 per cent of the content published online was originally created for another medium."*

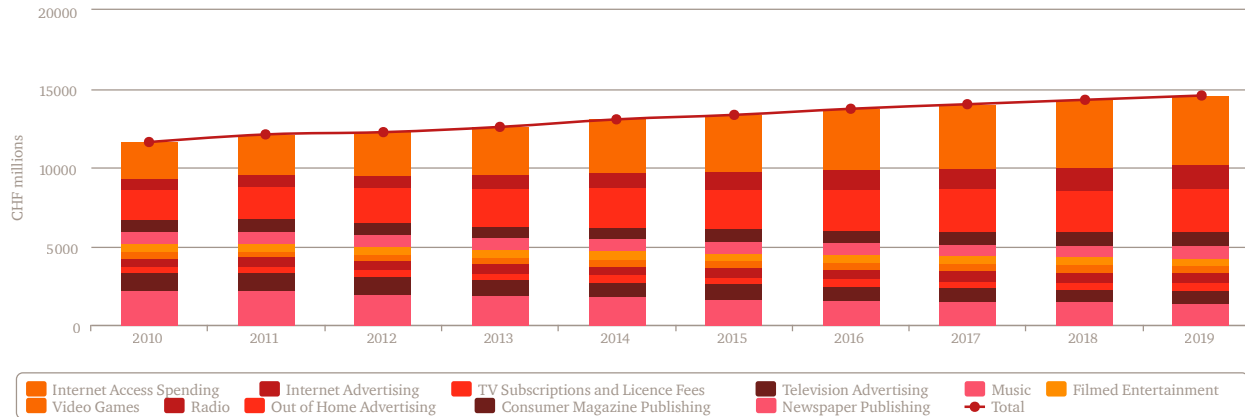
**Adrian Zaugg**

Head of Corporate Strategy | SRG SSR



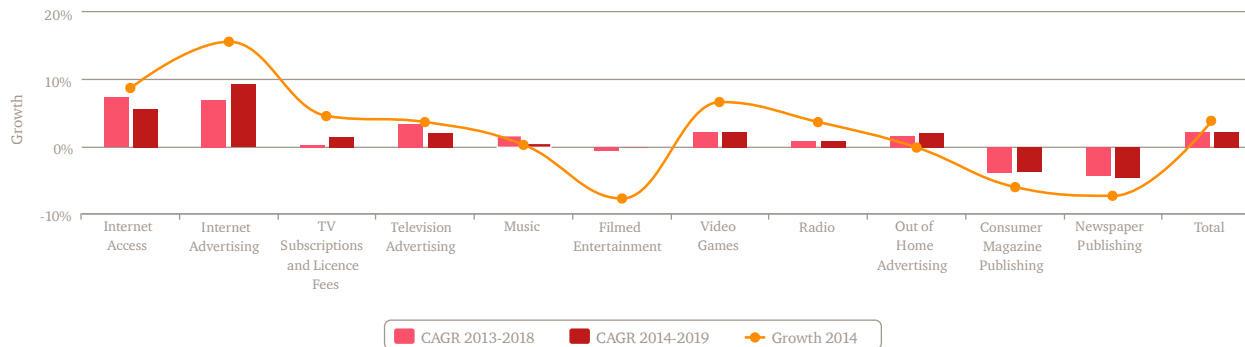


Swiss Entertainment and Media Market  
per Year and Sector



Analysis by PwC

Swiss Entertainment and Media Market Growth  
per Sector and Year (%)



Analysis by PwC

## Outlook for Switzerland's Entertainment and Media Market

### Internet Access

Switzerland's Internet grid is up-to-date and offers rapidly increasing bandwidth along with an ever-expanding connectivity reach. In 2016, we expect mobile Internet access revenues to overtake wireline as the number of devices that connect to mobile networks continues to rise. Ongoing technological innovation and new business models like Low Power Networks should result in an Internet access revenue growth rate of 5.7 per cent per year through 2019. Internet access spending accounts for more than 25 per cent of total expenditure in the entertainment and media market.

### Internet Advertising

Internet advertising represents the fastest growing segment, with a projected CAGR of 9.3 per cent through 2019. Because of the high Internet penetration throughout Switzerland and today's more accurate tracking methods, many advertisers are shifting their advertising budgets towards the Internet. The popularity of mobile access fuels the interest in mobile advertising, although mobile-specific formats have yet to achieve their breakthrough.

### TV Subscription and Licence Fees

The Internet has also reached the TV market. Here, the trend is definitely in the direction of IP based TV consumption. The annual growth rate of 1.5 per cent is mostly driven by the increase in IPTV revenues. The development of license fees after 2018 depends on the new radio and television law that has yet to be implemented.

## TV Advertising

Three years ago, the Internet advertising spend exceeded spending on TV advertising for the first time. However, TV advertising still remains popular. We expect a CAGR of 2.1 per cent through 2019, with slightly negative growth in 2015 due to the strong Swiss franc. The fragmentation of TV consumption on various devices and across various channels increases the complexity of consumption measurement and consumer targeting, but also enables TV advertisers to communicate with their audience and to tailor their advertisements based on the consumers' user behaviour.

## Music

Music streaming platforms that include payment functions account for increasing numbers, and a new global player just entered the market. We expect streaming revenues to expand rapidly enough to outgrow the losses in physical distribution. The popularity of live music events will further increase music revenues. The market is expected to generate CHF 765 million in 2019, up from CHF 743 million in 2014.

## Filmed Entertainment

Physical filmed entertainment material is losing further ground against digital offerings that heighten consumer flexibility. In 2014 and early 2015, three new streaming services were launched in Switzerland. The user numbers are on the rise but cannot offset the decrease in physical filmed entertainment revenues. Convenience and greater flexibility are increasing the popularity of home cinema experiences. Box office spending is highly dependent on the selection of movies that will be shown.

## Video Games

While video game play didn't have a very good reputation in recent years, there is now a growing acceptance. Casual and social gaming, but also traditional gaming, are attracting larger consumer bases. Increasing user numbers and enthusiasm for the new generation of consoles have also led to higher revenues from video game advertising. It partly accounts for the annual growth rate of 2.2 per cent that is anticipated through 2019.

## Radio

Radio is probably the only entertainment format that can be consumed completely passive. It combines entertainment with local information and news and thus remains a popular complementary medium, thereby making it an attractive advertising platform. We expect modest growth of 0.9 per cent in the radio market. Revenues from license fee payments support the stations and will be subject to a rearrangement due to the new radio and television law.

## Out of Home

2015 is an election year in Switzerland and Out of Home media is benefitting greatly as a result. Thus the prospective 4.4 per cent growth bump in 2015 will be relativised by a loss in 2016. Digital Out of Home advertising is expected to continue its upward trend and account for 18 per cent of Out of Home revenues by 2019.

## Consumer Magazine

As digital revenues won't be able to counterbalance the shortfall in print advertising and distribution revenues, the Consumer Magazine market is expected to shrink at an annual rate of 3.6 per cent. In an attempt to stabilise this development, publishers have started to explore other businesses. Especially acquisitions in the digital classifieds are being observed at present.

## Newspaper

Newspapers are also struggling to digitise themselves. In effort to reduce costs, publishers are now collaborating to a certain extent in production and sales. Digital offerings are increasing in number, but overall consumer spending should still ease in the years ahead. In 2019, newspaper revenues of CHF 799 million will only account for 9.5 per cent of the total entertainment and media market, down from a 13.4 per cent overall market share in 2014.

## Total Entertainment and Media

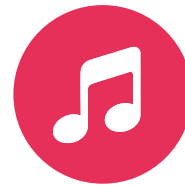
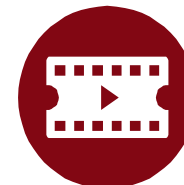
In 2015, we expect the Swiss entertainment and media industry sectors that are included in this report to increase by 2.2 per cent. Positive growth rates will mostly be driven by digital offerings, while traditional distribution in most cases decreases. Within the next five years, we anticipate that the market will grow at an annual rate of approximately 2.22 per cent and reach almost CHF 14.6 billion in 2019.





---

## ***Consumer Needs Drive the Market***



## Why consumer needs are key to the development of the media market

In the late 1970s, computers began to shrink to sizes that could be installed within people's houses and it became obvious that there would be demand for personal computers. As private households had different needs than corporations or the government, companies started to experiment on how this new channel could be used. The entertainment industry was no exception.

However, the pace of digitisation varied greatly from format to format. By 1983 when video games were already experiencing their second crisis caused by shrinking sales numbers due to the introduction of the personal computer, the successful era of the CD began in the music industry. It would ultimately last for 25 years before new technology started to signal its end as well as the advent of more volatile years. Change runs like a golden thread through the digitisation of entertainment and media.

Today, we perceive the industry segments to be in various stages of maturity. We have identified three waves of digitisation, each causing new challenges for the media industry on one hand while also improving the customer experience on the other one



*“All media segments are developing in a similar direction, driven by consumers’ demand for convenience. The difference between them is merely the pace and maturity of their specific development.”*

**Bogdan Sutter**  
E&M Expert | PwC Switzerland

## Wave 1: Getting accustomed to an all-new technology

The World Wide Web was introduced in 1990 and represents the start of the first wave. Just one year later, SEGA offered in Japan and Brazil the first game console that could be connected to the Internet via an external modem. A small selection of games was made available online. The service continued to expand worldwide in the form of SEGA Channel. For a monthly subscription fee, the user was able to access the online service, which hosted 50 games that changed on a monthly basis.

Within this first experimental wave of media digitisation, the foundations for many popular business models were laid. Bloomberg and the Economist were among the first to publish news online. As the number of webpages and Internet users increased, so did the number of companies that started to publish web-based catalogues of their services or products. Others just started an online service out of the idea to fulfil customer needs, such as Amazon, Pizza Hut and eBay.

## Wave 2: Starting to focus on the format-specific products and services

One of these companies was Netflix, founded in 1997 out of frustration about the necessity to return rental DVDs to the store. It started as an online ordering platform for movies which would be shipped directly to the customer's house. Only two years later, a subscription model was implemented leaving customers the choice to rent for a monthly fee as many movies as they wanted. To ensure they would be informed about new releases that could be of interest to them, Netflix implemented an algorithm based on consumer ratings: the concept of behavioural recommendations was born.

In 1998, the first MP3 players came into stores. However, there was no easy way to share MP3 files until two teenagers came up with the revolutionary idea of Napster. The online service allowed the user to search another person's file of music uploads and then download the desired songs. Within a year, Napster registered 20 million users, a number that increased sharply until 2001 when the service had to shut down because of copyright infringement lawsuits. The idea of file-sharing was born and after Napster's demise, a variety of new websites with a similar offering appeared. The demand for online music distribution was obvious and successfully met in 2003 when, two years after the introduction of the first iPod, Apple launched the iTunes store. Instead of acquiring a whole album, users could now select single songs and purchase them individually. This unbundling of the original product marked a tipping point and caused massive disruption in the evolution of the music industry.

While in this second wave of digitisation music and film started to be distributed over the Internet, the video game industry began offering services that let users connect and consume content online. SEGA introduced the first game console that included a modem to secure Internet connection while games were played online in 1998. The first massive multi-player online games allowed people all over the world to compete against or cooperate with each other in virtual worlds.

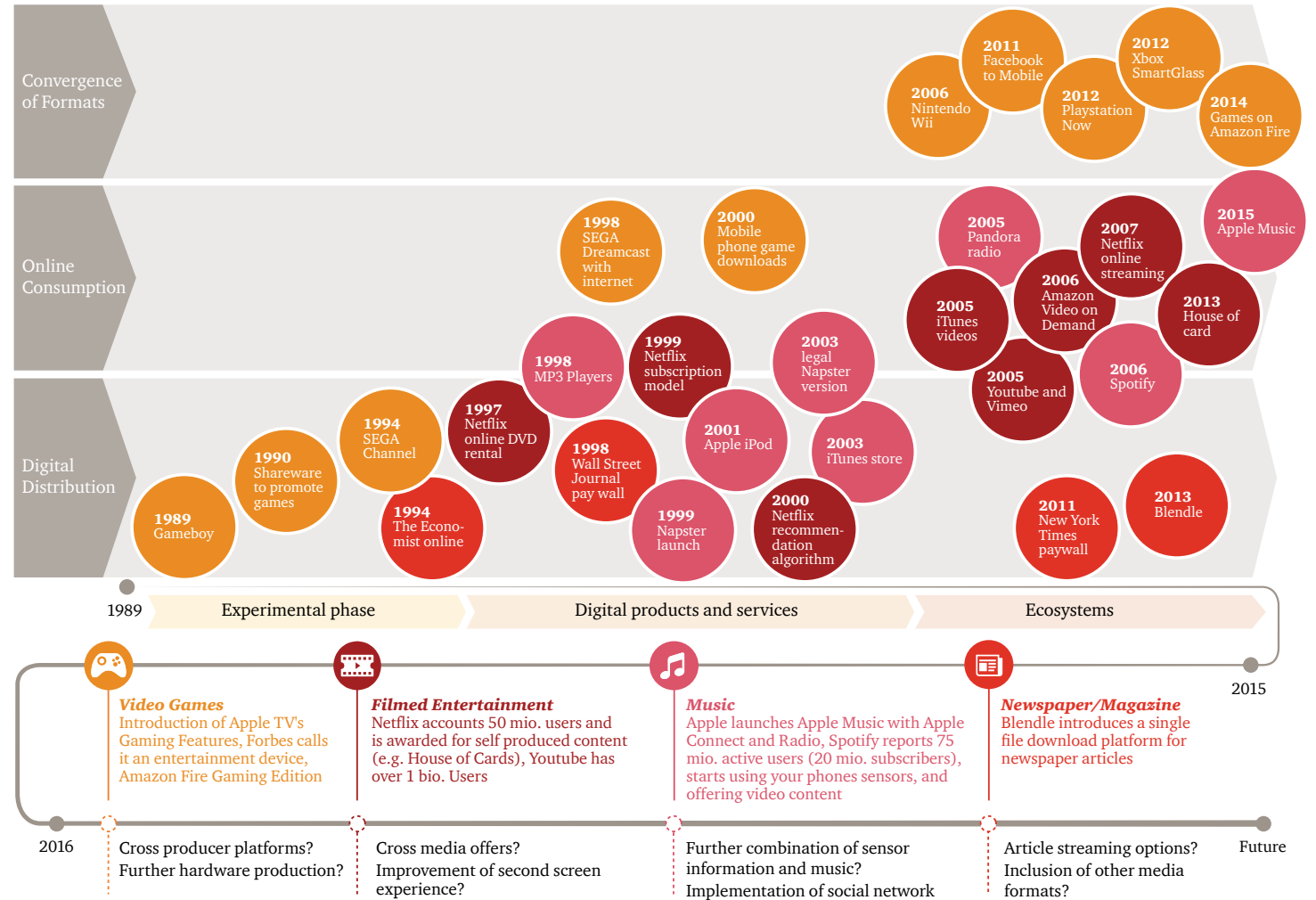
## Wave 3: Putting the consumer in the centre of the offering

This second stage of maturity, in which entertainment media was not only distributed but also consumed via online platforms, was reached by the film and music industry only several years later. Services like YouTube, Vimeo and Pandora gave users access to content without the opportunity to save it on their computers.

When two years later Apple introduced its first iPhone, these platforms became accessible anywhere and again the industry was undergoing coseismic disruptions. The functionality of smart devices such as smartphones, tablets and by now also wearables, together with the increasing interconnectivity between them, finally led to a cross-integration of various media formats.

Today, a new and revolutionary platform model for written content is blendle, entering the market for newspaper and consumer magazines that hasn't changed its business and distribution models for more than a century. The Dutch-based company offers single articles from various newspapers and magazines. blendle could be described as the "iTunes for news": it breaks down bundled content products such as newspapers and magazines into single articles and sells them directly to the customer, hence bypassing the publisher. As a result, the platform itself becomes the single point of access and the face to the client – a big risk for the publishing houses.

One step ahead are platforms like Spotify, Pandora and Netflix that, instead of selling single pieces, offer access to a library of music or series titles. Video game companies go even further by offering their products across media formats and devices. Functions like Facebook to Mobile allowed users to play casual games on PCs and smart devices alike and were adopted very early. Today's gaming networks such as PlayStation Now or Xbox SmartGlass connect all devices, from console, to TV and computer, to smart devices. Moreover, different forms of media can be streamed via these platforms, including TV, movies and music, in addition to the core format of video games.



## Where do we go from here?

Spotify and blendlle offer music and news, respectively, from different producers and can be accessed via a single platform and across various devices. Spotify has now started to broaden its range of products by establishing cooperative ventures with radio and video producers. Spotify could further broaden its service palette, for example by including a GPS and pulse tracker to expand their running services or include games or news streaming. Another possibility would be to include a social network, like Apple Music did. Netflix is, similar to Spotify, providing content on one platform, regardless of the producer. Their way of developing new platform services is to take the producers seat and start creating content on their own instead of merely aggregating the works of others. Netflix could, just like music streaming services, include other kinds of media, or enhance the second screen experience. Videogame companies on the other hand have implemented platforms that include with music, video and TV streaming various types of media. Cross-device and second screen services are highly developed. However, if casual games are excluded, there is no platform that unifies the works of different producers. Even games from creators that are compatible with more than one system cannot be played across devices. Further connectivity is pushed by the big ecosystems of other industries. Apple TV and Amazon Fire now both include gaming functions in addition to their music and video streaming services. Google is following closely behind.

Interconnectivity is the key here and represents a huge potential for existing platforms. Videogame services offer seamless crossmedia and cross-device access; music and movies from different publishers can be streamed across devices; and articles of different newspapers can be acquired on smart-phones and desktop computers alike. Today, platforms that can easily be accessed are the preferred way to consume media and it is highly possible that the assets of these platforms will further increase.

It will be interesting to see which of the existing platforms will be able to keep up with the constant digital change. A glance at recent entertainment and media history reveals that innovation in digitisation is mostly driven from outside the industry. There are platforms offered within global ecosystems by companies like Apple, Amazon or Google that could lead the new direction of media digitisation. But, it is also possible that, just like Napster, YouTube or Netflix, a new company might introduce new standards.



*“Economic pressure often generates innovative technological solutions.”*

**Alexander Mazzara**  
CEO & Co-founder | joiz Group

Today’s entertainment and media offerings are organised on platforms. Consumers demand that high quality content is available anytime, anywhere and seamlessly on all devices. In addition, accessibility has become more important than ownership, a trend that is likely to continue through all industry segments. This game is played on an international level, so innovation and disruption that occurs elsewhere immediately has an impact on the Swiss market, since consumers are better connected and informed than ever before.

## The main drivers for the Entertainment and Media industry

Established companies have often struggled to keep up with digital innovation. In a digital age, conventional business or pricing models work differently than they did before. Digital distribution is just not the same as physical. for many different reasons:

### ***In a globalised world, content can be shared in realtime.***

Traditional models treat countries or regions differently. Releases, for example, occur time-displaced. With increasing connectivity, the pace at which content can be shared globally has risen drastically. Most consumers have already downloaded a song or movie illegally by the time it was launched officially in their country. The music industry has reacted now by introducing “new music Friday”, a weekly global launch date. Others embrace the consumers’ way of illegal distribution and might even use it to, for example, to test the acceptance of new features. Many video games have embedded features to punish gamers who pirated their game without blocking the game entirely. In “Crysis: Warhead” for example, instead of shooting bullets, only chickens can be fired as of a certain point in the game. Other games give the player a speech on the effects of pirating and invite them to buy the game legally. Illegal game play can provide feedback on how well a game will be received and which groups should be targeted.

### ***New digital offerings are more rapidly adopted by the consumer.***

Prior to digital distribution, companies implemented innovations after evaluating market research results. Today’s customer needs are still driving change, but time innovation cycles have been shorted. CDs were the most popular way to legally listen to and share music for 25 years before downloads via Apple’s iTunes Store managed to claim this title. The initial online streaming models were introduced only three years later and they are getting



progressively stronger. Gathering and analysing customer data can be a way to foresee upcoming trends. Analysing and using Big Data therefore becomes more important than ever.

***Digital distribution is closely bound to existing hardware.***

The distribution of digital files is dependent on the hardware and associated operating system that disseminates the content. Changes in hardware always herald in a new environment. To guarantee a good user experience, content usually needs to be created for a specific device. Soft- or hardware innovation is driven by outside forces and is yet another factor media companies are only able to react to. As users expect total synchronisation of all devices, the production of adequate formats are especially difficult.

***It is difficult to stand out from the mass of similar services and products.***

Today's globalised world expands the field of competitors that media companies have to face. Media is not location-bound anymore and it is difficult to gain consumers' attention due to the sheer mass of information that's spread every day. Moreover, when content is distributed free of cost, high usage numbers are even more important because they determine advertising income in a major way.



*“I think communication offerings will remain fragmented, but traditional media will play an important role as long as they offer good content. If my journalistic content is high-quality, I'll attract customers; and that allows me to place advertisements. This won't work if I only operate with agency news.”*

**Lennart Hintz**  
COO | MediaCom

## ***The impact on the Swiss market***

To ensure a successful business in today's digitised world, it is essential that constant product and service innovation be maintained. For companies, this underscores the necessity to be closer than ever to customers and gain a comprehensive understanding of the entire industry. Platforms that are easily accessible and offer a variety of media formats tailored to customers' needs are more likely to be successful in the market. If users are accustomed to a certain entertainment ecosystem, they are likely to stick with it, thereby giving the platform the opportunity to successfully broaden its offering and introduce new services, seeing as how the customers are mainly looking for a seamless experience and convenience in the way they are entertained.

Ecosystems are the easiest way to access content without the need to adopt another control system or enter payment data several times. As long as the consumer cares most about convenience, Swiss companies need to seize the opportunity and be part of these systems that offer an almost endless amount of content and formats. Larger user bases can be reached and new forms of payment can be established. High-quality content can now be distributed even more broadly.

The future for entertainment and media companies lies in a content offering that is tailored to the specific needs of the consumer and is accessible via a single point of access. The more valuable the service is to the customer, the more monetisable it is. Swiss companies should take care not to lose track of the rising international competition and seriously consider evaluating new cooperation, business and pricing models in order not to be disrupted by innovative international players or new market entrants.





# ***Internet Access Spending***

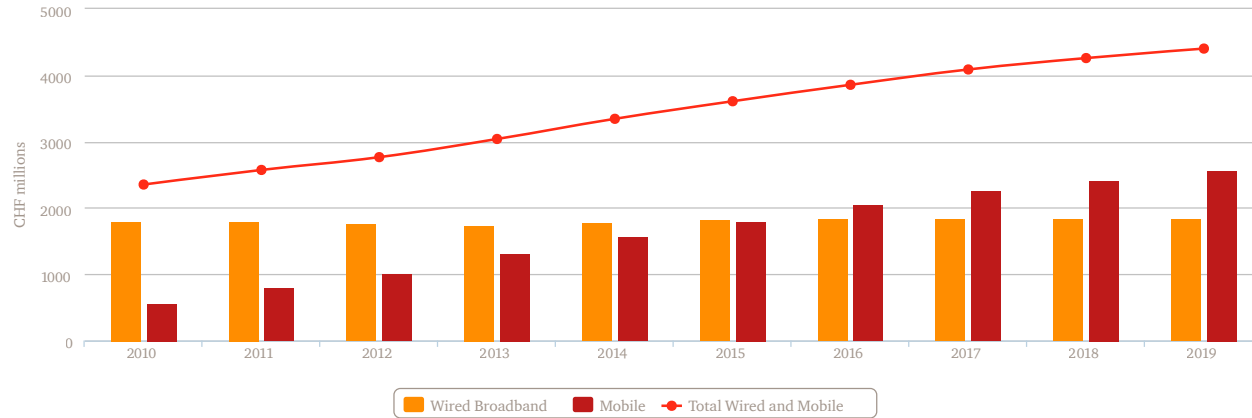
*Investments in new technologies to increase bandwidths are important for success in the market.*

*Mobile Internet will expand its share of the total Internet access market.*

*Multi-device ownership is a big opportunity for the mobile internet access market.*

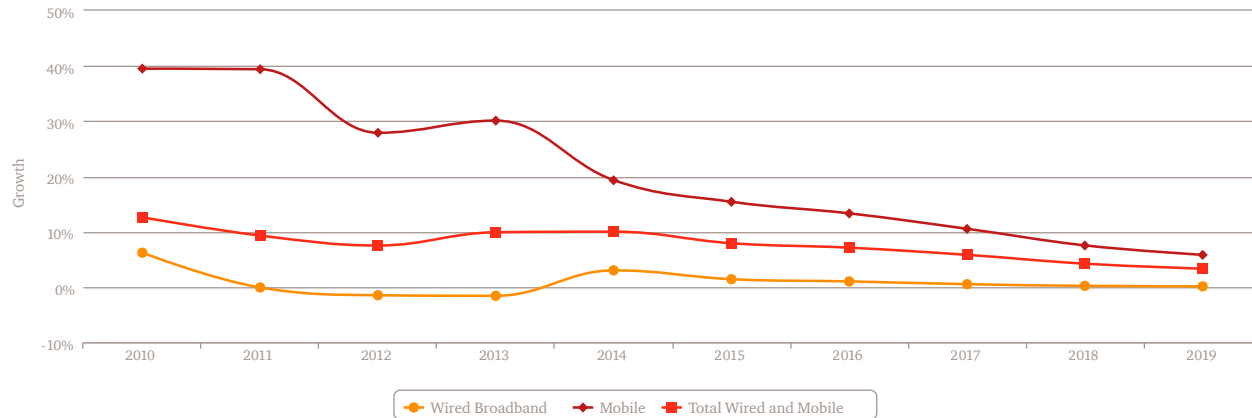


Internet Access Market  
by Component (CHF millions)



Analysis by PwC

Internet Access Market Growth  
by Component (%)



Analysis by PwC

## Segment Definition

Internet access spending consists of fees paid to Internet service providers (ISPs) for fixed broadband and mobile Internet access. Fixed broadband includes wired and wireless connections and is delivered to a fixed location. Mobile Internet facilitates access over cellular air interfaces generally via a 2.5G network or higher to mobile or connected devices that use embedded modems, dongles or data cards.

Spending on content, e.g. music, as well as access fees for company phones, including access to corporate intranets, is excluded from the Internet access revenue figures.



## The Swiss Internet Access Market

### Market Overview

Swisscom, Sunrise, Salt (formerly, Orange) and UPC Cablecom are the key players in the Swiss Internet access market, which can be divided into wired broadband and mobile access. While all others are active in both segments, Salt provides mobile access only. UPC Cablecom, Swisscom and Sunrise use xDSL to offer broadband access, At the end of 2014, 67 per cent of Swiss broadband households were connected through xDSL, versus 33 per cent via cable.

In recent years, competition in the market has increased. With the overall high price level in Switzerland, providers have to make large infrastructure investments and keep up with technological innovations to justify these prices. Therefore, providers are offering everhigher bandwidth, especially through the expansion of optic-fibre networks. At the end of 2014, more than 1.4 million households and businesses were connected to Swisscom's ultra-fast broadband. By 2020, Swisscom plans to reach 85 per cent coverage, offering bandwidths up to 500 Mbit/s with the new G.fast technology. UPC Cablecom is also upgrading its transmission technology to Euro DOCSIS 3.1 which, based on an FTTx-network, facilitates downstream transmission speeds of up to 10 Gbit/s. In the beginning of 2015, UPC Cablecom had connected 2 million households to its network featuring a speed of 250 Mbit/s.



*"It is an increasing challenge for Swisscom to handle the huge data volume in our network. To handle that challenge and remain at the forefront of technology we are investing in Switzerland almost 1.8 billion CHF each year into our mobile, fixed and TV infrastructure (e.g. 5G, fibre) but increasingly also in software and data platforms."*

**Marc Sier**

Head of Strategy Residential | Swisscom AG



89 per cent of the Swiss population use the Internet several times per week.

This is also reflected in Switzerland's high average connection speed (14.5 Mbit/s in Q1 2015). Only six countries worldwide, including Ireland, Sweden and the Netherlands, are ahead. Fast Internet connectivity enables providers to follow new developments in Internet content. In Q1 2015, 30 per cent of all Swiss broadband connections reached a speed above 15 Mbit/s, enabling the streaming of 4K (Ultra HD) videos.

Currently, over three quarter of the Swiss population and almost every teenagers own a smartphone. The tablet market has reached a penetration level of approximately 45 per cent, with further increases in mobile device ownership ahead. This fosters the need for mobile web access. Accordingly, the use of LTE for highspeed mobile Internet access is advancing at rapid pace. Only introduced in 2013, the 4G network reached between 85 and 94 per cent of the Swiss population at the end of 2014. Providers are currently introducing the next generation LTE-A standard, which allows mobile bandwidths of up to 300 Mbit/s. At the end of 2015, 30 per cent of Swiss users will have access to LTE-A networks.

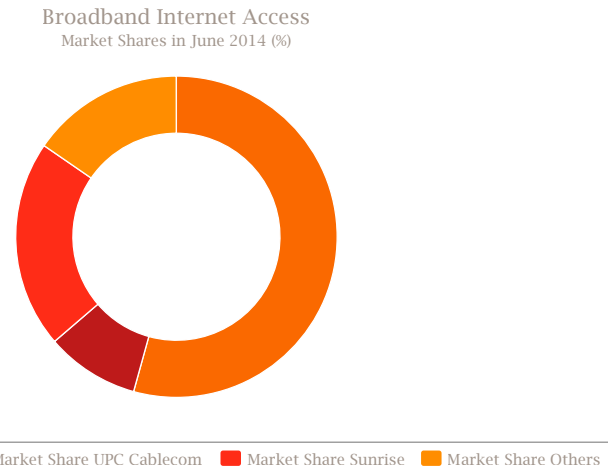
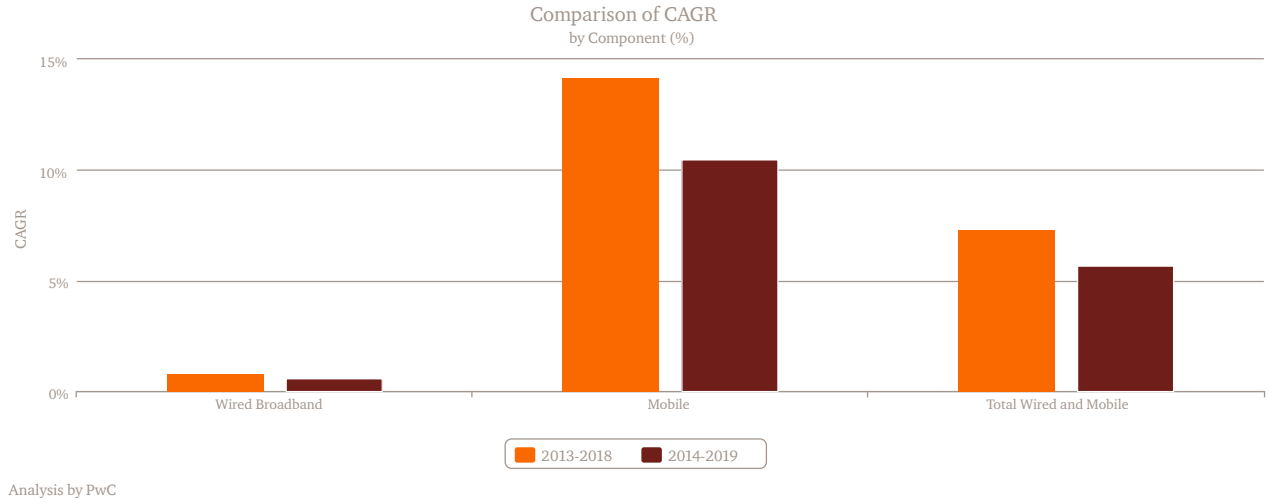
The necessity of this development is evident. For Swisscom, mobile data traffic has doubled in 2014 alone and it is expected that worldwide mobile data usage will multiply by a factor of 8 by 2020. Also with the new Voice-over-LTE (VoLTE) technology, faster and higher quality voice transmission can be reached. This will enable

providers to move phone transmission from the current 2G and 3G frequencies to faster 4G/LTE frequencies.

Low Power Wide Area Networks (LPWAN or LPN) are a further area of development. As the “Internet of Things” requires digital interconnectivity between numerous everyday objects, building Machine-to-Machine (M2M) networks is currently a technological focal point. LPNs allow tiny amounts of data to be exchanged with high energy efficiency, so battery- or charger-run items can establish longterm connections. Swisscom initiated related pilot projects in Geneva and Zurich this past summer. While the monetary market potential for these networks is estimated to be small compared to user-directed solutions, this will play a significant role in the future of digital interconnectivity. LPN networks could, for example, provide a car with information about the closest empty parking lot or tell a bar owner when beer kegs need to be switched/refilled. However, it is hard to tell whether users will be willing to pay for the service and create significant revenue streams.

### Market Growth

Smartphone use drives the growth in this segment, but otherwise a saturation of the market should gradually lead to a receding growth rate over the next 4 years. This can be observed in the slightly lower average revenue per user (ARPU) as a result of price pressure and the increased revenues from bundled options. The ARPU of Sunrise decreased from CHF 36.5 to CHF 35.8 in 2014 and competitors are experiencing similar changes. Nevertheless, we assume that the total volume of Switzerland’s Internet access market will grow to CHF 4.4 billion in 2019, mainly driven by the increasing mobile internet access penetration level.



## **Principal drivers**

### **Competition in the market assure investments in infrastructure**

The Swiss Internet access market is highly competitive. To prevent prices from crippling their revenues, the Internet providers increase bandwidths in effort to attract new customers, which in turn necessitates sizeable investments in new technologies and the existing infrastructure. Although price increases will be difficult to force through in the future, the Swiss market will benefit from this trend.

### **Mobile internet is increasing fast**

The mobile Internet access market is currently the fastest growing segment. Users want to be flexible and independent regardless of where they are. Over the next few years, we expect the total revenue volume of the mobile access market to overtake that of the wireline Internet access market. The increasing number of smartphones and tablets will add to the need for mobile broadband Internet access.

### **High quality media content will result in higher data volume**

The quality of media content is constantly increasing, which results in a higher volume of data. Given the current dynamic development of smartphones in terms of screen resolution and size, the content on offer will change as well. This trend is obvious from the large recent increase in video content, often in HD quality. Moreover, a reciprocal effect is triggered: the higher data volume causes ISPs to develop their networks, and that in turn causes content providers to create media of even higher quality.

### **Multiple device ownership calls for simultaneous mobile Internet connections**

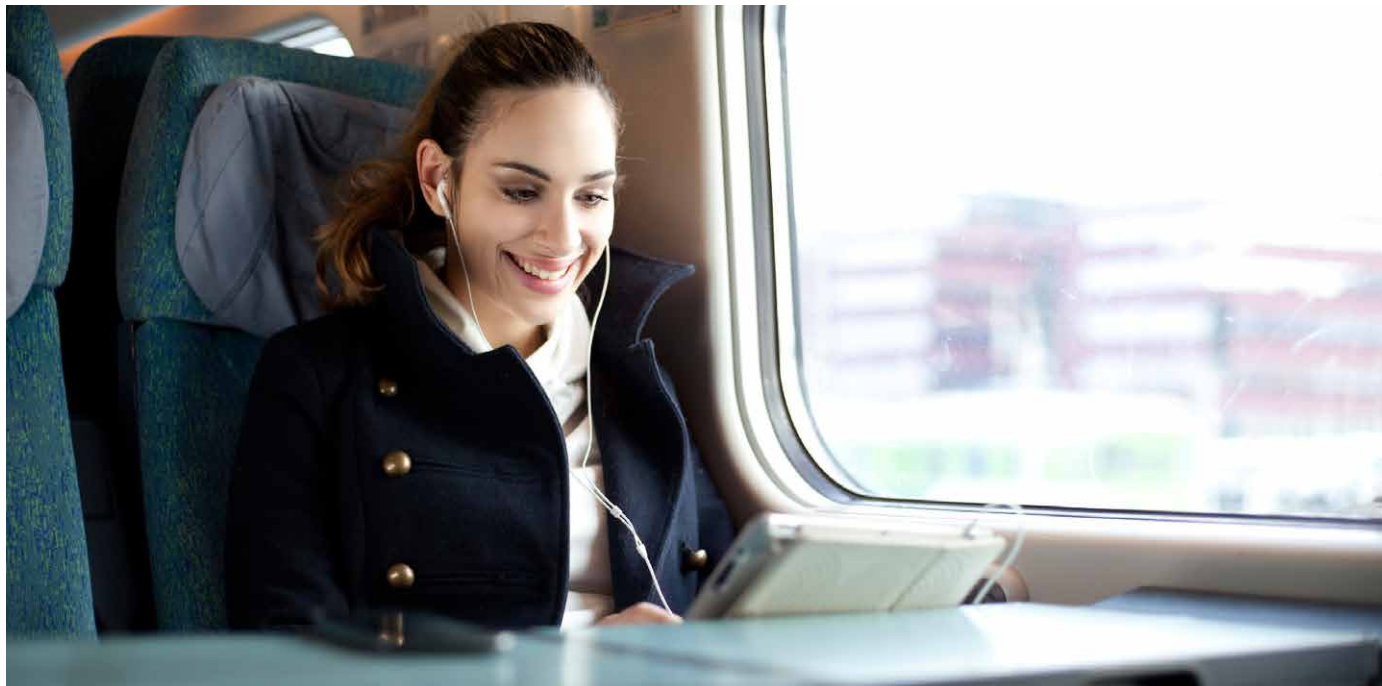
Mobile device penetration rates are steadily rising. As of 2014, more than 75 per cent of the Swiss population own a smartphone and about 45 per cent have tablets. Also, laptops are highly popular devices. This points to the multiplicity of device ownership by individual customers, that leads to the need for simultaneous mobile Internet connections. Internet providers therefore can either sell multiple mobile connections or provide bundled options leading to higher revenues. Mobile Internet access is estimated to reach penetration rates of 120 per cent already.

### **Business innovation**

As the demand for mobile Internet access increases, shared Wi-Fi networks will become a means of connecting to the Internet.

Swisscom owns a wide network of more than 9'000 public hotspots in Switzerland, which customers can access at no additional cost. This network is concentrated at highly frequented locations and therefore only has limited geographic coverage.

UPC Cablecom takes a different approach: Internet customers can subscribe to the system and enable their modem to send a Wi-Fi signal that can be accessed by anyone in range. Dutch and Irish



users are already connected through Wi-Free, and now the service is being launched in Switzerland. After a pilot phase in St. Gallen, it was activated on customer networks in October 2014. By April 2015, around 520'000 open homespots had evolved, which can be used by all other UPC Cablecom users who have registered their home network. As Wi-Free uses a second network, the private WLAN connection is not affected and the bandwidth is not shared with Wi-Free users. So far, the Wi-Free bandwidths are rather low and therefore the sharing capacity is limited to five users at a time for each homespot. Also the operating distance is rather limited through the relatively low signal strength.

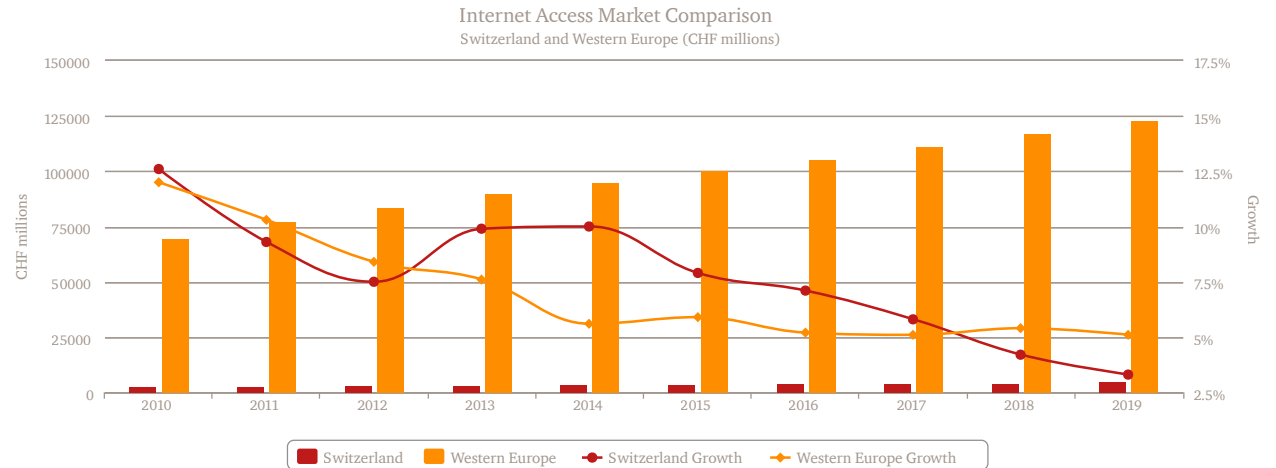
As UPC Cablecom operates internationally, users are also able to use Wi-Free connections abroad. The networks in the Netherlands, Ireland, Hungary, Poland and Romania allow users to connect with the same credentials. This could be a valuable alternative to the use of roaming.

Shared Wi-Fi networks are still in an early phase of development. As there is a possible threat that users will opt out of traditional mobile Internet access subscriptions and cause cannibalisation within the mobile Internet access market, providers need to assess these options and anticipate opportunities in order not to lose an important slice of the overall market.

## Comparison to Western Europe

According to the OECD, Switzerland has the highest broadband penetration of all Western European countries with 47.3 per cent as of June 2014 versus an OECD average of 27.4 per cent. Switzerland's average Internet connection speed in Q1 2015 was one of the highest in Europe, and it should increase further as a result of new fibre networks.

In recent years, the total Internet access market has grown at a double-digit pace both in Switzerland and Western Europe. We expect the growth rates of both markets to decrease over the next five years. The decline is likely to be much more pronounced in Switzerland than in Western Europe, as also reflected in the CAGRs. The highly saturated and strongly competitive domestic markets will be the cause of that slowdown.



Analysis by PwC



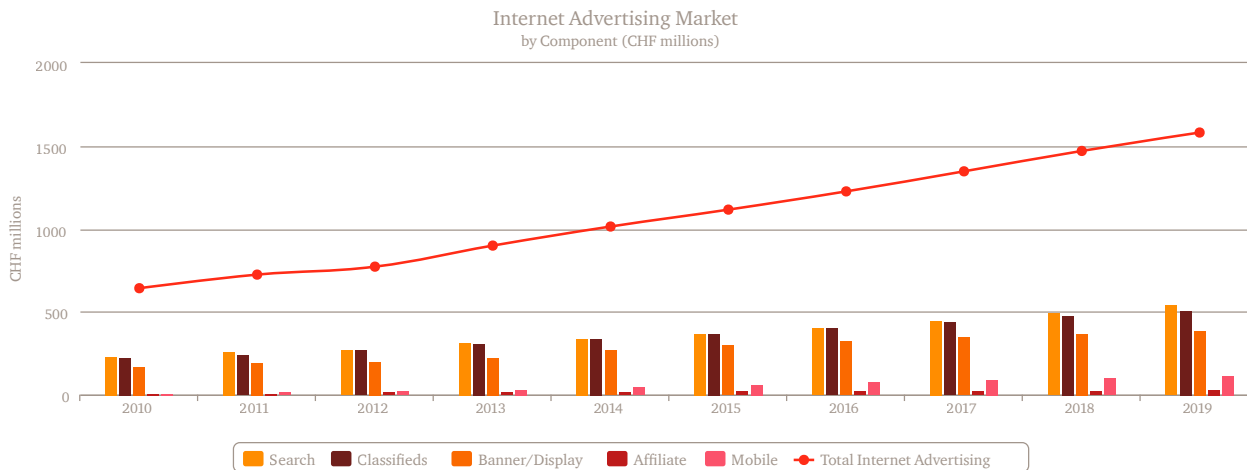
# *Internet Advertising*

*Internet advertising still is the fastest growing advertising segment.*

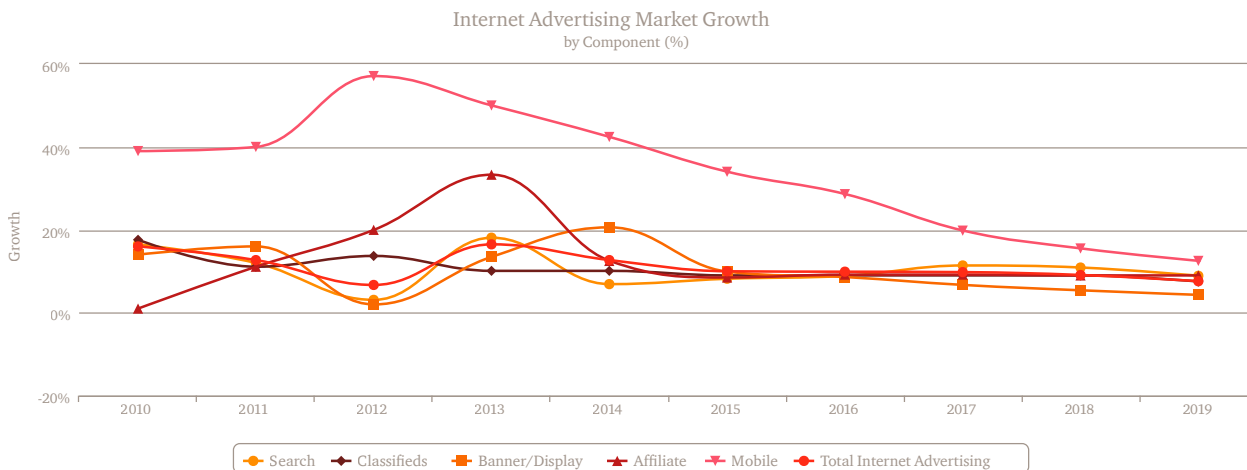
*Users focus strongly on the content of Internet advertising.*

*Mobile advertising will gain ground in the future and provide new information channels.*





Analysis by PwC



Analysis by PwC

## Segment Definition

This segment comprises spending by advertisers either through a wired Internet connection or via mobile devices. It consists of advertising spend on placements via paid search, classified, banner/display, affiliate and mobile advertising.

As in previous years, the video sector, which encompasses online television and video-on-demand advertising, is not covered in detail in this chapter, as it is already included in the television advertising segment. In-stream and in-banner video advertising have therefore been fully included in the banner/display category and are not shown separately.

For the current year, the definitions were aligned closer with industry standards. Therefore the category of online listings was removed from paid search and moved into classified advertising. Video advertising was fully integrated into banner/display and the new segment mobile was added to account for this fast growing information channel. Previous years' numbers were allocated to the segments retroactively, but not changed otherwise.

## The Swiss Internet Advertising Market

### Market Overview

In Switzerland, online advertising is still the fastest growing segment of the advertising market. In 2014, the online advertising spend in Switzerland amounted to approximately CHF 1 billion, a 12.7 per cent increase compared to the previous year.

As Internet use is on the rise both on the consumer and provider side, more and more industries understand the importance of online advertising and are increasing their spending and visibility in this segment. Thus the share of online advertising in the media mix is steadily growing. Services, fashion, IT and electronics are the industries that currently show the highest online advertising shares (ca. 20 per cent).

This can be explained by the usefulness of online advertising to these industries, where purchase decisions require high consumer involvement. The Internet helps those businesses to connect and directly communicate with their target groups.

Search advertisement is the largest segment in the Swiss online advertising market and accounts for about 34 per cent of the online advertising volume. This can be explained by the steadily growing search engine user base. There are indications that the nominal growth rates could decline in the future, similar to the slower growth of the Internet medium as a whole due to its already high level of penetration. Although we sense the market for paid searches will become saturated in the long run and result in a stabilisation of prices, the outlook for the next five years is very positive. This reflects the forecasted global development.

Classified advertisement almost reaches the size of the search advertisement market segment. Websites using classified advertisement, e.g. AutoScout24, ImmoScout24, homegate.ch, anibis.ch, jobs.ch and other websites that integrate classified ads into a different main content, such as 20min.ch, broadened their

user base in the past year. However, the growth of the classified component of Internet advertisement is expected to decelerate over the next five years. The integration of online listings into this segment, which comprises paid entries in databases with additional features such as highlighting, logos or interactive content, has a positive impact on the predicted outlook. As search advertisement will become more expensive and competitive, this is a potential alternative.

Banner/display advertising will be subject to innovations in the years ahead. A heightened degree of interactivity and “rich media” content will be aimed at gaining viewer attention. A typical example of rich media is video advertising, which can comprise high-quality content and expose the potential customer to the brand with greater impact. Due to higher connection speeds, these formats will gain ground. A study from eMarketeer suggests that the use of rich media will grow by 40 per cent in 2015.

The trend in mobile device use is still strong and will continue in the next years resulting in increasing smartphone penetration among the Swiss population. In addition, 45 per cent of Internet users have access via a tablet. This number will also increase substantially. Therefore the mobile segment of online advertising is expected to grow strongly. While this trend is only starting to pick up speed in Switzerland, 5.1 per cent of the worldwide media spend in 2014 went to the mobile segment, which will presumably increase to almost 13 per cent by 2017.

Increasing numbers of mobile devices obviously imply a larger number of users and their prolonged use of the Internet. The percentage of Internet users who are online more than 11 hours per day is likely to increase from almost 25 percent in 2014 to 38 percent in 2018. Advertisers need to pay close attention to this drift so they can benefit from the accelerating trend.



## Market Growth

Due to today's rapid technological developments and the increase in Internet access and use, the online advertising market is expected to grow by 11 percent annually over the next four years. The high price situation and stable economics will support this. Although all segments are likely to gain ground, the growth rate for mobile content, as a rather small and upcoming segment, will stand out. Search advertising is predicted to increase its share of the Internet advertising market, while the other channels will experience steady growth yet lose a slight amount of their share.

## Principal Drivers

### Mobile advertising

With the strong growth in mobile connectivity and extensive coverage of smartphones, tablets and smartwatches, mobile advertising will gain ground. Mobile advertising comprises multiple communication channels, opens countless new possibilities, and holds further surprises regarding technological development. Also mobile, non-Internet based advertising channels, such as Bluetooth-based Beacons or NFC chips, will enlarge this field.

### Focus on content

A study by Publisuisse reveals that 66 per cent of media users would like to see more sophisticated and intelligent content. Due to increased speed and the amount of advertising directed towards a single user, as well as the effect of so-called cluttering, brands have to find ways to stand out. With new possibilities, e.g. in the video streaming area, we expect more spending on actual content in the coming years.

### Second screen

An increasing number of people are using different devices and screens simultaneously. Recent research by Publisuisse reveals that 48 per cent of users don't switch channels during TV advertisements but instead switch to Internet use via their smart device. This adds to the time spent online and the amount of information consumed. Online advertising can benefit from this trend by tailoring advertising to the content consumed on TV.

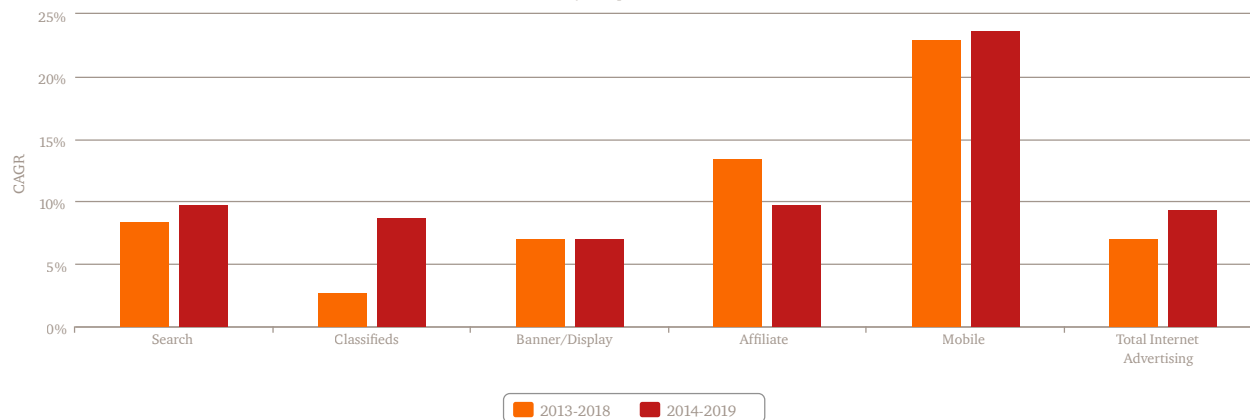
### Customised advertisements

Big data and analytics enable focused customisation of online ads. The tracking of user behaviour, paired with more sophisticated algorithms, allows more accurate targeting. This trend will be reinforced by the expansion of the wearables market and allow even more insights into consumer behaviour. As a result, conversion rates of online advertising and online sales will increase.

### Optic fibre technologies

Investments in optic fibre technologies will enhance the bandwidth throughout Switzerland. This will enable faster download speeds and simplify the consumption of high-definition content. Internet advertisement will benefit from enhanced bandwidths through the ability to stream larger data packages to users.

Comparison of CAGR  
by Component (%)



Analysis by PwC

## Business Innovation

The Internet is a highly flexible and evolving medium that opens up new communication and advertising channels and possibilities at a breathtaking pace. Advertisers have to decide if they want to use these channels already at an early stage to create a first-mover advantage, or if they instead want to wait until the respective technology has reached the broad public so they can place their ads in front of a larger target group.

One of these emerging advertisement channels relates to the upcoming trend of wearables, and especially smartwatches. After other large technology firms had already presented their smartwatches to customers, the Apple watch was launched in Switzerland in June 2015 and is predicted to have a huge market potential. Traditional Swiss manufacturers ignored this trend for quite some time. Meanwhile, there have been several developments in the market and traditional players as well as new startups are investing in the technological refinement and integration of different functionalities into classic watches.



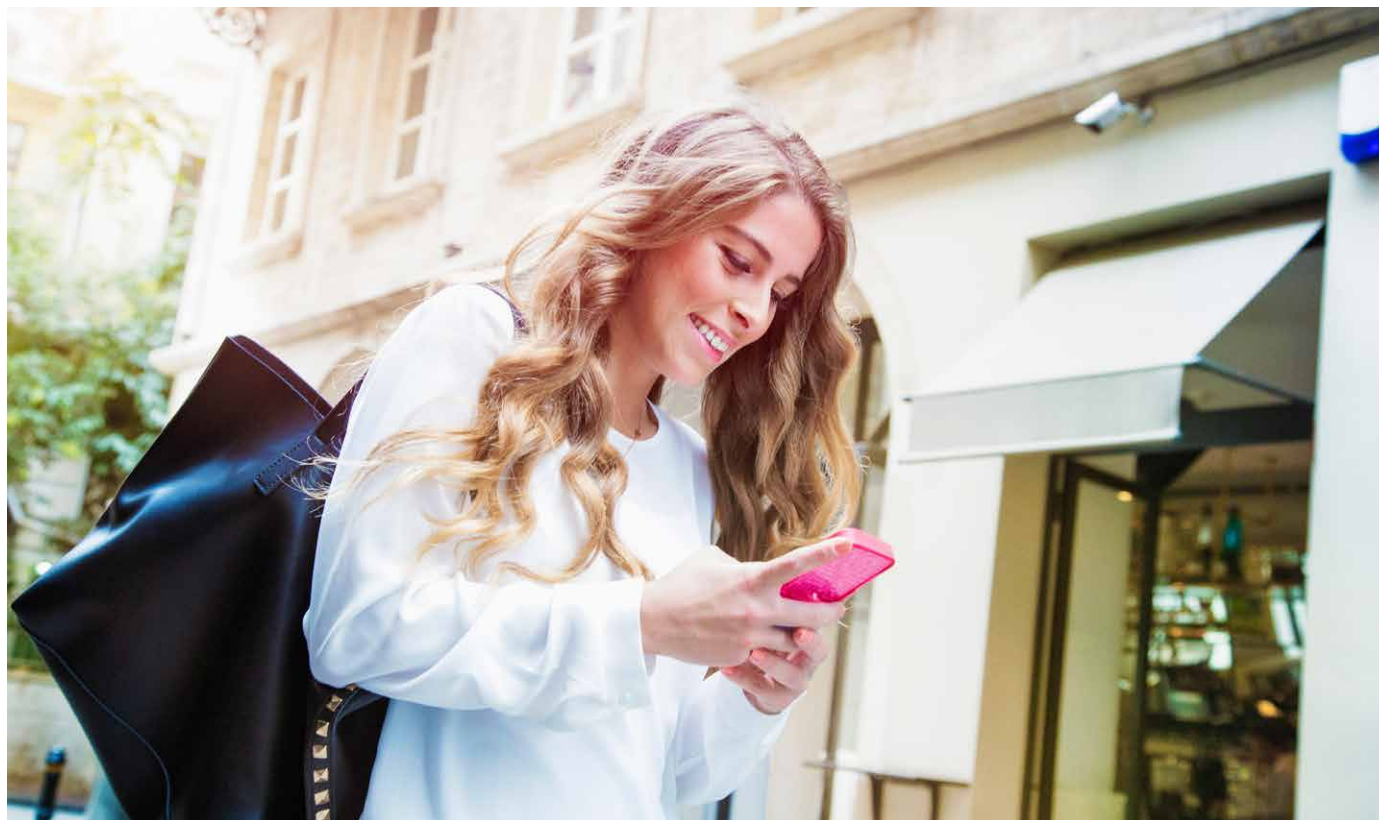
*“Wearables will become a big trend in Switzerland. Especially when combined with a smartphone, these devices will lead the way for integrated and personalised advertising that can be delivered to the consumer in real-time.”*

**Lennart Hintz**  
COO | MediaCom

For the advertising market, this affords interesting possibilities. Short advertising messages in the form of messages, pictures or videos can be directly sent to the smartwatch. The main advantages: the immediate attention of the prospective customer

as well as possibilities to present advertising when the targeted person is most responsive. Advertisements can be shown when a certain app is used. Vouchers for sport articles can be promoted after using a running app. They can also appear when a specific location such as a restaurant, museum or store are visited, or when the prospect is in a certain state of mind, for example after waking up or on a night out.

Another up-and-coming advertising channel is the Shazam app, previously known only to recognise pieces of music and provide the user with detailed information. However, the integrated direct purchase option for the recognised music was only the beginning of a more integrated approach. Lately the app was developed further to enable users to “shazam” TV-screen or even billboard ads.



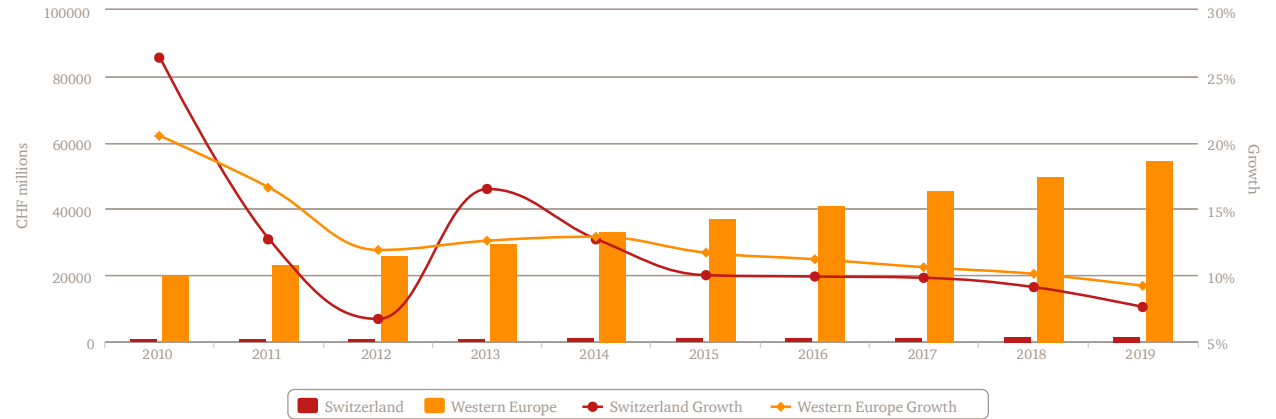
This could revolutionise TV-screen advertising in particular, seeing as how it enables a direct connection to the second screen of the viewer. This connection could be used to open webpages, interactive content or other types of message and allow the users to directly interact with the product they just saw on TV. As in most high-involvement purchase decisions, a mix of information channels is used by the buyer and the direct integration of these channels fosters further opportunities.

### Comparison to Western Europe

The Internet advertising market in Switzerland has caught up to the growth rates in the Western European market or even exceeded the average growth rates seen there over the past several years. We expect those growth rates to converge as 2016 approaches. However, it is likely that Swiss Internet Advertising spending can grow at a faster pace than that of the Western European economies. A flourishing economy should give a boost to the online advertisement market as well as Switzerland's share of the overall Western European Internet advertising market.

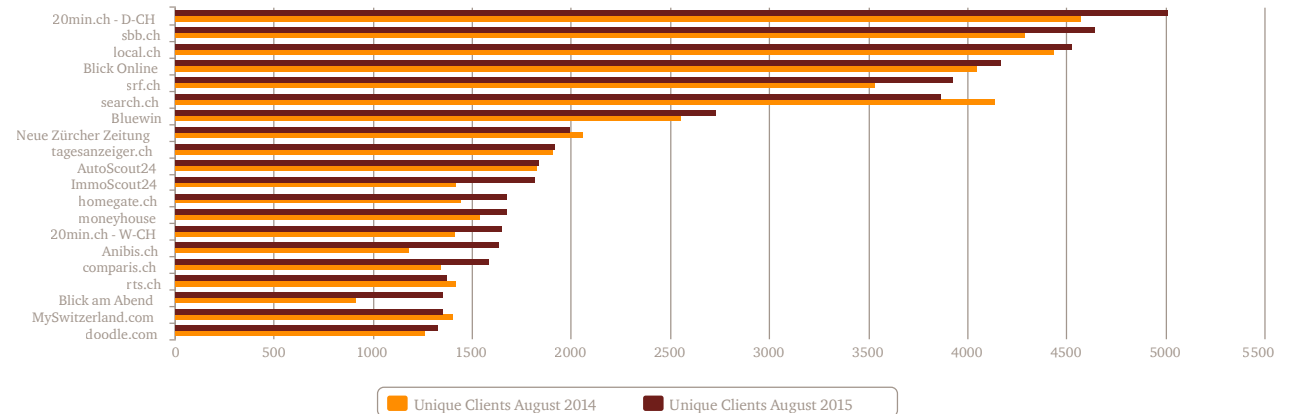
Switzerland is still a very attractive country for conducting business. Due to its excellent infrastructure, high education standards and strong ties to the international economy, the country is able to attract talents and investors from all across the world. This advantage will also be a powerful driver of online advertisement in Switzerland.

Internet Advertising Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

Top 20 Swiss Websites in August 2015  
Measured by Unique Clients (in thousands)



Analysis by PwC





## ***TV Subscriptions and Licence Fees***

*By mid-2015, UPC Cablecom had switched off analogue TV service completely in all of Switzerland.*

*UPC Cablecom and Swisscom resist OTT competition by offering unlimited digital TV.*

*Leading web-TV services offer time-shifted TV and video-on-demand on all screens.*

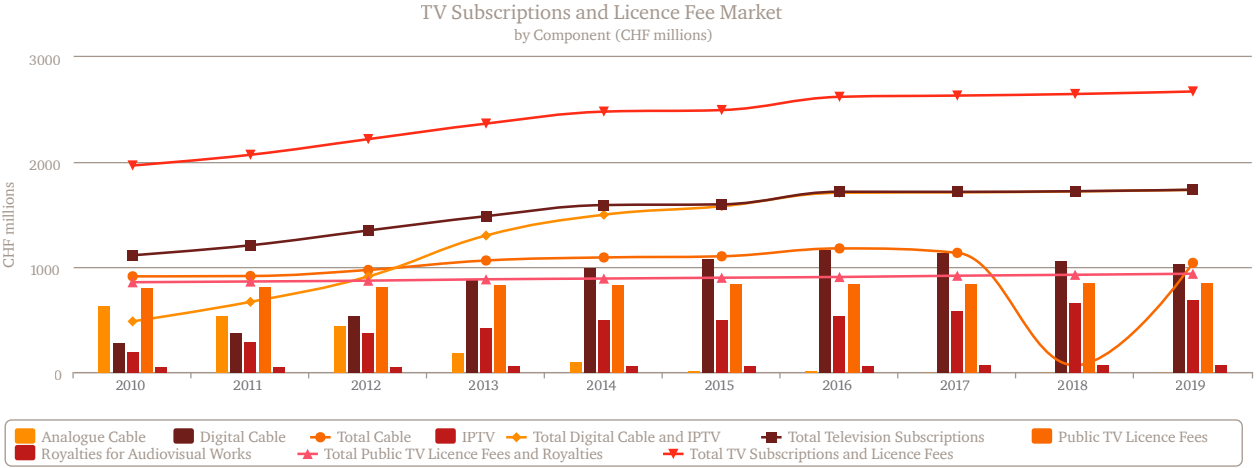




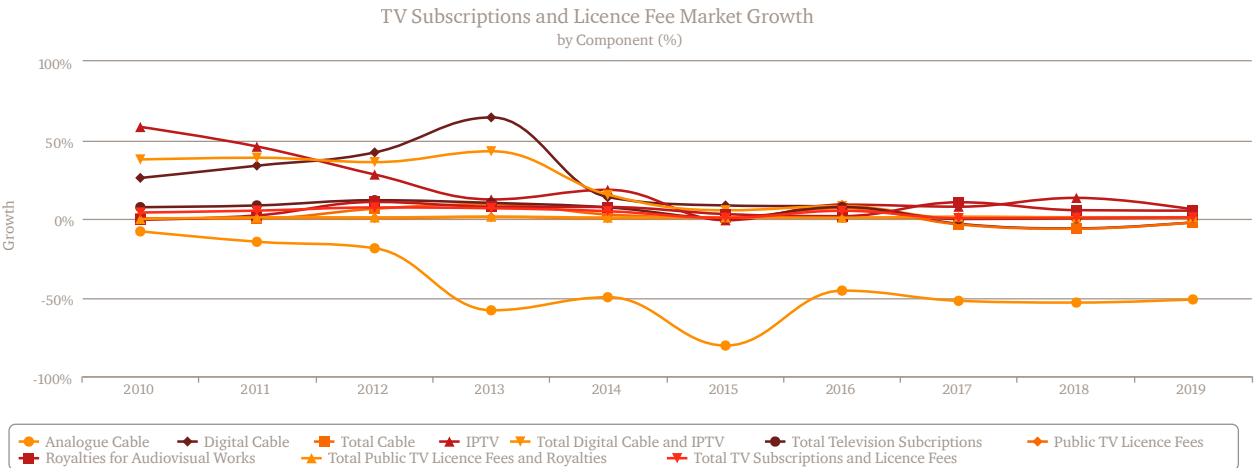
### Segment Definition

The TV subscription and license fee market consists of revenues generated by distributors of TV programmes. It includes spending on subscriptions to basic and premium channels accessed from cable operators, telephone companies, over-the-top (OTT) providers and other distributors. Swiss public TV license fees and royalties for audio-visual works are also included.

Video-on-demand (VoD), pay-per-view (PPV) and separately paid TV programmes delivered via the Internet and by other TV providers are only included in Filmed Entertainment. Also, mobile TV subscription spending is no longer reported since it has been identified as increasingly obsolete as a standalone revenue stream (revenues are included in the IPTV segment).



Analysis by PwC



Analysis by PwC

## The Swiss TV Subscription and License Fees Market

### Market Overview

The Swiss TV subscription market consists of cable TV and IPTV offerings. In the Swiss TV market, no-charge services such as free digital terrestrial TV or free-to-air satellite services compete with subscription-based TV services. BILLAG is responsible for collecting the public TV license fees. On June 14 2015, the Swiss populace voted on a new financing model for BILLAG, with the consequence that every household will pay a standard fee and controls will no longer be conducted. Suissimage ensures appropriate remuneration of the authors of audio-visual works.

So far, cable TV was receivable in analogue as well as digital formats. However, UPC Cablecom, Switzerland's largest cable

network operator, ceased its analogue offering definitely in mid-2015. The last six analogue channels (SRF1, SRF2, SRFInfo, Joiz and two local ones) were shut down on May 19, 2015.

With a 33 per cent share of the market, UPC Cablecom has the most TV subscribers in Switzerland. UPC counted 1.39 million subscribers at the end of 2014, with a loss of 2.1 per cent of its customer base compared to the previous year. UPC seeks to defend its market share by introducing new services and products to the market, like the Horizon TV settop box in January 2013, which was used by more than 200'000 customers at the end of 2014. In September 2014, UPC launched "My Prime", a premium content streaming service, which brings unlimited access to over 5'000 movies and TV series to more than 45'000 customers.

Swisscom leads the Swiss IPTV market with a 27 per cent share of the Swiss TV subscription market. The number of Swisscom TV

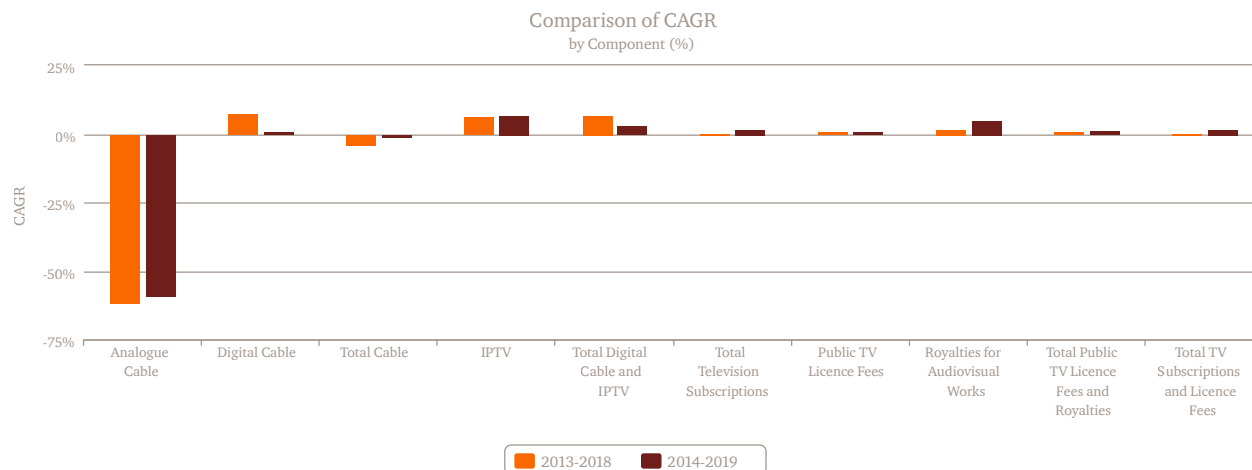
subscribers increased by 16.5 per cent to 1.17 million by the end of 2014. Over 80 per cent of the subscribers use bundle offerings. In April 2014, Swisscom launched "Swisscom TV 2.0", a Cloud-based TV subscription that offers seven day replay of over 250 channels, 100 of which are available in HD quality. Swisscom TV 2.0 counted 306'000 customers at the end of 2014. With the launch of "Teleclub Play" in December 2014, Swisscom now offers unlimited access to 8'000 movie titles.

Sunrise, Switzerland's largest private telecommunications provider, entered the Swiss TV market with its own IPTV offering called "Sunrise TV" in 2012. At the end of 2014, 107'000 customers used Sunrise TV, a 44 per cent increase compared to the previous year. Sunrise TV offers more than 250 channels, of which 65 are available in HD quality.

Cable operators and telephone companies are facing increasing competition in their domestic TV market. Web-TV, with its innovative features and mobile applications, has changed TV consumption. The leading Web-TV services Zattoo, Teleboy and Wilmaa differ in their range of channels, features and supported platforms for the playback of programs. Common to all, however, is a freemium payment model. They provide a basic offering including live TV for free and a premium version with more features. The services of Web-TV operators are available on all screens such as smartphones, tablets, PCs and smart-TVs.

Zattoo is one of the first Web-TV providers to facilitate the delayed viewing of programs. It enables users to view online the content of currently five TV stations after the original broadcast. In August 2015, Zattoo counted 815'000 customers.

Wilmaa has pursued an unbundling strategy since October 2014. The user chooses his or her preferred configuration and buys additional apps, content or packages directly in the Wilmaa Store or onscreen. Wilmaa had 305,000 customers at the end of 2014.



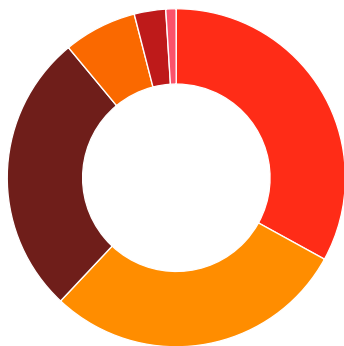
Analysis by PwC

## Market Growth

TV subscription and license fees in the Swiss TV market are expected to grow at an annual rate of 3.3 per cent over the next five years, mainly driven by price increases on the part of cable companies and the adoption of IPTV. Consequentially, we will see a shift from analogue to digital TV. UPC Cablecom ceased its analogue TV channels in mid-2015 and other cable operators will likely follow suit by 2018. We have observed a significant boost in the digital cable and IPTV market in 2014 and 2015, mainly due to a switchover by the remaining customers of analogue TV.

IPTV is the growth area in the Swiss TV market, with an anticipated CAGR of 6.8 per cent through 2019. As a result, cable TV will come under increasing pressure. In 2014, cable TV lost around 50,000 subscribers and is forecasted to lose further market share through 2019. IPTV has become a real alternative to cable TV and is expected to serve 2.0 million households by 2019, up from 1.3 million at the end of 2014 and equivalent to a CAGR of 9.5 per cent. The public license fee market should remain relatively stable over the next five years, with a CAGR of 1.0 per cent. In contrast, the royalties market is exhibiting a growth tendency due to new opportunities such as copies via smartphones and tablets. Here, the CAGR should amount to 5.1 per cent over the next five years.

Market Share: TV Subscription and License Fees



## Key players

Cable remains the leader in Switzerland for TV. With a market share of 62 per cent as measured by the number of subscribers at the end of 2014, cable is still the number one means of TV transmission despite its recent modest loss of predominance.

The two largest market players in the Swiss TV market, Swisscom and UPC Cablecom, boasted a combined market share of 60 per cent in 2014, up from 59 per cent in 2013. The market share of Swisscom TV increased to 27 per cent by the end of 2014. The growing subscriber base of Swisscom TV is being driven by the outstanding customer experience and Swisscom's marketing initiatives. Cablecom's share of the market decreased marginally by 1.9 percentage points to 33 per cent in 2014. Sunrise increased its market share over the previous year by 0.7 percentage points, reaching the 3 per cent level at the end of 2014. Other cable providers include Quickline, WWZ and Openaxs among others. About 200 companies allied with the Suissedigital union represent their interests.

## Principal Drivers

### **Digital-TV und IPTV replace the analogue cable connection**

UPC Cablecom switched off its analogue TV channels in mid-2015 throughout Switzerland. Digital TV has been available in Switzerland since 2000 and, according to UPC Cablecom, all their customers have now gone "digital". Digital TV offers better picture and sound quality, a broader selection of channels, and allows for additional features such as time-shifted TV (Replay TV), electronic program guides and interactive TV. Another important trend in the TV and media industry is the progress towards pure IP-based networks. This is partly due to IP networks' ability to offer more flexible infrastructure for processing various types of media. IPTV is a fast-growing technology in Switzerland.

Market Share UPC Cablecom Market Share Cable Market Share Swisscom TV Market Share Satellite Market Share Sunrise Market Share Antenna

Analysis by PwC

### **Increasing number of TV offerings for mobile devices**

Digital cable TV and IPTV operators provide their pay TV on additional devices via free mobile TV apps for PCs, tablets and smartphones. Swisscom offers Swisscom TV 2.0 for free to all Natel Infinity subscribers on their mobile devices since June 2015. Teleboy has pursued right from the start a focused mobile strategy and implemented it successfully. Zattoo is investing heavily in B2B relationships as part of its move to provide TV solutions to Internet service providers and mobile telephone companies.

### **Unlimited – the new business model for Subscription-Video-on-Demand**

With new players like Netflix or Google Play Movie in the market the traditional models of broadcasting blockbusters in the evening program or attracting customers by broadcasting new episodes of series, are losing importance. VoD provider Netflix, enables unlimited access to many movie titles worldwide for CHF 11.90 per month. UPC Cablecom responded to the announcement of Netflix's market entry by launching almost simultaneously "My Prime" with unlimited access to over 5'000 films for CHF 9.95 per month. Swisscom's answer came in December 2014 with the launch of "Teleclub Play", which offers unlimited access to over 8'000 films at a cost of CHF 12.90 per month. Time-shifted TV also enables the consumer to watch whenever it's comfortable.

### **Hybrid TV and hybrid broadcast broadband TV**

HbbTV opens up new possibilities for users and service providers, alike: thanks to Internet connectivity, TV viewers are able to access interactive content. In April 2015, Swisscom activated HbbTV for all Swisscom TV 2.0 customers. The new service provides multimedia content that is displayed onscreen during the broadcast of a television program. For example, TV viewers can call up interactive additional information about current television programs or online video libraries and take part in televotes.

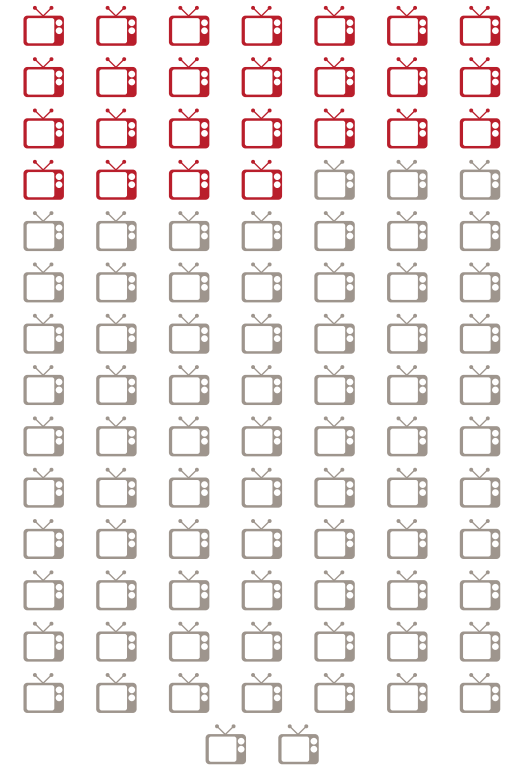
### **TV providers fight for market share with product bundling**

The Swiss TV market is highly competitive. By means of bundled offerings that include mobile, wireline, broadband Internet and TV services, the largest players want to protect themselves against competition. On one hand, an advantage of product bundling is stronger customer loyalty. On the other, the product bundles offer much higher revenue per customer, whereas the costs do not increase to the same extent (economies of scope).

Swisscom is particularly successful with product bundling. In a dynamic market environment, the company continues to develop its traditional product portfolio in the private and business customer market. The launch of Swisscom TV 2.0 and the ongoing trend towards bundled offers and flatrate fees are important success drivers. 81 per cent of Swisscom's 1.17 million subscribers in 2014 had bundle deals – a significant increase from the 72 per cent of one million subscribers in the previous year.

### **Business Innovation**

Meerkat and Periscope are livestreaming services that allow users to capture and broadcast live events with their smartphones. The main innovation here is the simplicity of the broadcasting experience: with one click, the broadcast starts. A tweet automatically notifies the followers or the public about the live stream. Anyone can tune in via the app or the web to follow the stream and leave comments that are visible to the audience. Thanks to the steadily improving smartphone cameras, the quality of these live streams is becoming comparable to classical TV. Meerkat had nearly two million users in May 2015, and Periscope gained over one million users in the first ten days after its launch in March 2015.



**A quarter of the Swiss population watches more than two hours of TV every day.**

For TV companies, this new technology is both a blessing and a curse. As consumers are increasingly shifting to video-on-demand services, TV broadcasters have focused on their main advantage: live events such as news, sports and weather forecasts. The recently launched livestreaming apps are changing the dynamic in this last stronghold of the TV industry. However, the new technology also creates many possibilities for the TV and media industry to reinvent their business.

For television businesses, livestreaming allows them to deepen their relationships with viewers and move from the big screen to mobile. Meerkat and Periscope allow TV stations to satisfy consumers' desire for behind-the-scenes content more easily and cheaply. For example, SRF recently livestreamed the popular "10vor10" TV news show backstage for 45 minutes with Periscope. Such streams offer viewers popular second screen viewing opportunities of related content. Given Twitter's popularity for live messaging from events, there is likely a huge potential for TV producers to livestream directly from events. Potential monetisation options are advertising or product placement.

For the media business, livestreaming apps enable the broadcast of breaking news immediately to a large audience with minimal effort. For example, MNSBC used Meerkat to share a live news conference in the White House. The Huffington Post on the other hand tweeted a livestream of a building collapse in New York that was filmed with Periscope by a bystander. Livestreaming from a mobile device allows journalists to make reports that were previously impossible and brings the audience closer to the news.

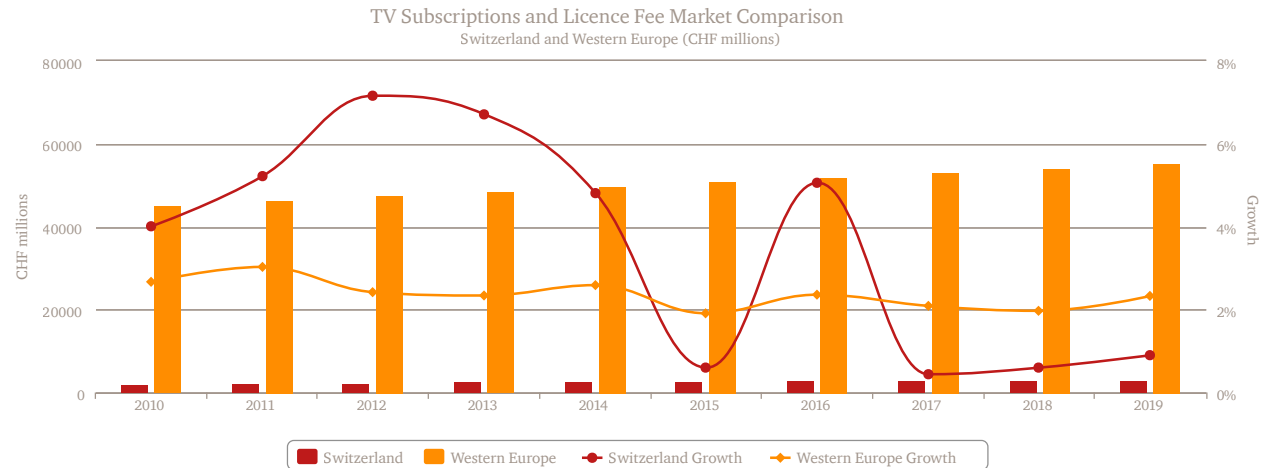
## Comparison to Western Europe

As is the case with distributors of TV programs in the Swiss market, leading subscription TV operators in Western European TV markets are adapting their strategies to upsell customers to higher-value bundled packages, or introducing new value-added services like multiscreen capability and advanced set-top boxes. Some major satellite operators have even introduced standalone OTT video products in a quest to compete more effectively with VoD services such as Netflix.

With a 3.3 per cent CAGR over the next five years, the Swiss TV market should outpace the Western European average of 2.1 per cent. Although cable is still the biggest subscription TV platform by a considerable margin in Western Europe, it has peaked in terms

of subscriber numbers. The steady decline is forecasted to persist and will see total cable TV households fall from 46.2 million at the end of 2014 to 45.3 million by the end of 2019. Also in the Swiss TV market, cable TV is expected to lose subscribers. The main beneficiary of cable's decline will be IPTV: by the end of 2019, the number of IPTV households in Western Europe will increase at a CAGR of 5.8 per cent. France, Europe's largest IPTV market, will continue to drive Western European growth for the technology.

Unlike the Swiss market, where analogue TV will cease definitely in four years' time, subscribers in Germany, Western Europe's largest cable market, are not easily convinced to change from analogue to digital services. This reluctance will restrict the sector from achieving higher growth rates.



Analysis by PwC





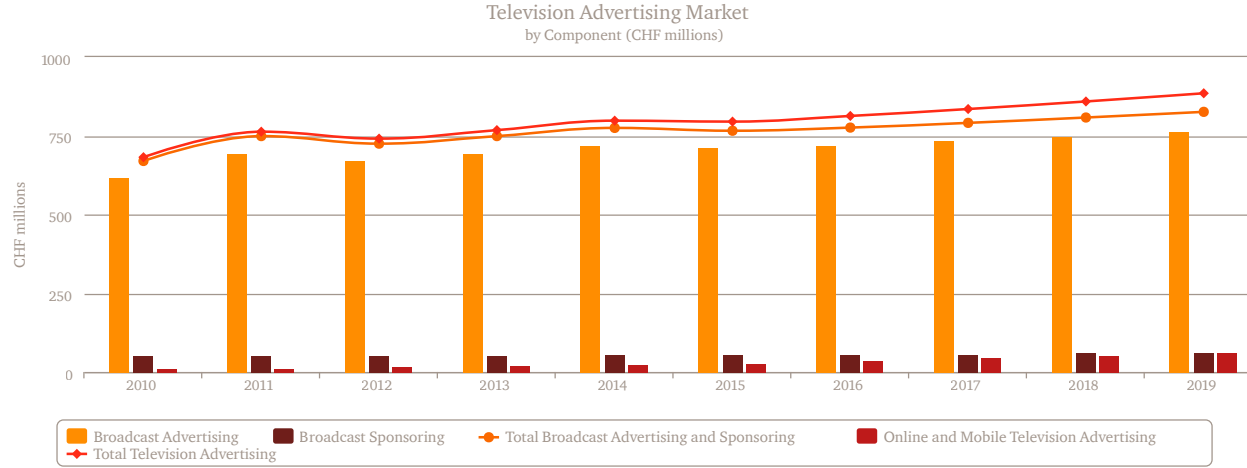
# *Television Advertising*

*The popularity of time-shifted viewing is rapidly growing and constitutes new challenges for TV advertising.*

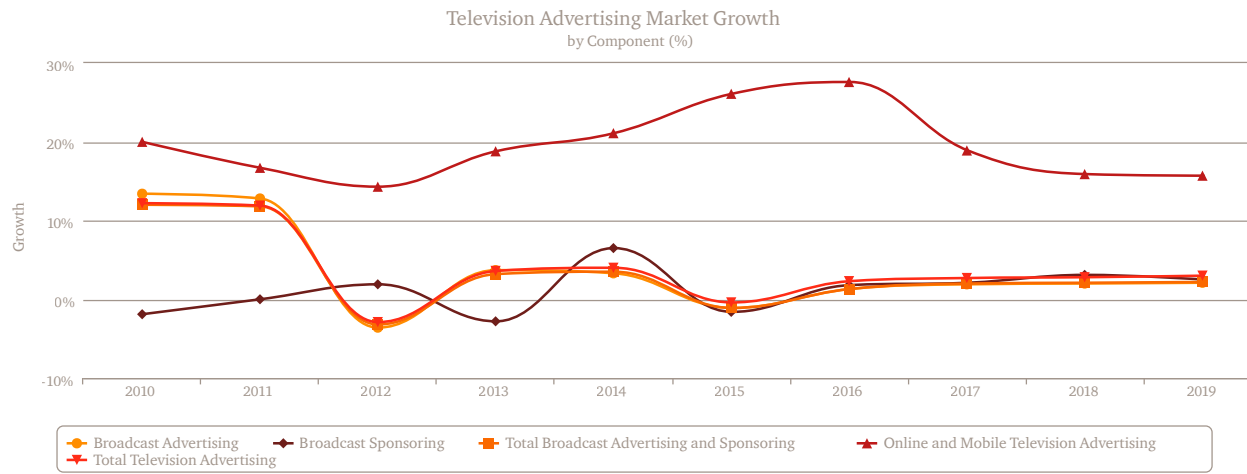
*TV is transitioning from a linear to a crossmedia experience.*

*New technologies and the increasing consumption of TV on mobile devices call for interaction with TV content.*





Analysis by PwC



Analysis by PwC

## Segment Definition

The television advertising market encompasses all advertising spending via broadcast or online television within, before and after TV programmes. Broadcast advertising comprises revenues generated by free-to-air networks (terrestrial), cable, satellite, Internet Protocol TV (IPTV) and other distribution services. Online TV advertising consists of display and video ads on TV websites within, before and after programmes that can be streamed over the Internet, as well as ads within, before and after mobile TV broadcasts via mobile TV services. All TV advertising figures are shown as net revenues, excluding agency commissions and discounts.

## The Swiss TV Advertising Market

### Market Overview

The Swiss television advertising market is divided into two sectors: on one hand, broadcast TV and, on the other, online TV, which also includes mobile TV. In the broadcast sector, advertising revenues are generated by offering advertising slots either for a certain program or focused on a specific target group. This sector includes the Swiss TV channels in all regions, as well as TV companies from abroad with dedicated Swiss advertising windows. In online and mobile TV, there are certain online or over-the-top (OTT) providers such as Zattoo, Wilmaa and Teleboy, as well as traditional broadcast channels that feed video content to laptops or mobile devices by means of open Internet networks. They sell advertisement slots to finance their business.

Broadcast TV advertising revenues were reported by 42 channels in 2014. In total, those broadcasters were able to generate revenues of CHF 775 million, up from CHF 749 million in 2013. This indicates a 3.5 per cent growth rate, slightly higher than the 3.2 per cent for the previous year. Public TV channels contributed 51.3 per cent, and therefore the largest share, to total TV advertising revenues.



They were followed by foreign channels with 39.4 per cent and private TV channels with 9.3 percent revenue shares.

Within the forecast period, we expect moderate but stable growth in the broadcast advertising and sponsoring market, with annual growth rates of 1.2 and 1.6 per cent, respectively, through 2019. In 2014, TV advertising revenues increased by 3.3 per cent to CHF 719 million. Good performance was also recorded in the TV sponsoring market, where total spending grew by 6.5 per cent after a drop in 2013.

But long-established TV models have been challenged by significant changes in the way viewers consume TV content. 17.9 per cent of TV is already consumed time-shifted in IPTV

households and Swisscom reported already more than 10 million VoD requests in 2014. The fragmentation of audiences – caused by increases in the number of channels available across TV platforms, as well as by growing on-demand viewing – has game-changing implications for advertisers. While the traditionally high viewing figures for the major networks are in decline, the number of niche channels provides opportunities to target more specific audiences and demographics. A more personalised approach will also be possible with on-demand programming, as pay-TV operators roll out new technology that will facilitate targeted advertising on their platforms.

In response, advertisers are reviewing more closely their return on advertising investment. TV remains the advertising platform

of choice for large brands as TV penetration within the Swiss population is holding at a constant or even slightly growing level. However, it is of great concern to advertisers that, due to these technological innovations, they lose control over when their adverts are actually viewed. In 2013, Mediapulse reacted to the new standards of TV consumption and replaced the Telecontrol television audience software by deploying an electronic measuring system that enables the measurement of time-shifted TV viewing of households as well as TV use on computers.

The move to more sophisticated broadcast infrastructure is both a major opportunity and a challenge to TV advertising. The proliferation of set-top boxes is increasing and will continue over the forecast period. In 2014, more than 750'000 Swisscom TV subscribers (65 per cent) were already making use of the replay function with its possibility to fast-forward through or skip advertisements. As the number of people who use replay functions and time-shifted viewing increases, advertisers will have to become creative in order to prevent consumers from skipping advertisements. This could include programme sponsorship, product placement and more interactive experiences.

In terms of interactive experiences, new technology offers the potential for more personalised advertising with advanced services delivered to computers, tablets and mobiles, as well as connected TV sets. Through the use of second screen devices and links to social media to encourage discussion, further views and even links to e-commerce sites where viewers can purchase items, advertisers have the possibility to offer more personalised, targeted and interactive advertising formats. When doing so, it is absolutely essential that data analytics are available to advertisers so they can understand consumer behaviour and the users' specific needs.

The challenge of ad skipping on set-top boxes can also be overcome by live programming. Sports remain the most widely televised live programming, but other genres are emerging: here, an increased spend on the production of awards shows is being observed.

With networks continuing to offer multiplatform distribution of their programming (TV, tablet, desktop and mobile), a greater number of advertising campaigns are being designed to work across most/all of these platforms. The media industry recognises the need to create cross-platform metrics that capture a unified measurement of audience delivery – and engagement – on behalf of the advertisers.

So the intelligent use of consumer Big Data, collected as a result of convergence in the technology area, could enable more precisely targeted advertising and increase advertising revenue. However, targeting technologies must be navigated within the bounds of evolving privacy regulations.

Technological advances have also led to developments in other areas of the advertising sector. Programmatic trading, which involves the automation of advertising buying as well as the exploitation of processing power and algorithms in order to execute millions of deals in realtime, has thus far been associated



*“Some countries already generate a large portion of their online advertising revenues via bidding platforms, although Switzerland is still lagging in this regard. To me it’s quite clear: All electronic media will follow, be it radio, television or other advertising channels.”*

**Alexander Mazzara**  
CEO & Co-founder | joiz Group

with digital media advertising, but it is also being highlighted as a potential opportunity for TV advertisers. Nonetheless, traditional TV – which has transparent and reliable working models that have been built over decades – will only take very cautious steps in this direction, as the effect on prices is still unclear.

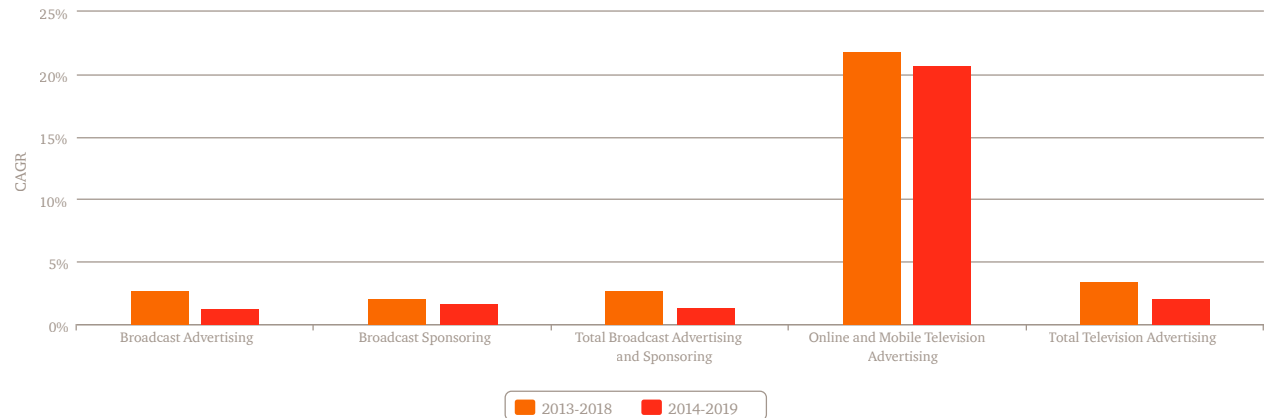
## Market Growth

The dynamics of the television advertising market remain high, so it is indeed difficult to arrive at a forecast for the next four years. Nevertheless, for the next five years we are forecasting a 2.1 per cent annual increase in total TV advertising and sponsoring revenues, with cyclical boosts driven by major sporting events. The Swiss economy is forecasted to continue expanding in the coming years, which will underpin advertising growth. Equally spoken, the industry remains exposed to the risk of an economic downturn as it is strongly correlated to the general economic trend.

In 2014, Swiss broadcast advertising grew by 3.5 per cent, slightly higher than anticipated last year. The boost was mainly driven by sponsoring revenues, which increased by 6.5 per cent. The main advertisers were able to leverage new audience measurement metrics to attract broadcast advertisements and absorb losses in the market.



Comparison of CAGR  
by Component (%)



Analysis by PwC

For 2015, we expect to see a slight drop due to the mid-January abandonment of the euro/franc exchange rate floor. Looking further ahead, we anticipate TV advertising and sponsoring revenues to grow at an average annual growth rate of 1.2 and 1.6 per cent, respectively, through 2019. Online and mobile television advertising is expected to grow at a CAGR of 20.7 per cent thanks to the many improved functions and qualities of online TV providers; however its market share should remain below ten per cent during the forecast period.

## **Principal Drivers**

### ***New technologies enable broadcasters to deliver content to a fragmented audience***

Time-shifted (non-linear) TV consumption over multiple devices is gaining further significance and will force broadcasters and advertisers to embrace new audience measurement metrics in order to track how audiences consume their content. The adoption of new digital metrics will drive the TV advertising market in the long run as those findings are exploited over the next five years.

By now, the possibilities for TV and filmed entertainment in general have already multiplied. The options reach from TV Everywhere services (such as Swisscom TV Air), over standalone streaming services (Wilmaa, Zattoo, Teleboy, etc.), and subscription models (such as Netflix), to digital media stores (such as Android TV, Apple TV).

Delivery is another massive move that continues to evolve. Delivery has gone from broadcast to cable and then from analogue to digital. Now the industry is making a third huge change in delivery with its transition to TV over the Internet.

In this third wave of change, the TV industry is making more and more content available on any Internet-capable device, while simultaneously experimenting with varying combinations of ad

and subscription revenue models. It started with TV clips, then on-demand episodes, then TV apps. Now, it's "live, linear, and on-demand TV anytime, anywhere."

### ***Tracking customer data leads to new insights and can be especially interesting as users increasingly tend to decide on their own what to watch***

As traditional TV and Internet video converge, television ads can be more relevant, engaging, and effective. Through advances in video ad and dynamic ad insertion, campaigns can deliver the right message to the right user at the right time in the highest-quality context. Cross-channel campaigns can be measured holistically and advertisers will gain new insights, all at Internet scale.

### ***Technology-automated methods of buying and delivering ads will gain importance in the TV advertising market***

Programmatic TV is just such a solution, and one that could apply digital advertising's efficiency models to TV advertising. We define programmatic TV as a technology-automated and data-driven method of buying and delivering ads against TV content. This includes digital TV ads presented via the web, mobile devices, and connected TVs, as well as linear TV ads served via set-top boxes.

Not only does DAI technology have the potential to address the complexity of cross-screen, cross-device ad delivery, it can also increase the value of each ad spot since it allows the individual viewer to get his or her own unique and highly relevant stream of ads. The ability to use DAI in conjunction with contextual and audience targeting, as well as programmatic technology, as a means of delivering uniquely addressable TV ad breaks could be game-changing.

### ***As TV will remain a mass medium in Switzerland, new ROI measurements might need to be implemented***

Despite the growth of digital media, TV advertising is still the place

to be. TV advertising revenue is successfully responding to the emergence of newer forms of digital media. Therefore, it is very important for advertisers to be able to rely on data that reflects their advertisements' impact. The growing number of devices that can be used to watch TV leads to less accurate estimations by current measurement systems. It might be reasonable to implement a new method. It's conceivable to measure the number of contacts with TV providers, including not only Swisscom, UPC and Sunrise, but also non-traditional providers.

## **Business Innovation**

Two companies dominate the Swiss TV advertisement: Publisuisse (a subsidiary of SRG) is responsible for public TV programmes, while Goldbach Media manages the advertising space of the majority of private TV stations. The entire TV advertising market might change in 2016. In mid-August 2015, Swisscom, Ringier and SRG established a joint marketing company that will focus on meeting the dramatically changing needs of advertising clients and the Swiss media. This merger enables the collective development of new forms of advertising and advertising technology in Switzerland. Swisscom will contribute to the joint venture its technological expertise, customer data and marketing rights for Swisscom TV as well as its online platforms, while Ringier and publisuisse will transfer the marketing rights for their convergent media with broad reach. The new company is scheduled to commence business in the first quarter of 2016, assuming the Competition Commission and DETEC/OFCOM approve the merger.

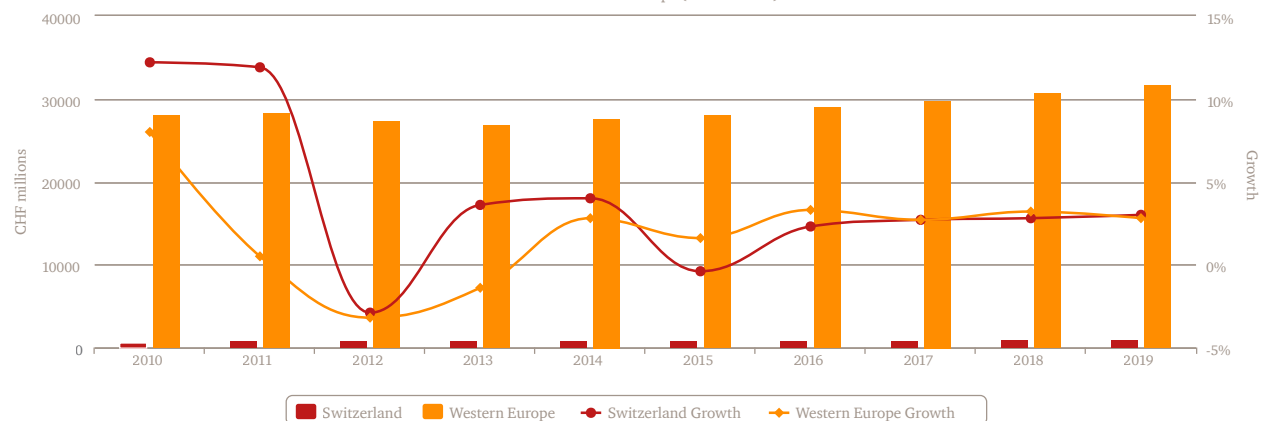
It is the declared goal of the partners to strengthen the Swiss advertising market in a globalised context, but the merger could also open up a completely new field of advertising possibilities. Targeted advertising focuses on the single recipient's habits and needs, rather than addressing a certain targeted group of people.

With Swisscom supplying the customer data and Ringier and Publisuisse the marketing rights, targeted advertising could soon become reality. Moreover, customers won't only be addressed via TV advertisements. Messages can be extended over various media platforms, all offered by the same company. The new company will offer a platform that allows advertisers to promote their products and services via TV, radio, newspaper, magazine and Internet. This could also lead to the further automation of commercial booking. Programmatic buying is already common for Internet advertising, whereby companies need to bid on advertising space in order to reach the right potential buyers at the right time and in the right space. The new company aims to simplify advertising by offering a platform that automatically creates the perfect crossmedia advertising concept.

## Comparison to Western Europe

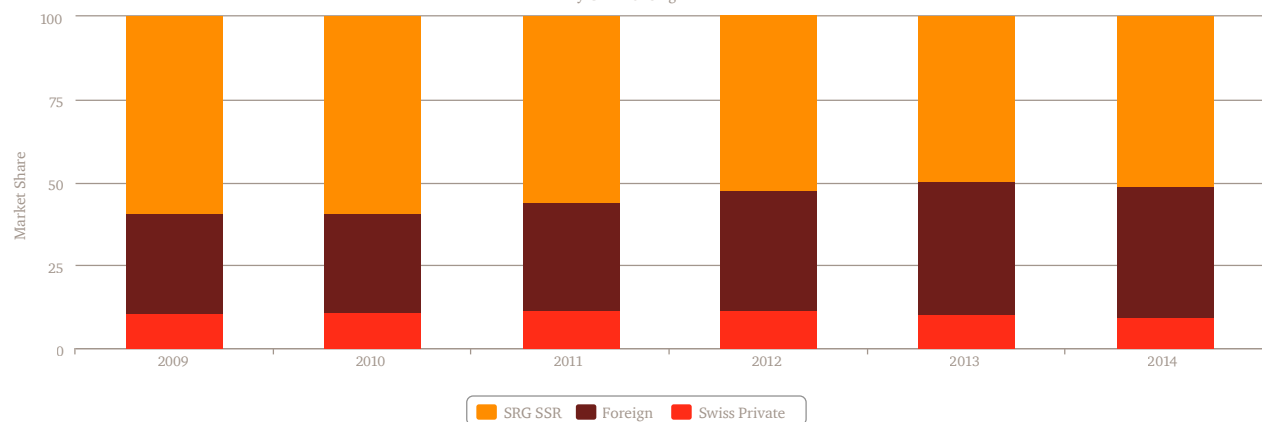
The television broadcast advertising market in Europe is quite stable as TV brings to the table both credibility and a strong bond with the audience. In contrast, the growth rates in the online TV advertising sector vary more among European countries but are generally high, mainly above 20 per cent. Europe-wide, online TV advertising will become an increasingly important medium in the years ahead. Fluctuations in the TV advertising market due to mass events like important sport happenings and economic circumstances are evident throughout Europe. Under the generally held assumption that the economy will remain stable, the TV ad market should witness steady growth. In 2019, revenues generated by online TV ads will have almost doubled their share of the total TV advertising spend in Europe, up from 3.2 per cent in 2015. In absolute numbers, Swiss TV advertising revenues are approximately at the same level as those in Sweden.

Television Advertising Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

Broadcast Advertising Market Share  
by Channel Origin



Analysis by PwC



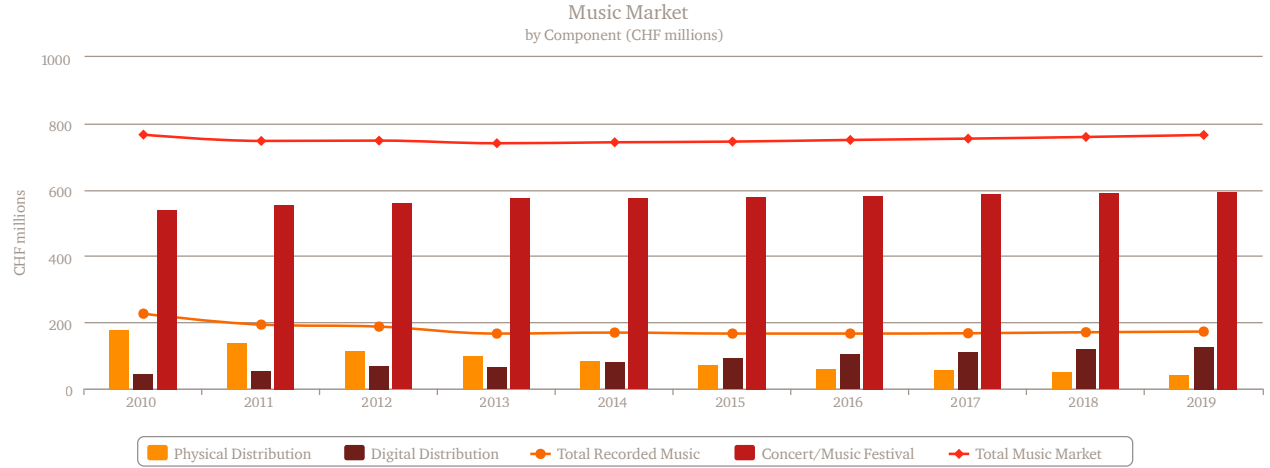


## ***Music***

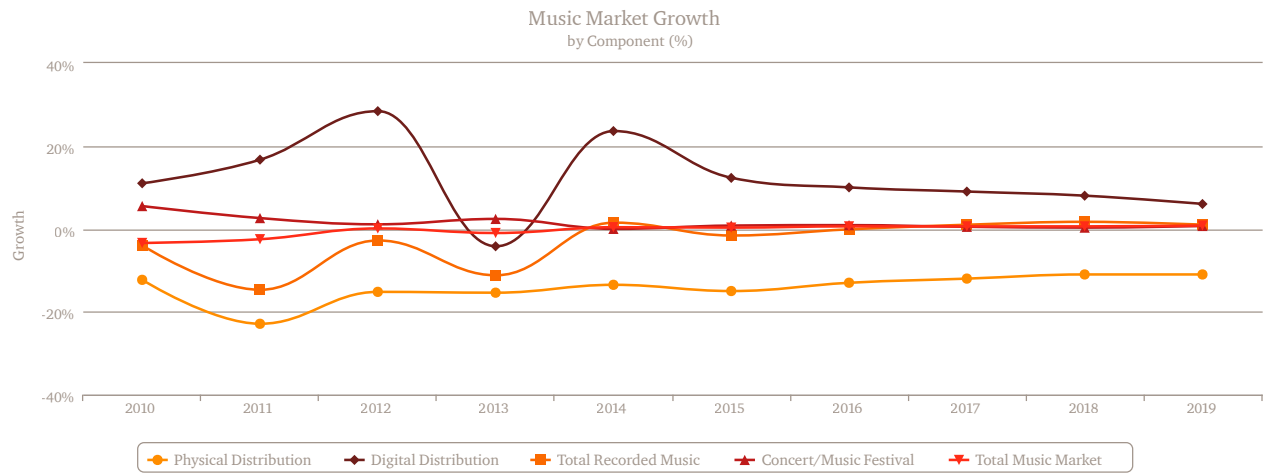
*Switzerland's live music market reaches its limits as the number of events increases.*

*Proper use of Big Data could determine the success of music companies.*

*The introduction of Apple music to the streaming market might signalise the end of freemium.*



Analysis by PwC



Analysis by PwC

## Segment Definition

The music market comprises recorded music and live music. The recorded music component is split into physical and digital distribution. Physical covers all retail or online purchase of singles, CDs and music videos. Any music distributed digitally to mobile devices and computers, as well as any download or revenue from subscriptions for streaming services, is part of the digital component. Live music consists of concerts and music festivals, including spending on tickets and sponsorships.

Recorded music does not include subscription fees or advertising revenues generated by Internet radio services, as long as these are not part of a music streaming service.

Revenues from music publishing are not covered by recorded music. As to live music, merchandise is not included. All consumer spend is measured at retail, which can be substantially higher than the wholesale or trade revenues that are often reported.

Due to new information sources and more modern ways of data calculation it was decided to adapt revenues of digital distribution as well as concert/live music subsequently.

## The Swiss Music Market

### Market Overview

Switzerland's music market is experiencing stagnating revenues in a saturated live music market, while digital music sales barely make up for the loss of physical revenues. But even though the total amount of money spent on music doesn't show any significant movements, the channels that generate these profits are changing. While digital music sales are on the rise, the physical segment of recorded music remains in a regressive state. Similar to download, physical recordings have to realise that young generations don't know or yearn for the sensation of owning music. The proportion

of the population that still acquires physical music is mostly of older age and constantly decreasing in size. As high quality streaming services like Tidal reach into the Swiss market, music lovers who bought physical music because of quality now also get a digital alternative. The Hipster- and Retro-trend that was clearly popular in Switzerland led to a revival of high-priced vinyl that pushed physical record sales in recent years. We expect this trend to lose momentum soon and result in an even faster decrease of physical music sales.

Simultaneously, the Swiss live music segment is struggling as the market has now become saturated. The number of live music events is soaring while visitor numbers are increasing only slightly. This condition, combined with the entrance of international competitors, has led to a slump in ticket prices.

The great demand for live music in Switzerland attracts various promoters and event managers. About 2'000 live music events were offered in 2014. That is around 300 more than in the previous year. At the same time, visitor numbers dropped from 3'500 to only 3'000 per concert and ticket prices decreased by 6 per cent. Switzerland's live music market is not only contending with an increasing number of organisers who are trying to snatch a part of the pie, but also with the high degree of rivalry among the biggest providers. The Swiss event agencies Good News and ABC Productions are touting international acts and outbid the fees offered to artists. Event organisers such as the aforementioned are also suffering from cooperation with international players like Live Nation. To acquire a performance by one of the managed artists, they have to play by the prescribed rules, including ticket prices that are well below the market prices. With increasing artists' salaries and decreasing ticket prices, the live music market is less profitable than it used to be.

While live music stagnates, digital music is still experiencing the change caused by the introduction of music streaming models. How important streaming has become in the meantime is evident. Warner was the first big music company to announce that revenues from streaming outgrew their download revenues in early 2015.



9 out of 10 of the most watched YouTube videos are music-related.



Since last December, Kobalt, the largest independent publisher in the UK, has registered higher revenues from Spotify than iTunes.

Switzerland offers the best conditions for streaming services. Internet connections are fast and reliable and the smartphone penetration is incredibly high. Reports from Suisa indicate that copyright income from streaming was, with CHF 1.5 million in 2014, nearly five times higher than in 2013. This allows the conclusion to be drawn that the recent global trend of paying for music streaming instead of using freemium or illegal downloads seems to have finally reached Switzerland.

In other European countries like Sweden, Norway or Germany, streaming already generates the largest share of music revenue. In Sweden, music sales rose 36 per cent after the introduction of stricter anti-piracy laws. It appears that streaming possibilities, especially freemium, function as a substitute for illegal downloads.

The number of subscribers to streaming services is continually growing. The increase in streaming sales can counterbalance the sales of digital recorded music as download rates are dropping at an accelerating pace. We expect streaming revenues to outgrow download in the near future.

With the introduction of its iTunes download platform, Apple dominated the music market in the early 2000s. However, the latest innovation in music consumption, streaming, has evolved thus far without the tech giant. After acquiring the necessary know-how through its takeover of Beats Music, Apple has now entered the music streaming market with Apple Music. What distinguishes Apple from other providers is that, thanks to the company's high profits from hardware sales, Apple can absorb the negative income from their new streaming service for a vast amount of time. It could be that Apple Music will mostly be used to strengthen the brand, while hardware sales generate the income. It will be interesting to see whether Apple manages to acquire users from other streaming

services or if its customers will mainly be former downloaders and users who didn't stream music before.

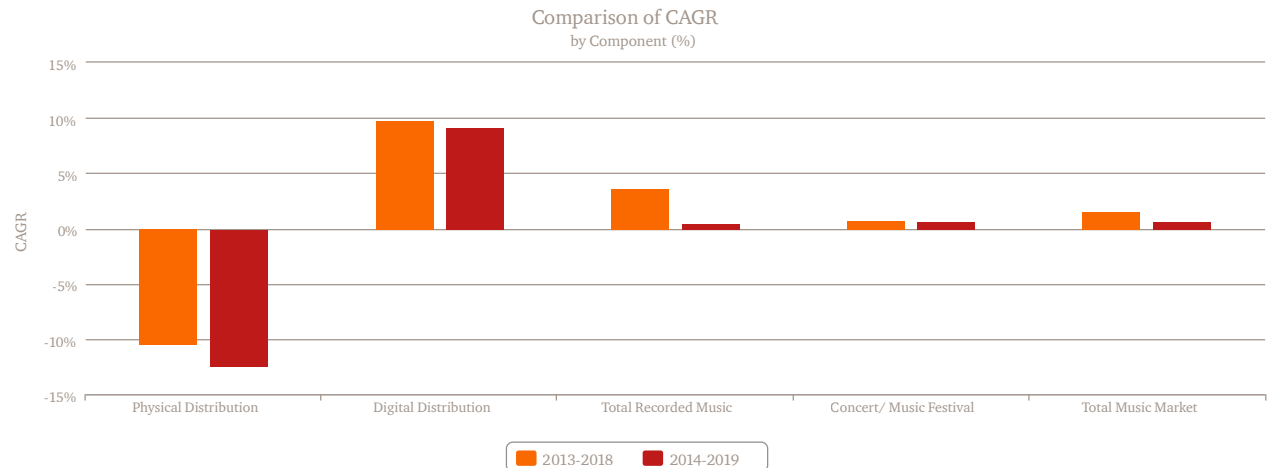
However, streaming services have to stay up-to-date and constantly innovate their services. Not only could it be that Apple will soon enable video streaming over the new platform, but Apple Music Connect could also threaten platforms like SoundCloud and YouTube.

Another problem streaming services might face is the negotiation basis Apple has towards music publishers. Labels have huge power over streaming services as they can easily withdraw the rights to use their content, leaving a streaming platform coreless. If labels can maintain this leverage, it could be that freemium offers will vanish soon. However, it's doubtful whether music producers and promoters would profit from a freemium-free world as freemiums seem to function as a countermeasure against music piracy.

## Market Growth

The transition to streaming is going much faster than predicted last year. A study by Generator Research forecasted last year that by 2017 streaming user numbers should reach 1.8 billion. Our projections show that, in early 2015, user numbers had already reached 1.2 billion. The number of subscribed users is increasing at the same pace, leading to rapidly increasing revenues from streaming.

On the whole, market growth is flat due to declining physical music sales and a stagnating live music market.



Analysis by PwC



## Principal Drivers

### Increasing competition in music streaming market

With Apple entering the music streaming market, competition has become much more intense. Apple already has the information of 800 million credit cards directly at hand and making the change from download to paid streaming has just become easier. As the biggest download platform is now cannibalising itself, the number of music streaming users will soar at the cost of download users. In combination with the decline in freemium offers, revenues are going to increase.

### The change in subscription models will lead away from freemium to more variegated pricing models

On Apple's download platform iTunes, a consumer spends an average of USD 48 per year on music. Taking account of that fact, USD 120 paid annually for streaming seems enormously high. At the moment, music publishers don't think that a lower price with more subscribed users would lead to higher revenues. Subscription fees

will most likely remain above the market price. It will be difficult to impede piracy if prices don't meet demand. New payment models, such as Apple's family account or Rdio's mix of download and streaming model, can perhaps offset the gap.

### Streaming platforms are diversifying their proposition

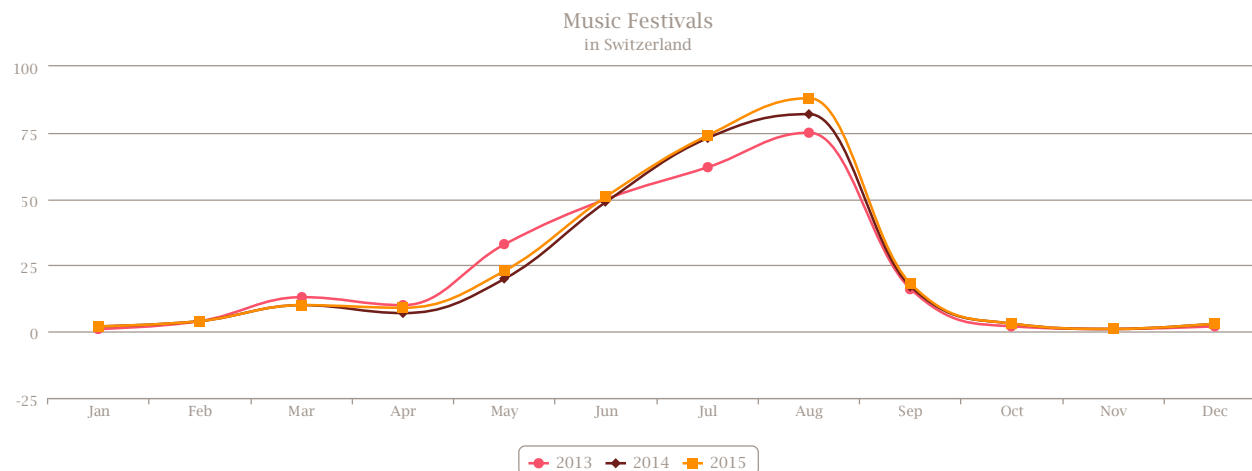
Current music streaming platforms are progressively becoming integrated entertainment platforms. Most of them have already included radio, either as a proprietary offering or in cooperation with existing stations. Spotify has included video spots, and so will YouTube's soon-to-be-launched Music Key service. Through the integration of social platforms, the music experience will become more interactive. A recent attempt in Switzerland in this regard is an initiative by Swisscom that invites users to vote for their favourite bands on the crowdfunding platform wemakeit so they can realise their next project. The most successful band gets funded by Swisscom.

### The Swiss live music market has reached a level of saturation

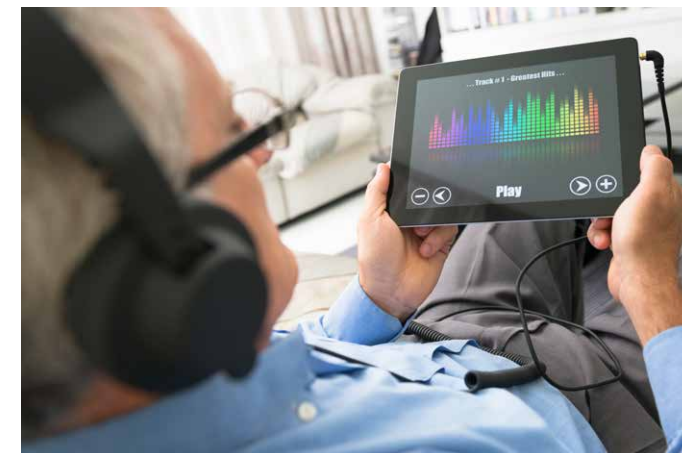
The successful Swiss live music market brought new players who anticipated making a fast buck in the business. But the market has reached its limits. Ticket prices are declining and the number of visitors per event is shrinking.

## Business Innovation

By acquiring start-ups specialised in music analytics, companies like Apple (Musicmetric), Pandora (Next Big Sound) and Spotify (Echo Nest) are able to match music styles, artists and streaming patterns. Music analyses are fairly advanced by now; the next big step is to gather information about the consumer and use it to offer an even more customised listening experience. The key is Big Data. Independent music publisher Kobalt offers artists the ability to see when and where which song is played. They developed a system



Analysis by PwC





called ProKlaim, that searches YouTube for songs that no one owns. Next Big Sound searches the world for patterns in current hit singles to examine what kind of music will be popular in the near future. Music labels already use this information to predict the success of product endorsements. However, they are mostly so hidebound to their habitual procedure that they won't use the data to forecast music preferences.

While analysing music has mostly led to a categorisation of music styles, it has become evident that consumers don't mind the genre of music as much as its fit to the moment. Companies offering situation-based listening are therefore taking another approach to Big Data. By continuously learning about the consumer's preferences and taking into account all information about his/her current state, the perfect music mix is created. Spotify recently launched Spotify Running, a service that changes the pace of your music according to your jogging speed. The start-up Weav even takes it a step further: artists should be able to modify their song and choose which version should be played depending on the consumer's heartbeat, elevation and location. Another product is the Aether Cone, an intelligent speaker developed to adjust the played music depending on the time of day. It learns your daily routine and what music you usually listen to during certain times. The included spinning wheel lets you change the style of music – a little, if only slightly turned, or completely if turned a lot.

We think that the possibilities to use Big Data in the music business are enormous. However, in order to exploit the technology successfully, companies have to address concerns about data security and privacy.

## Comparison to Western Europe

In comparison to Western Europe, Switzerland is not nearly tapping its full potential for generating streaming revenues. In contrast to other European countries, the Swiss are still spending more money on downloads than on streaming. However, if only paid streaming services are considered, Switzerland has one of the world's highest rates of subscribed users. The potential of paid streaming services is presumably quite high. Especially since Switzerland is expected to implement new piracy laws, the money Swiss spend on recorded music is likely to increase at a faster pace than in other Western European countries.

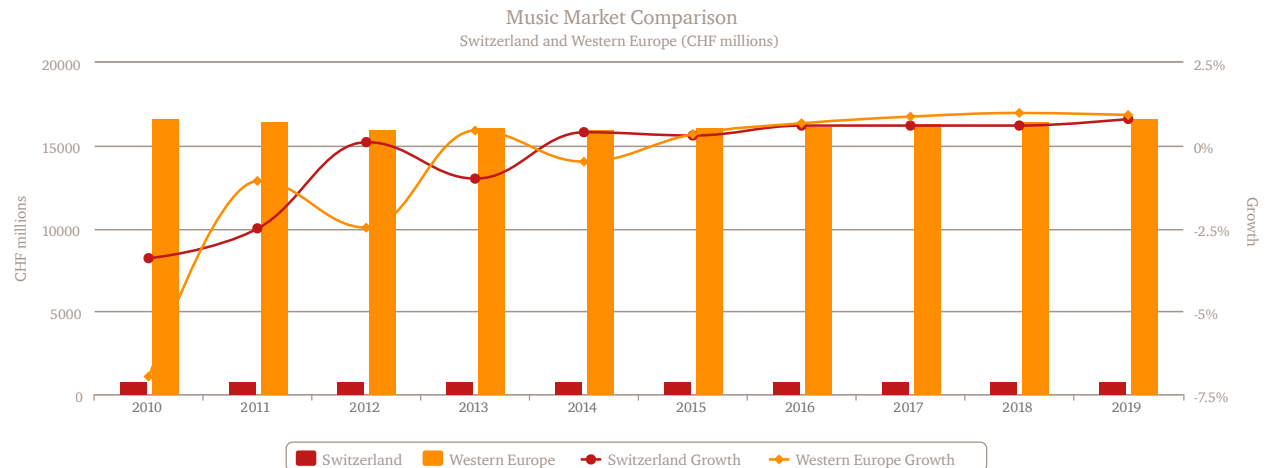
The live music market seems to be oversupplied throughout the region. Revenues from ticket sales and related merchandise will most likely remain stagnant.



*“If all the sensors we already own would be analysed, each individual could get the perfect soundtrack for its life. Spotify Running already chooses or changes the song based on BPM, but in this field we are only at the beginning and there are so many possibilities more.”*

**Simon Müller**

Director Sales and Business Development |  
Sony Music Switzerland



Analysis by PwC

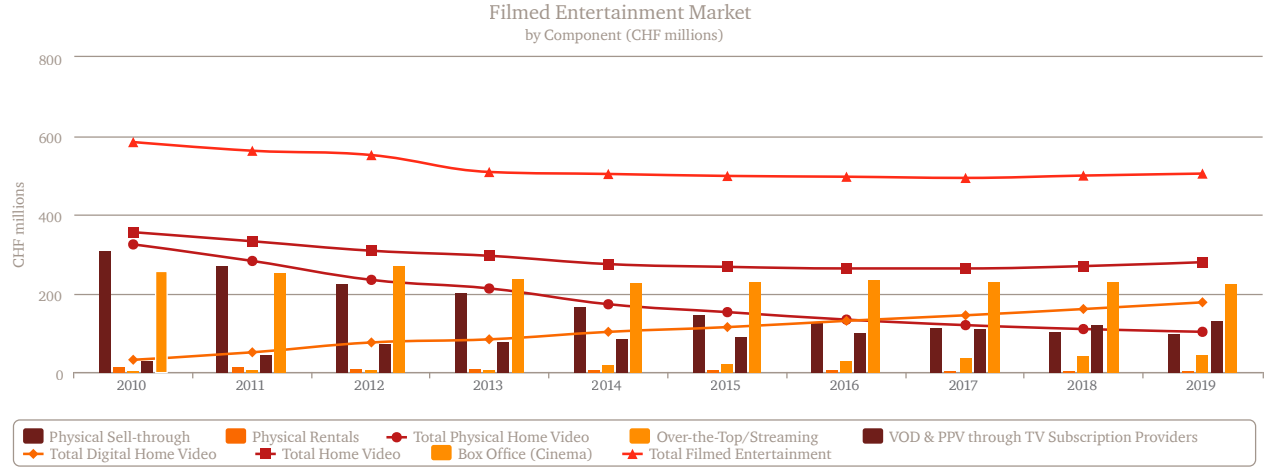


# ***Filmed Entertainment***

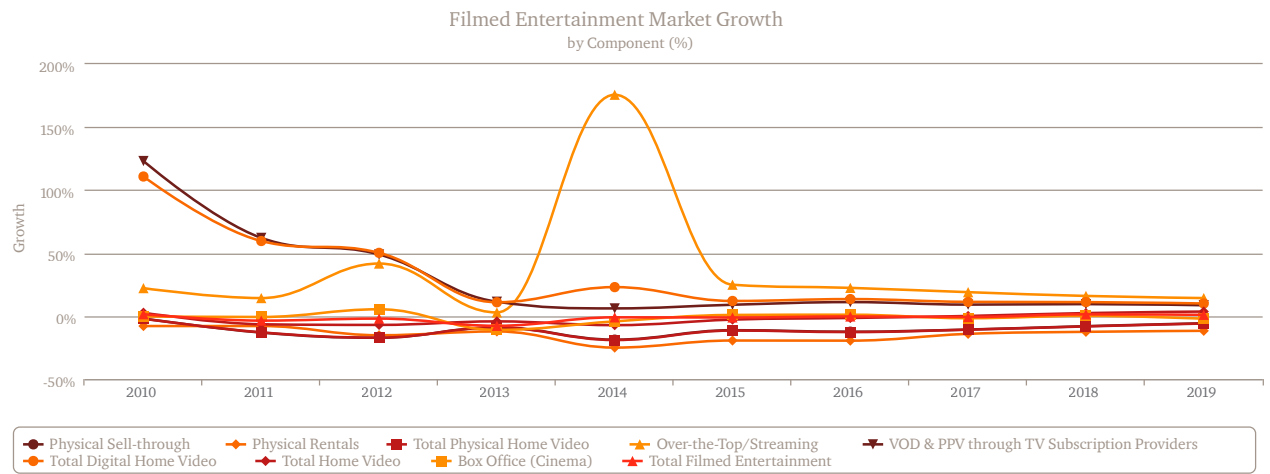
*The Swiss filmed entertainment market is shifting towards non-physical offers.*

*Larger screens on mobile devices and better, faster internet connectivity are driving the surge in demand for mobile entertainment.*

*TV and over-the-top providers are offering Swiss customer a new way of consumption, this by introducing streaming to the market.*



Analysis by PwC



Analysis by PwC

## Segment Definition

The filmed entertainment market consists of the out-of-home and in-home sub-segments. Out-of-home includes consumer spending at the box office for theatrical motion pictures. In-home comprises both the physical and digital home viewing of films.

Physical includes purchase of physical home video products and spending on rentals of videos at video stores and other rental outlets as well as DVD-by-mail services. The digital home video market consists of spending on video-on-demand (VoD) and pay-per-view (PPV) via TV subscription providers. It also includes over-the-top/streaming services, the filmed entertainment content of which is accessed via a broadband or wireless Internet connection and can be viewed on a PC, TV, tablet or any other capable device and which bypasses TV subscription providers.

The figures do not include music videos or short clips. They also do not reflect ancillary revenues earned by cinemas, such as sales of snacks and beverages or accessory sales (e.g. 3D glasses). As a result of new internal calculating standards cinema advertising is now included into Box Office revenue streams. For this year's Swiss Entertainment and Media Outlook all revenues streams back to 2010 were changed subsequently.

## The Swiss Filmed Entertainment Market

### Market Overview

For the first time in ten years, fewer than 10 million DVDs were sold in Switzerland. That figure illustrates a trend that can be observed throughout the entertainment and media market. Digital offerings are steadily replacing physical goods. In 2014, spending on physical filmed entertainment declined by 19 percent.

With an almost 50 percent drop since 2010, physical home entertainment is mostly responsible for the downward trend. As



the demand for DVDs and Blurays and hence the rental of these formats is declining, so is the number of shops that offer them. Cinema revenues also declined significantly by over four percent in 2014. But unlike the physical home segment, cinema is no direct competition to digital offers. The cinema market can be expected to remain essentially stable, with any up- or downside movement depending on the popularity of the movies and on the ability of cinemas to enhance the cinema experience. To hold their own against digital home entertainment, cinema visits have to be perceived as a higher-value experience than merely watching a movie from one's sofa.

Digital services enable the consumer to watch any chosen movie at any time and on basically every device without even leaving the house. In Germany, more than a third of all video content is already being streamed on smartphones, and almost as much is consumed via tablet. Faster and cheaper mobile connectivity as well as broadband internet access make it easier to obtain video content on mobile devices.

If videos are to be consumed via a digital platform, they can be rented as single movies or by means of a flat-rate subscription model. Single movies can also be bought via electronic sell-through (EST). Customers can watch the movie anytime and anywhere they choose. If a single movie is rented, a one-time fee is paid and the movie is available to watch for a certain time frame. This so-called video-on-demand service is offered by TV providers, independent websites such as Hollystar, as well as digital media players like Apple TV.

The most recent development in distributing filmed entertainment is streaming. By paying a monthly fee, the user can watch any movie or series on the database. After entering the Swiss market last autumn, the US company Netflix is estimated to have attracted already 150'000 subscribers within the space of just one year. The competition in the Swiss market is quite modest. As Amazon Prime

is not offering their video service in Switzerland, Hollystar was the only subscription based alternative. Meanwhile, though, Swisscom with Teleclub Play and UPC Cablecom with MyPrime both launched their own subscription VOD service. Swiss bookseller and DVD retailer Ex Libris, a subsidiary of Migros, is also talking about expanding into the video streaming segment.

Competition isn't only growing from within the film industry, but also from companies with similar technological backgrounds. Spotify has started offering video clips in cooperation with US TV stations, including NBC, ABC and Comedy Central. There is a rumour that Apple is planning to integrate a video streaming service into their new Apple Music application. As they already offer the ability to download movies, Apple has an advantage when it comes to licensing discussions with producers. It could be that Apple will complement its music streaming service with a video streaming counterpart in the near future. Spending on subscription-based models will increase rapidly over the next years.

For a long time, flat-rate VoD was said to represent the end of video piracy; and indeed, since 2011 Netflix has exceeded Bittorrent in Internet traffic. Nonetheless, piracy remains a problem, especially in Switzerland where downloading for one's own use is still legal. This will presumably change as the government is currently working on a new copyright law. The problem most people have with legal streaming offers is the time until the content is legally uploaded. There are two reasons for that. Firstly, licensing processes still take up a lot of time and, secondly, video producers cling to their outdated strategy for maximising profits by offering movies time-displaced from other countries.

To compensate for the fact that new movies can usually not be watched directly on Netflix, the company started to produce series and movies on its own. In these cases, Netflix no longer depends on contracts with movie producers. Furthermore, Netflix series – for instance, “House of Cards” or “Orange is the New Black” – have

become highly successful and serve as a motivation to subscribe to the platform. This does not only change the whole traditional value chain in the filmed entertainment industry, but also shifts the competition from pricing and access towards content and content quality.

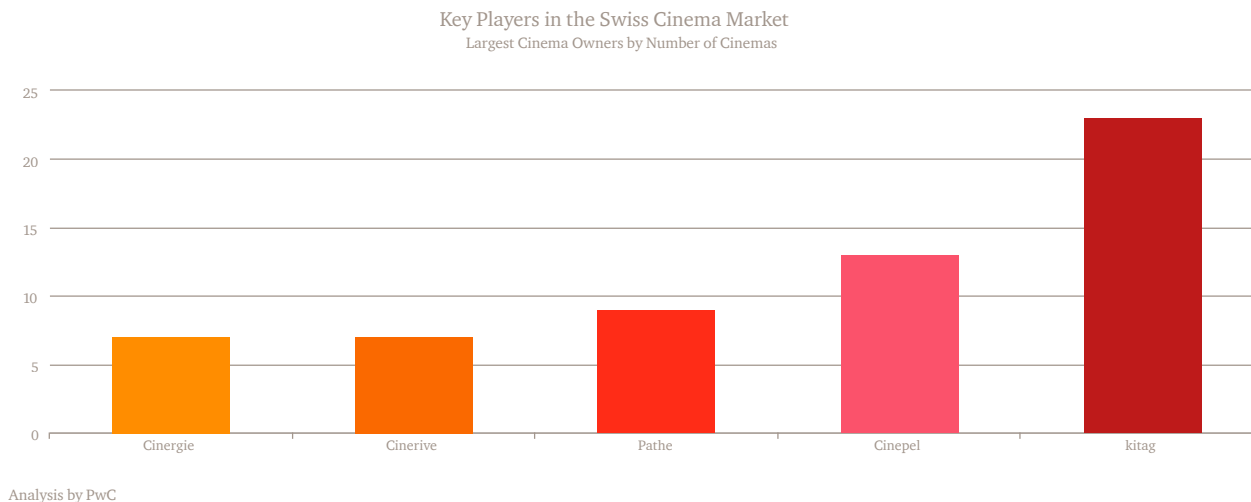
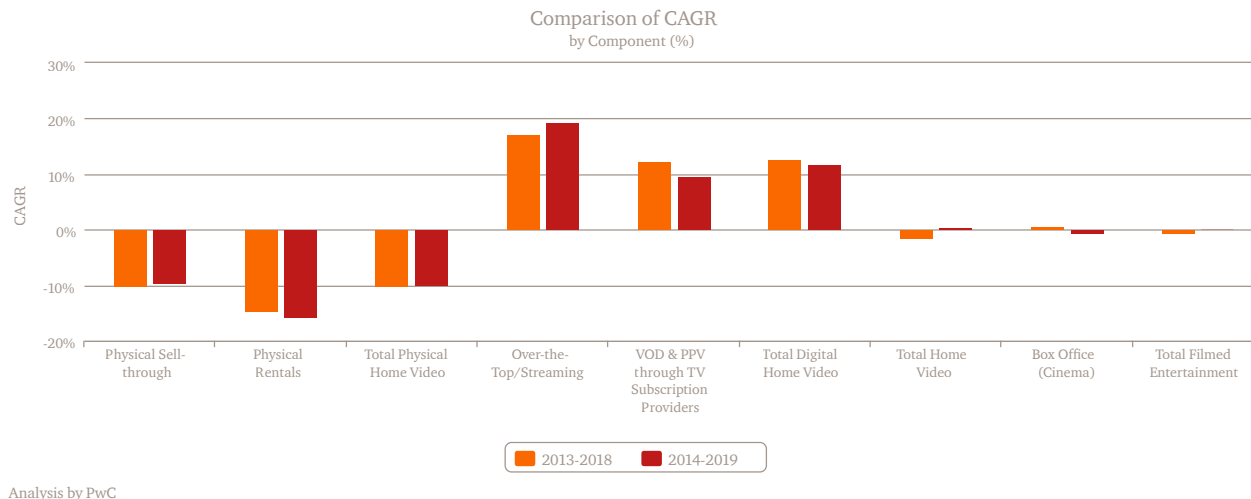


## Market Growth

Legal video streaming providers have emerged only recently in Switzerland, but they are picking up new customers with increasing speed. At the same time, physical video sales and especially rentals will lose significance. The situation is comparable to the music market. The decline of physical video material will slow over time, but remain persistent.

## Key Players

With 18 cinemas, Bern is the city with most cinemas in Switzerland, followed by Zurich with 17. Most cinemas belong to a network that unites cinemas either within a city, the country or even in different nations. The network with the most cinemas in all of Switzerland is kitag, with its more than 20 theatres, some of which are multiplex and contain various viewing auditoriums. However, most of the country's 272 cinemas are part of a much smaller network or operate on their own. The total number of Swiss cinemas has decreased by 11 per cent since 2007.





## Principal Drivers

### **Demand for mobile video solutions is increasing due to cheaper, faster internet connectivity**

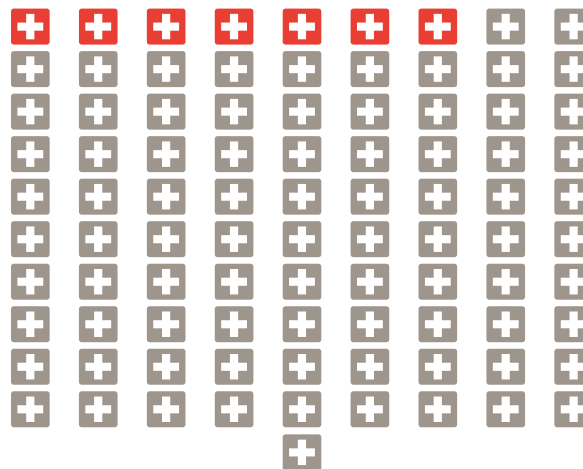
Smartphone and tablet penetration in Switzerland is growing rapidly. Given today's cheaper and faster mobile Internet connectivity, it is only normal that movies are being more frequently consumed via a mobile device. Handheld devices offer new ways of viewing movies. There are already apps that support horizontal formats as well as enable users to watch videos in a "surround" mode: the viewer sees a new perspective of the movie wherever the mobile screen points. Mobile video leaves a lot of room for innovation and is especially interesting in an increasingly mobile world. Not only is the number of Swiss commuters constantly rising, but also the duration and distance of their journey. The demand for "entertainment on the go" is growing and, as mobile screens become progressively large, consuming filmed entertainment on mobile devices is more pleasant.

### **Cinemas are trying new strategies to keep their audience**

Cinema owners in Switzerland are struggling with decreasing visitor numbers. To keep visitors coming, cinemas are changing their business model. By offering different free time activities like concerts, bowling, live-streams of cultural events, shops and restaurants, the cinema of tomorrow should regain attention. As movies can now be shown with digital technology, it is possible for cinemas to build a variety of auditoriums that match movies and customers. In earlier years, operating diverse cinema halls was too expensive.

### **Switzerland's filmed entertainment industry remains victim of piracy and copyright infringement**

Switzerland remains a paradise for services that offer copyright-infringed content. A Swiss Supreme Court decision from 2012 makes it almost impossible for rightful owners to proceed against services that illegally make use of intellectual property on a large



Almost every sixth movie shown in Swiss cinemas is a Swiss production.

scale. Therefore Switzerland has been placed on the International Piracy Watch list for three consecutive years. With Russia, China and India, Switzerland completes the short list of countries that lack adequate protection of intellectual property rights. Many illegal providers have their servers or even headquarters in Switzerland as the strong privacy rules here make it highly difficult for rightful owners to monitor content distribution. If streaming prices can be kept at an adequate level, streaming could become a substitute for illegal consumption and thereby result in a reduction of piracy.

## Business Innovation

Interaction with a touchscreen is intuitive. Even toddlers can navigate through a tablet without any problems as the movements are based on natural actions. A smartphone or tablet therefore differs greatly from a normal computer or TV screen. The Swiss company Ctrl Movie AG is trying to capitalise on the possibilities these devices offer. They have the ambition to enhance the cinematic experience on a touchscreen by giving the viewer the chance to influence the decisions that are made throughout the movie.

In realtime, the viewer has to answer a question or pick the kind of desired action and the story continues on the basis of that decision. A variety of visual aspects can be explored by swiping the picture on the screen in different directions. The spectator has the feeling of actually being part of the movie and experiences the story in an entirely different manner.

A similar approach was taken on a mutation of the movie "MansLaugther". This new version is the first movie that can be watched on Samsung's virtual reality glasses, Gear VR. The movie starts just like any other movie would, except that the spectator is watching the scenes through the mask that is strapped to his head. As the movie goes on, the viewer gets the feeling of being right in the middle of the action. The happenings take place all around the audience. Depending on where you look, only one part of the scene can be observed.

New movie formats could focus on more engagement and interaction with its audience, resulting in an intensified viewing experience. The technology could also be of interest to cinemas, seeing as how they are constantly on the look for new business monetisation models.

## Comparison to Western Europe

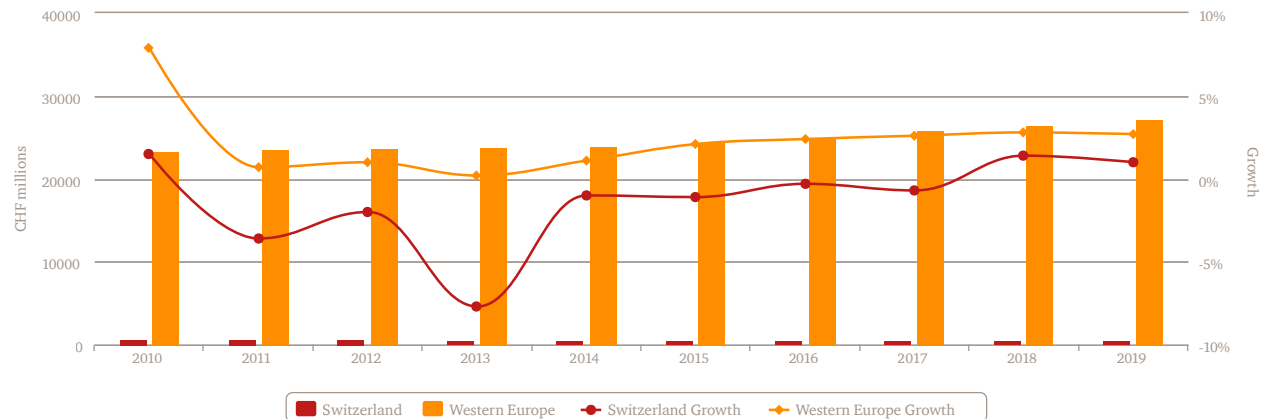
Compared to other countries in Western Europe, Switzerland's filmed entertainment market is struggling more than others. Switzerland is one of the few countries that does not show a positive trend in cinema figures. The home video market is declining throughout Europe due to the fact that new physical offerings don't make up for the decrease in physical-video demand yet.



*"Competition is driven by content, not by platforms."*

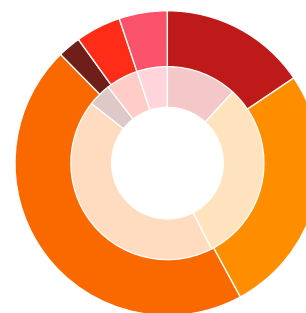
**Alexander Mazzara**  
CEO & Co-founder | joiz Group

Filmed Entertainment Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

Market Share of Films by Country  
Comparison 2004 and 2014 in per cent



■ 2014 Switzerland ■ 2014 USA ■ 2014 EU 28 ■ 2014 Latin America ■ 2014 Asia ■ 2014 Other ■ 2004 Switzerland ■ 2004 USA  
■ 2004 EU 28 ■ 2004 Latin America ■ 2004 Asia ■ 2004 Other

Analysis by PwC

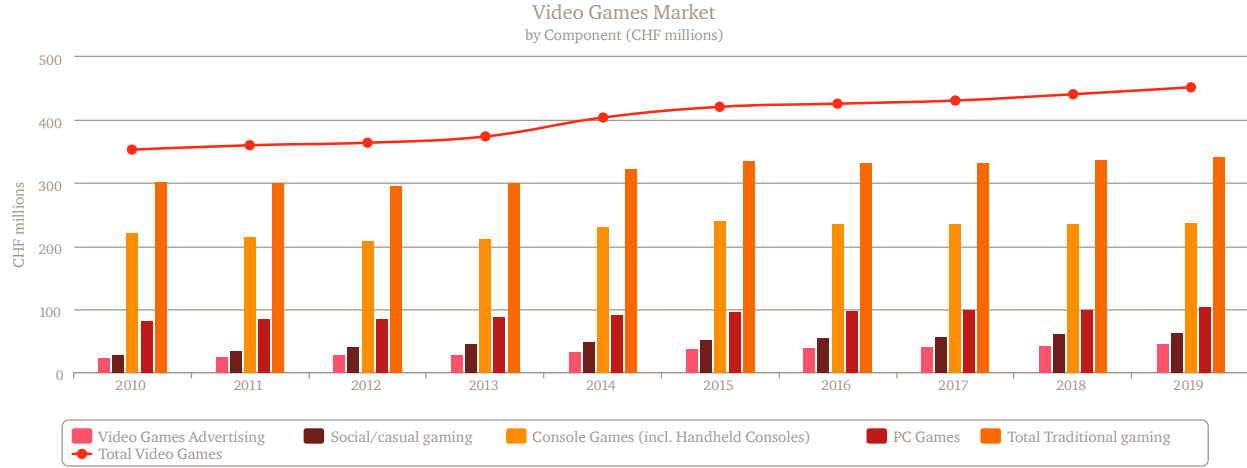


## ***Video Games***

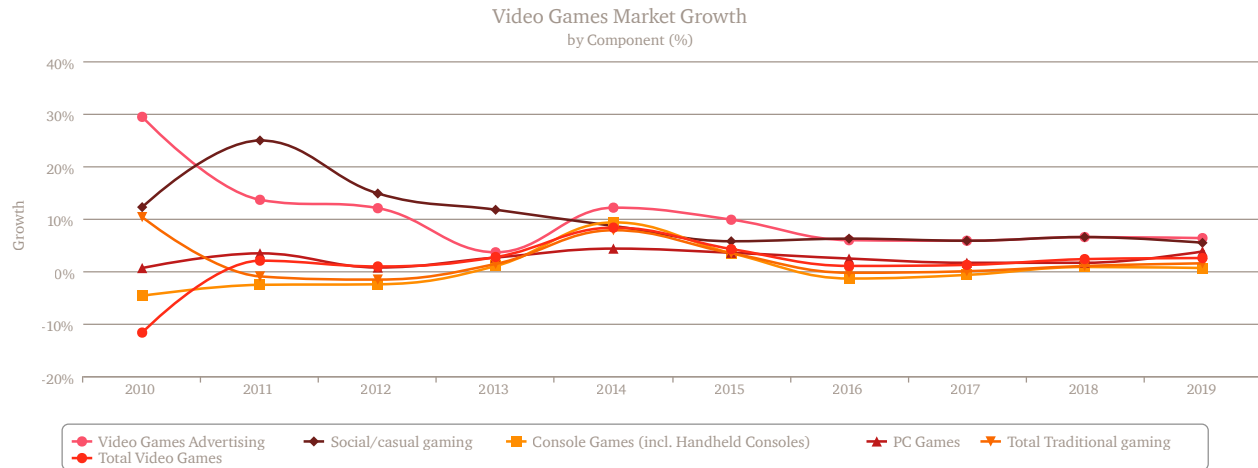
*Games are increasingly addressing additional consumer groups like elderly people and women.*

*Traditional gaming experiences a new popularity wave caused by recent trends.*

*Casual and social games profit from the popularity of mobile devices as they can easily address new user groups.*



Analysis by PwC



Analysis by PwC

## Segment Definition

The video games market comprises consumer spending on console games (including handheld console games), PC games, social and casual games that are played online or on mobile devices as well as video game advertising revenues. It excludes spending on the hardware and accessories used to play the games. Sales revenues from retail, digital download stores and subscription services are included either in the PC or console game category. Console and PC games are labelled as traditional gaming.

Social and casual games cover all revenues from non-traditional game-playing online or on a mobile device (e.g. tablets, mobile phones). The segment includes digital game sales, subscription services, in-game purchases, associated virtual items as well as free-to-play games. Video game advertising covers all revenues generated from advertising on any game platform and access type, including in-game and console-dashboard.

Due to new information sources and more modern ways of data calculation the Video Games market is segmented differently than in previous year. All revenue streams were subsequently adapted to the new standard.



## The Swiss Video Games Market

### Market Overview

The Swiss video games market offers a sustainable basis for video gaming. 87 per cent of households are equipped with a PC, most of them with high-speed Internet access. Of the total CHF 422 million spent on video games in 2015, roughly one-third was spent online. Outlays for mobile games play a major role in the continuing growth of this market.

While for a long time the gaming market was limited to a small group of young, male, well-connected consumers, it began to broaden over the past several years. Although traditional gaming still accounts for the lion's share of revenue generated in the gaming market, social and casual gaming are becoming increasingly important. The number of devices that can be used to play games grew steadily, and with it the number of games. 20 years ago, there were only very few games that could be played on a phone. Today, an estimated 4'000 games per day are requested to be uploaded to an app store.

The Swiss smartphone penetration rate is steadily increasing and lies currently at over 75 per cent. This offers a huge customer base of social and casual gamers. Through in-app purchases, players can unlock cheats, further levels, new characters, etc. The revenue attributable to mobile games is expected to have increased over 40 per cent by 2019.

The potential of casual and social gaming is evident in Finland, where annual revenues of USD 900 million are generated from the games Clash of Clans and Angry Birds alone. The Swiss casual gaming online platform Miniclip reports 70 million visitors from 195 countries who visit their webpage each month. Worldwide, games are the most downloaded kind of apps and create the highest revenue. While casual and social gaming used to be conducted mainly online via broadband Internet connection, it is now being partially cannibalised by mobile offers.



In many countries e.g. Spain, Germany, the US and France, is the number of female gamers equally high as the number of male gamers.

One constituent of casual games are the so-called serious games that key on using people's motivation to game in order to achieve a certain goal. They can, for example, be used for staff training or to motivate kids to take their medicine. The currently most popular Swiss serious game is Duolingo, a language-learning app that was developed in Zug. The potential of this scarcely used niche in the market could be considerable, given the possibility that companies and educational institutions might gain further interest in the games market. The market of gamification already skyrocketed over the past several years and is expected to grow further, thereby driving sales of casual and social games.

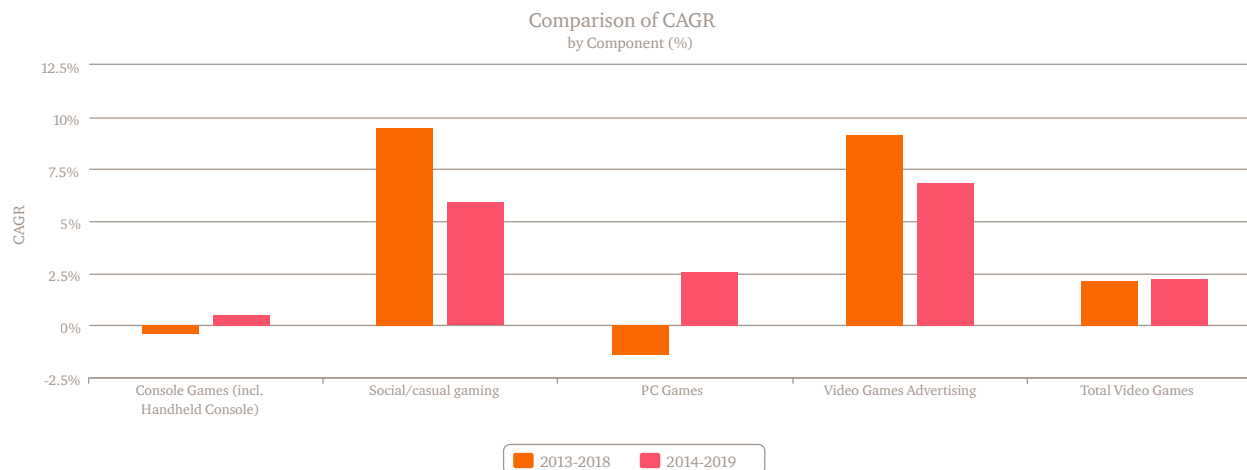
PC and console games, the traditional gaming sectors, are likely to remain steady in the upcoming years. Digital game distribution and subscription channels are expected to improve by making sign-up and further purchases more convenient for the user. This could result in higher game sales.

Especially the PC gaming market will experience a shift in its increasing customer base. Not only is the number of female players growing, but also the proportion of gamers older than 50: the so-called Silver Gamers. Because of the additional consumer potential and the higher purchasing power of older generations, the PC gaming market is likely to remain in an upward trend. The new customer segments also lead to new payment models. Subscription-based playing and in-game purchases are becoming increasingly significant.

Just like PC games, consoles will stay important as they offer the most popular games available in the market. In Switzerland more than a quarter of all households own a video game console. Console game revenue is highly cyclical, as evidenced last year. About every five to seven years, new console generations are introduced, last time in 2013, and push spending on the accompanying games. This fact suggests a negative CAGR for the upcoming years, but sales will rise again with the introduction of the up-coming game generations.

Worldwide, traditional gaming is undergoing a change in perception. A popular nerd and geek trend has led to increasingly positive opinions about gamers. The hard-core gamer scene perceives gaming as a sport, with live sessions that are watched by up to 15'000 people and analysed like a sport event. Twitch.tv, a streaming platform that focuses on broadcasting live video game events, playthroughs of video games and other game-related content, was acquired by Amazon for almost USD 1 billion. YouTube is now competing by launching YouTube Gaming. The platform is expected to be successful, firstly because of the strong Google server infrastructure, and secondly because most Twitch users already additionally upload their videos to YouTube; thus the new platform will rapidly achieve high user numbers. At present, YouTube's most successful contributor overall is a game analyst who earns an annual USD 7.5 million with his videos.





Analysis by PwC

At the same time, gaming is obtaining a better image as studies highlight the positive neurological effects of video games. Previously, the focus was mostly centred on the connection between violence and gaming. With this increasing acceptance of game playing, the video game advertising market is also growing. The strong trend can also be ascribed to the rising importance of online and mobile gaming.

### Market Growth

The Swiss video game market should experience an almost consistent upswing. With ever-faster mobile Internet connectivity, mobile games will continuously cannibalise online games. Spending on traditional gaming software will continue to grow. However, as the console market appears to be cyclical, i.e. tied to the release of new console generations, the growth in this sector is not unidirectional.

### Key Players

The Swiss game developer sector is very small with only about 30 domestic companies, most of which employ fewer than five people. By far the largest company is Neuchatel-based Miniclip. Since 2001, the company has sparked half a billion downloads of more than 1'000 of its proprietary games. The majority share of the market is now held by China's Tencent, the world's biggest game development company. After Miniclip, the most productive companies in terms of video game development are Nothing agency, bitforge and Gbana. Most of the agencies offer integrated solutions, and the creation of games is just part of their business. Game development is expensive and risky because of the aggressive competition. Swiss investors are still avoiding the video game segment, which in turn makes it difficult for young developers with good ideas to gain a foothold. However, some international game developers have chosen to open up offices in Switzerland.

## Principal Drivers

### ***New customer segments should be targeted***

Video games are attracting a broader customer base that in particular includes older generations and women. The so-called Silver Gamers are usually not seeking a high-speed action game, but rather a strategic puzzle game or classic board or card game. The connectivity of this group is rising, the majority own a computer, and the distribution of smartphones and tablets is increasing. As opposed to classical gamers, the Silver Gamer is usually well-to-do and doesn't mind in-game purchases that enhance the gaming experience. The second group on which focus should be placed are female gamers. Most video games address very openly a male audience and may need to undertake some measures to avoid scaring away a huge potential client base.

### ***Further connectivity of devices***

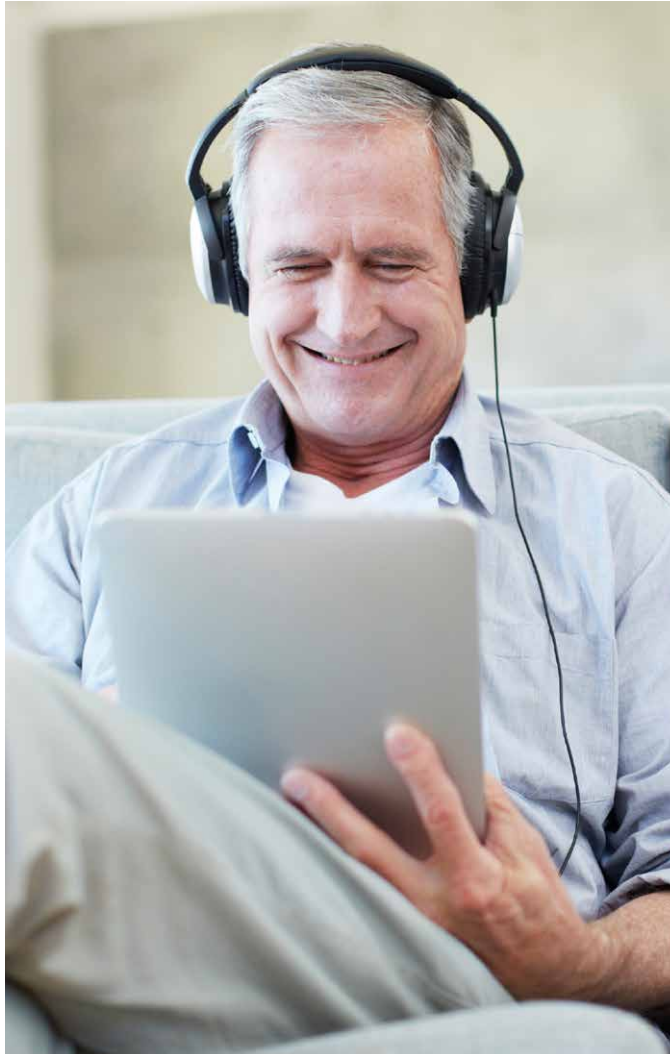
Like in other entertainment sectors, the consumer expects a gaming experience that offers a seamless transition over various devices. Cloud gaming became possible with sufficient Internet bandwidth and is already integrated in many consoles. It can be expected in the years ahead that connectivity between devices will become increasingly smooth.

### ***Open source technology can be an opportunity for Swiss developers***

The power of the masses can be witnessed daily on various crowdfunding sites. Small contributions by many individuals add up to something much bigger than what a single person could have achieved alone. The same principle underlies open source game development. By sharing the code to a game openly, the developing company allows everyone to participate in improving the software. This tactic is of special interest to Switzerland, where investment capital is hard to come by and taking on additional staff can exceed the company's budget. Open source development is also a good opportunity for young talents to show their abilities and promote themselves for the limited number of jobs.

### ***New payment models emerge***

Instead of asking for up-front payment, so called free-to-play models allow users to access to a fully functional game without paying. However, most of these games require minor payments or a full game purchase to unlock remaining tasks, sceneries, actions, etc. Freemium models were first used for large online multiplayer games, later found their way to traditional gaming, and recently became extremely popular in mobile gaming in the form of in-app purchases. Freemium models often function as a beta version aimed at convincing shy potential customers to pay for a certain game. Freemium offers are presumed to reduce piracy as they offer a legal opportunity to take a sneak peek at the quality of a game before paying for it.



### ***Business Innovation***

Other than 3D technology, virtual reality hasn't been passed through by the big companies. Thus a start-up, financed by means of crowdfunding, was the one to develop Oculus Rift, the leading technology for virtual reality experiences. The company was bought by Facebook in 2014.

Shortly after the initial developer versions were delivered, the first modifications of existing video games became available for use with VR glasses.



*“Innovation is very often led by smaller companies, not large ones.”*

**Alexander Mazzara**  
CEO & Co-founder | joiz Group

The development of game software that can be consumed via virtual reality is still in its infancy. The release of Oculus Rift is planned for early 2016 in cooperation with Microsoft. Together with its first version, a broad variety of games will be offered and Oculus has announced its intention to invest USD 10 million to support independent game developers in creating games for Oculus Rift.

VR glasses will enable the players to experience a game as if they were part of it. Through motion sensors, head movements are tracked and allow a 360° view of the scenery. The first consumer version of Oculus Rift will be shipped in combination with an Xbox controller. The users can expect to get a special controlling device with further updates. Consisting of two sticks that track the movement of your hands, the Oculus Touch will enable the player to interact more naturally with people and objects within a game.

Some Swiss game developers are participating in the movement and creating games and applications that support Oculus Rift. The variety is close to infinite. With the full body simulator Birdly, one can experience how it feels for a bird to travel the skies. Museum Next incorporates an entire building into the virtual reality adventure. With VR glasses, empty corridors turn into a pharaoh's tomb. By touching hieroglyphs on the walls, explanations pop up. The Swiss developer company Ateio ranked among the top ten for their VR game "shiny" at the VR Jam 2013.

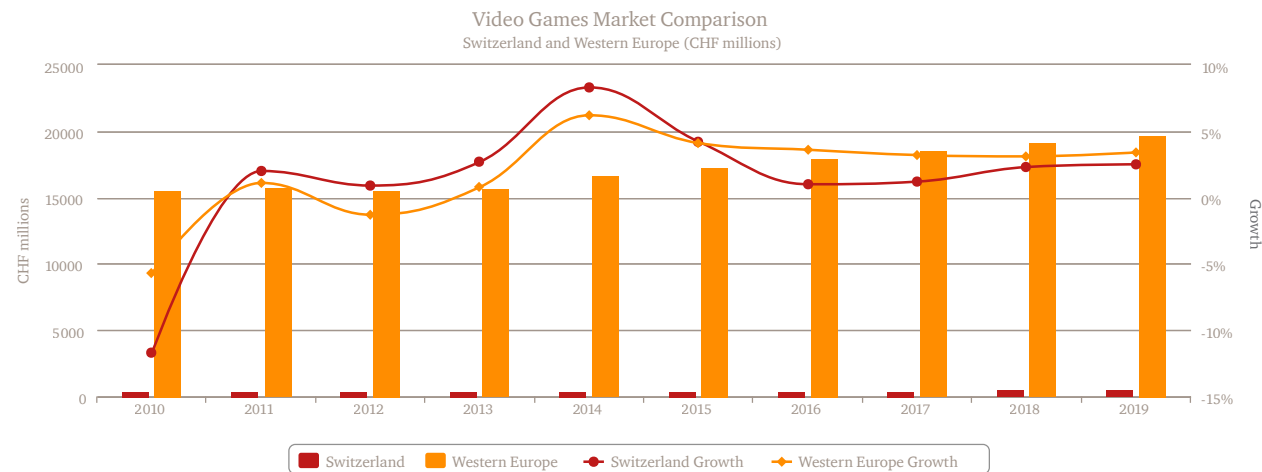
Ateio got so far in the competition by showing how simple ideas can be worked into virtual reality. When Google launched its project "Cardboard" last year, they allowed everyone to experience VR and experiment with it at home. Now they have teamed up with game producer Mattel to create a remake of the iconic View Master toy. The original version allowed you to insert cardboard wheels about different topics into a pair of special glasses and see 3D pictures. The View Master was frequently used for educational purposes.

Its update now lets you insert a smartphone. Depending on the "wheel" you choose in the accompanying app, a theme world appears and lets the user learn about various topics by interacting with the objects.

It can be expected that virtual reality gaming won't only address curious early adapters, but also find interest among new consumer groups. Virtual reality could for example entertain families and kids with casual games similar to the games played on Wii. It could also attract business clients that would enhance gamification by including virtual reality.

## Comparison to Western Europe

The trend in the video game market is similar throughout Europe. While digital sales are booming, physical ones are stagnating or experiencing a slight decline. Online games are decreasing as mobile games are becoming more popular. Overall, the Western European market is expected to grow at a CAGR of roughly 4 per cent, a growth rate that Switzerland (with 2.3 per cent) won't quite match. Switzerland accounts for 2.2 per cent of the Western European video game market. With about 30 per cent, the UK has the largest share.



Analysis by PwC

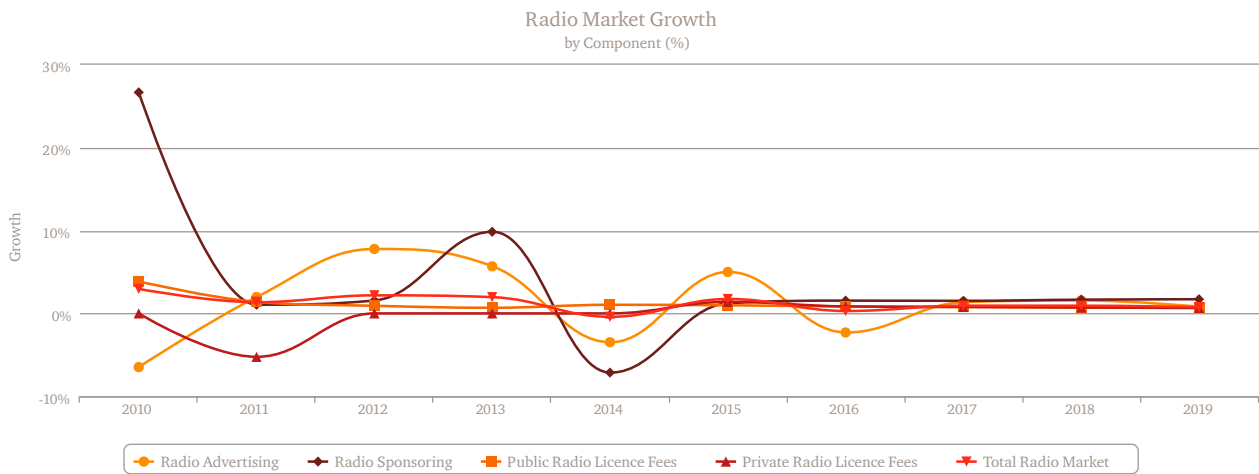
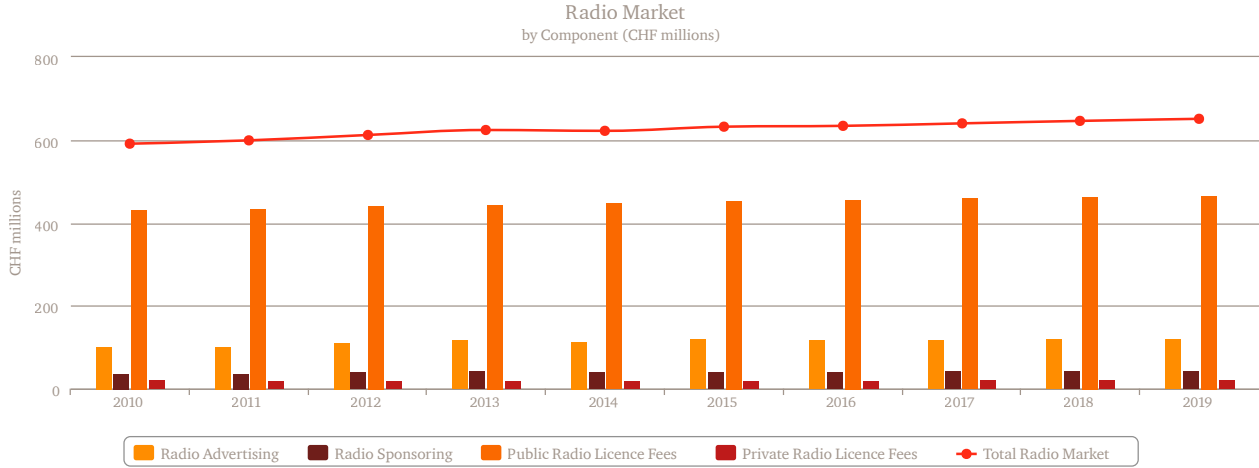


## ***Radio***

*Almost all Swiss radio channels can be received via smartphone app.*

*Radio remains a relevant format for the Swiss market.*

*Switzerland is among the first countries to completely switch to the DAB+ standard.*



## Segment Definition

The radio market consists of revenues generated by public and private radio license fees, advertiser spending and sponsoring on radio stations as well as radio networks. All radio advertising figures are shown as net revenues, excluding agency commissions and discounts.

Not included are radio programmes offered by online music or music streaming providers that are financed through subscription models and advertising.

## The Swiss Radio Market

### Market Overview

Radio in Switzerland is still a popular medium. About six million Swiss listen to radio. The average consumption time has been almost constant over the last years with slight negative tendencies and currently stands at roughly 100 minutes per day. About three-quarters of all radio revenues are generated by license fees. In Switzerland the number of households and thus the amount of fees paid is continuously growing. With the ca. 90 per cent of radio fees that are paid to SRG SRF comes the mandate to provide all of Switzerland with adequate radio programming. This public service is offered in all four different languages that are spoken in the country. Unlike the public radio channels, private radio stations get to create income in addition to license fees by broadcasting advertising via their channels. Private radio is therefore especially vulnerable decreasing advertising spending, but still the local focus of this advertising format is unsurpassed and unique.

With the growing popularity of the Internet and more advanced possibilities for advertising online, especially on mobile devices, most traditional media channels are facing a decline in ad revenues. However it is not very likely that Internet will supplant the traditional advertising market. Radio advertising reaches a



significant number of consumers as it is embedded into the daily routine of most Swiss, be it during breakfast, in the car or at work. In addition, the format is still very localised and offers little potential for economies of scale so getting disrupted by global players is more of an unlikely scenario.

Compared to other media formats such as music, television or filmed entertainment, radio is still serving a particular consumer need that is not replaceable by any other format: firstly, it offers (hyper-)local news and also advertising content that only addresses a very narrow target audience at an affordable price; and secondly, radio still gives the listener the option to passively consume music without forcing the consumer to make a dedicated choice. Although a trend can be observed in the latter, namely towards partially replacing radio with streaming services such as Spotify, the former argument remains a USP of the radio format. Therefore, and given the fact that most of the consumer spending component



*“In the radio market, I’m observing a trend towards mobile and online similar to that in the television market, but its progress is slower. Mobile and online substitutes of radio have been available for much longer time than in TV. Nevertheless, linear radio is still popular. On the radio, someone is talking to me. It is less impersonal. I therefore strongly believe in mixed forms; for example, radio content connected with my own music. It just requires a super simple to handle solution.”*

**Adrian Zaugg**

Head of Corporate Strategy | SRG SSR

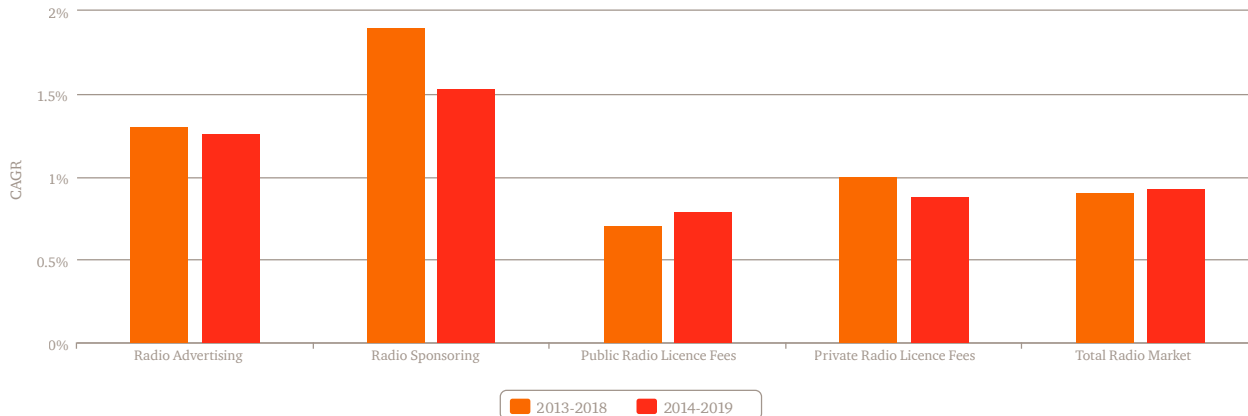
is collected via regulated license fees, the Swiss radio market is expected to remain stable, but without significant upside moves.

Radio reception can be gained in three different ways in Switzerland: classical FM transmission; digital transmission; and Internet radio. FM remains the most-used means of consuming radio, with DAB+ and Internet being used at a similar rate. By now

almost all Swiss radio stations offer their services online and most have also implemented their own app that allows users to listen to the programmes anytime their mobile device is connected to the Internet. Switzerland was one of the first countries to implement the digital radio standard DAB. In December 2014, the Digital Migration Working Group (DigiMig) formed by representatives of all major stakeholders proposed a measurement programme that should result in a shutoff of all radio transmission via FM by 2024. Ahead of Switzerland, only Norway announced an earlier shutoff for the year 2017.

Consumers owned 1.9 million DAB and DAB+ compatible radio receivers at the end of 2014; they can receive 70 programmes broadcast by 61 stations Swiss-wide. That digital radio is taking off only slowly may be a result of two different factors. Unlike digital TV, which introduced its users to on-demand viewing, mobile TV, HDTV and interactive functions, the obvious advantages of digital radio are few. Also, the automobile remains one of the most frequent settings for listening to radio. As currently around eight different non-compatible digital radio standards exist, it is hard for car manufacturers to choose what radio to include. About 40 per cent of cars already offer the DAB+ standard.

Comparison of CAGR  
by Component (%)



Analysis by PwC

With the acceptance of the new radio and television law (RTVG), not paying for received radio services will be a thing of the past. With the additional income, the state plans to support further distribution of digital radio. Especially private radio stations are struggling with the extra costs associated with simulcasting.

## Market Growth

Advertisers are becoming more aware of the possibilities the Internet offers. However, we think over the mid to long term that radio advertising and sponsoring spending will remain steady due to the unique proposition of the local format. In licence fee revenues we expect to see a modest increase as the amount of registered households continuously growth. The amount of license fee income after 2018 is likely to differ significantly from our forecasted revenues as the new RTVG has not been published yet.

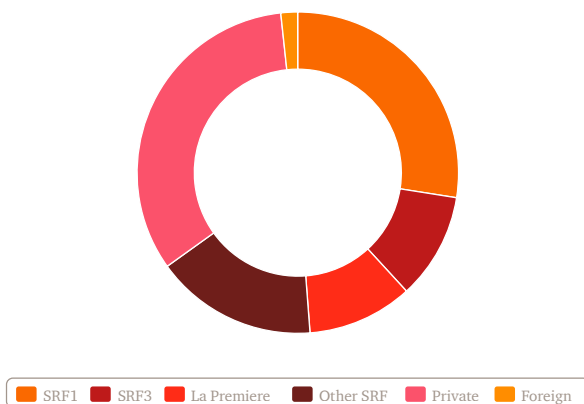
## Key Players

The radio stations that are mostly listened to are public radio stations. SRF 1 leads the field with a market share of 27.5 per cent. Its French counterpart, La Premiere, represents with its 10.6 per cent market share the third most-listened to radio programme. The most successful private radio station is Radio 24, which like Radio Argovia belongs to Radio Medien AG. Energy Zürich and the other Energy stations in Bern and Basel are part of Ringier, the largest private publishing company in Switzerland, and is the second most-listened to private radio. Radio BNJ FM and 3i are popular private stations in the French respectively Italian parts of Switzerland. Foreign stations hold a market share of 1.7 per cent.

*“The interesting thing about radio is the involvement of human curation and its impact to legitimising “tastemakers” at a wider cultural spectrum. Moving forward, influential tastemakers, empowered by advanced curation algorithms, are likely to hold the “holy grail” of music discovery.”*

**Sabrina Rabello Aronson**  
Advanced Analytics Lead | Spotify

Market Share of Radio Listening  
in per cent



Analysis by PwC

## Principal Drivers

### Local focus and consumer base

Traditional radio has a huge advantage over global radio stations and streaming services. Broadcasters can customise the information they send based on the location of their listeners and thereby gain relevance in terms of news and advertising due to the narrow regional focus. By combining social media, live events, trendy music and appealing and significant content, radio will remain strong. Listening to music has become a private experience; radio can differentiate itself from that tendency by actively supporting a personal relationship with and among their listeners, as well as by satisfying their individual needs. As people are longing for more individualism, tuning into the same sound as everyone else on the channel is not very appealing. Instead, radio might need to further engage with its community of listeners to profit from the social and local networking dimension.

### **Mandatory license fees regulated by the government**

The lion's share of consumer spending in the Swiss radio market is originated by mandatory license fees which are regulated by the state in order to guarantee an adequate public service that is not predominantly driven by business considerations. This fact ensures the public radio stations a predictable and safe source of revenue. Nonetheless, especially the public radio formats should take care to catch up with global trends and adapt them to local needs in order to not make their services superfluous.

### **Hyper-local advertising in other media formats**

Private radio stations that heavily rely on advertising revenues are particularly vulnerable when it comes to decreasing advertising spending or price erosion. Although the advertising inventory still serves a particular group of local advertisers, new advertising formats may put that inventory under pressure. Since an increasing number of apps and mobile services is capturing the location of the user, new advertising offerings that are even more local and combine different formats (e.g. text-over-voice, video, etc.) can be observed in the online and mobile segment. Although these offerings are still in their infancy, private radio stations should catch up with this trend and out-innovate themselves in order to not lose ground.

### **Online radio stations and Big Data**

Apple Music has recently launched its own radio station Beats 1, which, unlike other "radio" services offered by streaming providers, is hosted by three DJs and includes special programme features such as interviews with music artists. Like most other music

services, it uses the information from the web to arrange playlists, report on news and gather feedback. Traditional radio needs to recognise the Internet as source of inspiration and valuable consumer data, not as a threat.

In the US, it is already commonplace for radio stations to have a so-called twitter map that informs the anchor about frequently tweeted hashtags. Also, many stations work together with the music recognition app Shazam. By analysing what songs people mostly search for, trending songs are predicted and hit lists are generated. If radio wants to remain popular, it needs to strengthen the interaction with its listeners and make use of the consumption data available from all kind of sources.

### **Business Innovation**

A lot of music streaming services offer playlists online and call them radio. They lack however one important aspect of radio – the typical radio services.

By listening to a local station, the listener is informed about current and upcoming weather conditions, local and world-wide news, the time, traffic and public transport disturbances, events within the immediate region and much more. Although all these functions are now included in any proper smartphone, there are some situations in which picking up a phone to read the news is not very practical.

Some start-ups are now addressing this problem by creating automated services that read information out to the user.

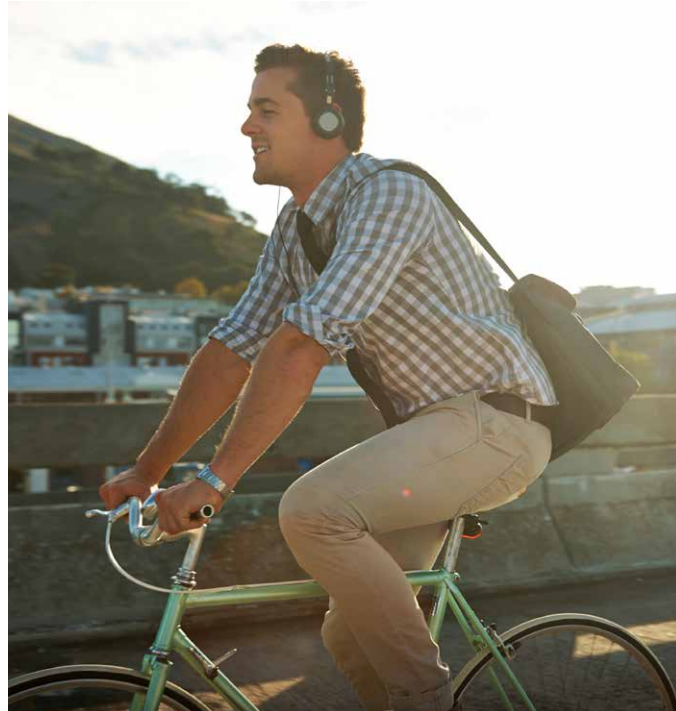
The Newsbeat app reads news aloud on your smartphone. Certain publications and the user's personal preferences can be preselected, but the news that is broadcast also relies on one's location. The user receives updates on weather and traffic in the area. The news is even optimised for commuters and varies depending on the means of transport and the duration of the commute. The software that transforms written news into voice attempts to imitate a human voice. Actual humans read the most important news of the day. In contrast to radio news, the recordings can be paused, repeated or skipped.

A similar application called Swell uses news that have already been recorded and lets users play it back. Apple acquired the company in 2014. The service has been inactive since, but theoretically Apple could add the technique to its own radio Beats 1.



93 per cent of Swiss households own a radio.

SpotiNews is a project that took a slightly different approach, but one that can be of high importance to traditional radio broadcasters. A team of innovators introduced their idea at this year's German radio.hack event. The app allows the integration of radio content, like pre-recorded news, into existing Spotify playlists. The user can select what type of news and in which length he/she would like to hear it. The product enables listeners to tune in on their preferred music and customised news.



## Comparison to Western Europe

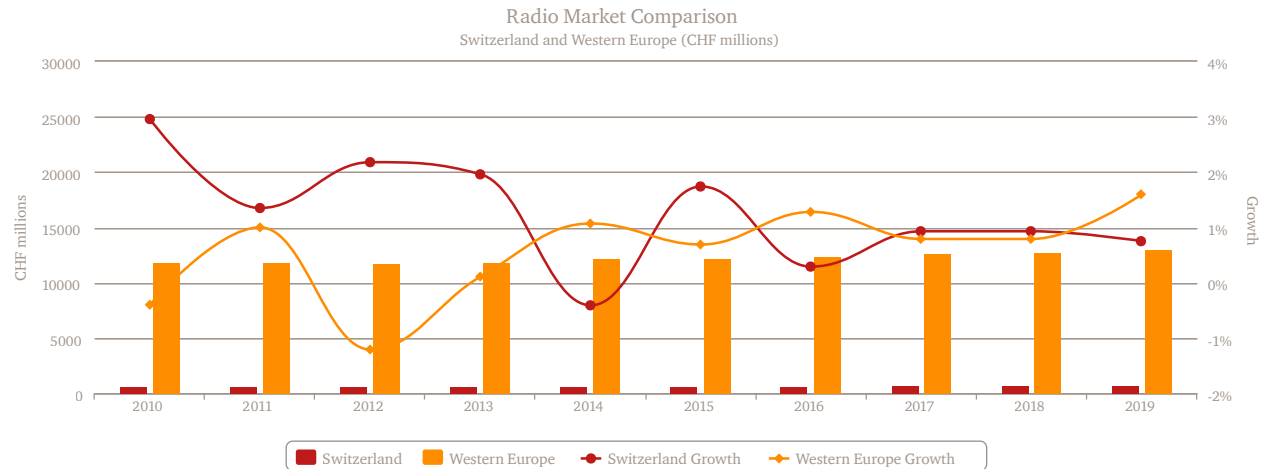
The public perception of radio is similar across all of Western Europe. Radio is part of one's daily routine, the station usually chosen to fit a certain taste in music, but also in order to be updated on current news. In comparison to other Western European countries, Switzerland is among the first, along with Norway and the UK, to implement DAB/DAB+ technology. After Norway, Switzerland was the second country to announce the shutdown of FM broadcasting. By far the biggest radio market is Germany, mostly as a consequence of its high license fee revenues. Germany accounts for 36.5 per cent of the Western European radio market.



*“When it comes to data collection from individual users, everyone – but especially we, as a public service media organisation – bears a tremendous responsibility. All principles have to be respected. However, data as such can, when used properly and responsibly, lead to better products.”*

**Adrian Zaugg**

Head of Corporate Strategy | SRG SSR



Analysis by PwC





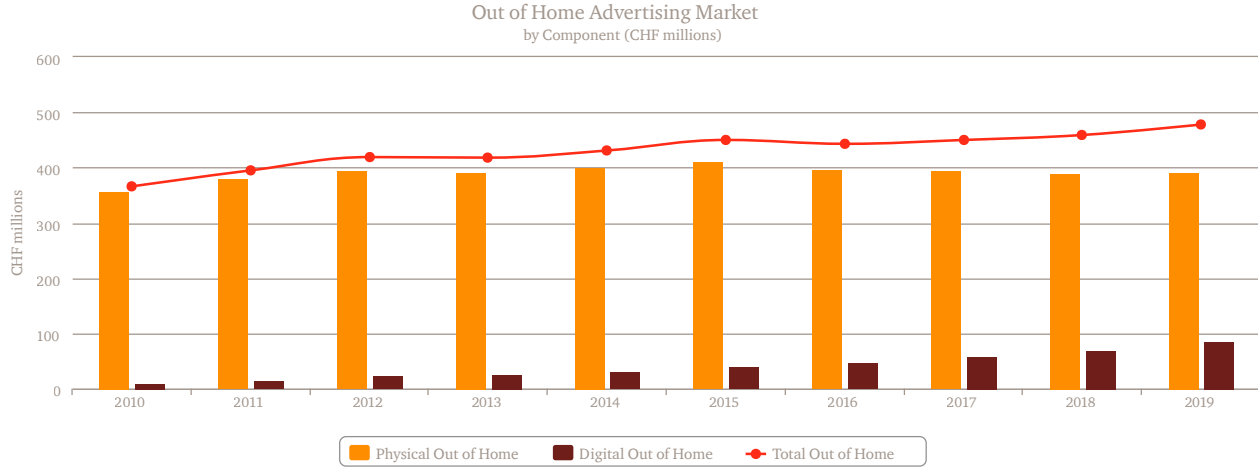
## ***Out-of-Home Advertising***

*Digital OOH has an immense potential but will not suppress non-digital OOH spending in the next 5 years.*

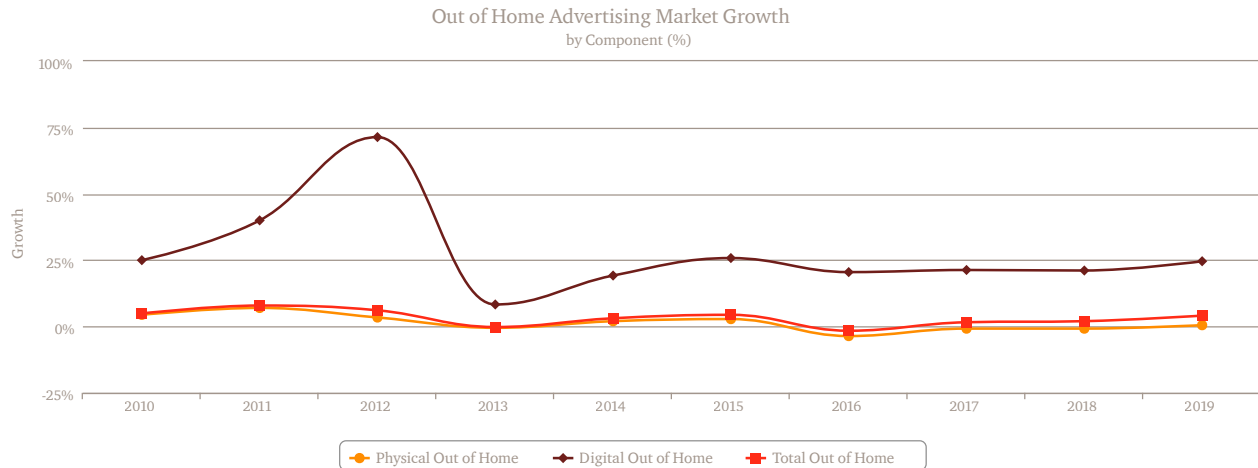
*Two major players dominate the Swiss non-digital OOH market.*

*Growth in digital OOH is slower than expected due to high investments and regulatory boundaries.*





Analysis by PwC



Analysis by PwC

### Segment Definition

The out-of-home (OOH) advertising market comprises the net advertising spend (excluding agency and production costs) for non-digital OOH media, such as poster advertising (billboards, paper placards of various formats), public transport advertising (leaflet holders, lettering and painting of rolling stock, banners, etc.), sports and stadium advertising, and digital OOH such as ad screens, beamers and large electronic advertising billboards.

### The Swiss Out-of-Home Advertising Market

#### Market Overview

Switzerland's OOH market continues to be dominated by APG | SGA AG and Clear Channel Outdoor. There are a number of smaller players in the market, especially in the digital out-of-home market (DOOH) segment, of which Neo Advertising, Goldbach Group and Livesystems (passengerTV) are the most significant.

The entry barrier to the DOOH market for new participants is high due to the significant investments and time involved in establishing a meaningful network. The further development of the market is therefore heavily dependent on the market leaders' investment capabilities.

The great advantage of DOOH is that it allows individual solutions per screen and time of day, whilst ensuring realtime display flexibility. This is especially appealing to advertisers who want to attract distinct groups of consumers at different times of the day, for example at airports, in public transport vehicles or train stations. Other opportunities are to change billboards depending on the weather, e.g. from umbrellas and gloves to sunglasses or ice cream, or to enhance interactivity with the viewer through QR Code, NFC or Beacons. The advertisers prefer to book campaigns

with certain coverage across regions to benefit from economies of scale. The current networks allow this only to a limited but growing extent (e.g. at airports, train stations, bus stops or shopping malls).

In Switzerland and around the world, the OOH market is undergoing significant transformation from conventional poster advertising to large-surface digital billboards and a larger investment allocation to digital networks (such as narrowcasting). Currently, many conventional billboards are in the process of being replaced by backlit displays and, later on, by full digital screens as the cost of those screens declines. Due to regulatory restrictions in public areas and the associated sizeable investments, this conversion process will take time. The non-digital OOH segment remains lively and new formats, such as towers, are being introduced or tested in the market.

DOOH's attractiveness is increasing. Besides its ability to make use of streaming video as an alternative to television, there are

also online and cinema advertising formats. The only constraint is that DOOH usually cannot make use of sound, a disadvantage compared to the other formats such as TV or cinema. However, the current DOOH screens are used with limitations to stream video broadcasts rather than to allow more frequent board rotations and "light animated" images. Light animation, such as a certain amount of motion in a picture, appears less disturbing to the public and therefore might face lower regulatory restrictions.

The ongoing transition from static posters to digital displays offers the potential to have immediate interaction with consumers, e.g. the use of a smartphone as a remote entertainment device for engaging with a brand that is being advertised on a digital screen. These technologies are established but rarely seen across Switzerland.

The measurement and reporting of OOH is highly developed through mobility tracking of the audience. The information

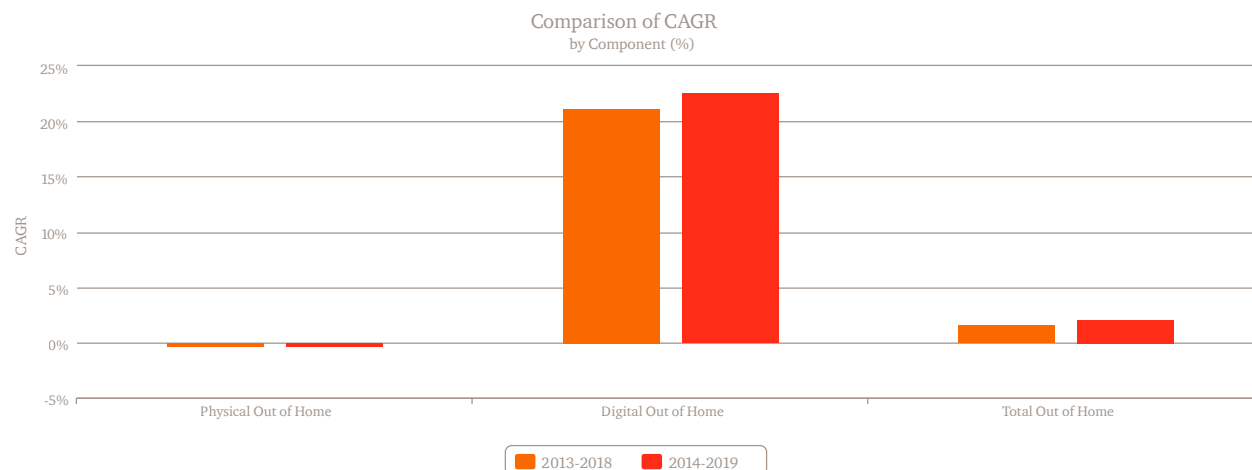
helps advertisers to evaluate the impact of their spend by making comparisons with other media and facilitating the incorporation of OOH as a part of advertising and marketing campaigns. Improved audience measurement is generally associated with increased spending, both in total and as a way of justifying price premiums.

### Market Growth

Overall, Switzerland's non-digital OOH market is considered to be saturated. Outdoor advertising instruments (poster panels, poster stands, advertising towers, mega posters on buildings or other suitable public surfaces) are a fully exploited opportunity and are governed by regulations. OOH advertising companies are therefore very keen to acquire further inventory space from private individuals or investors (e.g. on buildings, malls, business centres, privately owned car parks and public transportation) and are focusing on efficient and profitable contracts. Swaps of contracts, such as cities, airports or malls, between the advertising companies are being observed more frequently.

We do not expect long-term growth in the non-digital OOH market. Price pressure due to high capacities, changes in the market mix and replacements to digital products is the main influencing factor. Certain effects, such as nationwide Swiss elections this fall and in 2019, will occasionally result in higher spending. We believe that the transportation market will remain stable, supported by increasing passenger volumes and the time spent commuting.

We expect DOOH advertising to show strong annual growth rates of more than 20 per cent. The regulatory restrictions, cost-intensive trial periods and related investments have resulted in slower growth than originally expected. However, the development of interesting networks supports the transformation from non-digital and the exploration of new opportunities support the growth.



Analysis by PwC



## **Principal Drivers**

### **Transformation from non-digital to digital billboards**

The OOH market is being transformed by the deployment of digital billboards, other forms of digital screens, as well as the expansion of captive video networks. By means of these captive video networks, advertisers seek to target specific audiences and reach consumers in locations that are not yet accessible to other forms of media.

### **Declining costs of DOOH infrastructure and technology**

The cost of installing DOOH infrastructure continues to decrease and larger DOOH networks the national reach of campaigns. These are reasons why the DOOH segment will show strong growth. Furthermore, digital signage solutions of optimised quality, combined with greater flexibility in displaying sequential ads, part-day bookings, pricing schemes based on effective audience, interactivity and the enhanced measurability of advertising impact are spurring investments in digital OOH.

### **OOH is high-value advertising**

Advertisers are becoming increasingly aware of the value of OOH advertising as improved measurement techniques provide reach and frequency data comparable to other media. Consequently, advertisers can more easily measure the cost-effectiveness of OOH versus other media and integrate it into their media plans.

### **Interactions with OOH media**

The combination of motions, mobile and OOH is already leading to instant interaction. Motions, QR codes, digital coupons, branded content, games and apps as well as search will ultimately result in more engagement and more effectively stimulate people to purchase products. Typical interactions are instant responses to motions, calls to action via votes, polls, sweepstakes and promotions, call-back requests and text-for-info, as well as mobile coupons, rich content such as ringtones, mobile Internet sites and social interaction via mobile.

### **Urbanisation and commutes keep OOH attractive**

The worldwide tendency towards increased urbanisation, which is leading to the formation of megacities and large agglomerations, also stimulates increased spending on OOH as a wider audience can be reached, thereby enhancing the return on investment for advertisers. The pace of growth in rail and street traffic for commuting and leisure-time activities has exceeded the annual GDP growth rates of various countries in the past and will continue to do so in the future. These higher frequencies open up additional opportunities in terms of the effectiveness of OOH ads at the street level as well as within public transportation. Moreover, digital billboards can play an important community role in the display of alerts and safety messages.

## Business Innovation

Beacons and Near Field Communication (NFC) are beginning to complement the OOH industry. Placed in a strategic area, these devices send out simple messages to any smart device in the surrounding area without being dependent on an Internet connection. This technology allows brands to transmit tailored information and match the target audience with the right message at the right place and time. Possible applications would be for restaurants to promote their daily menu, for shops to give away vouchers to passers-by or to show departures and delays to people waiting at a bus stop.

After various trial phases across the world, Beacons are rapidly going live in various projects. London busses as well as a network of 20'000 advertising panels in Australia are already equipped with Beacons. More projects are being added on a daily basis. A small project in Zurich Wiedikon (WiedikonValley) not only provides

people with background and current information on some of the businesses; it also helps visually impaired people by giving them further audio information.

The technology is already fairly advanced and proves to be cost- as well as energy-efficient. It is only a matter of time until advertisers and agencies fully exploit the potential. Furthermore, the wearables market is still in an early stage. Future opportunities can be expected when engaging with potential customers on the street is enabled by sending messages right to their wrist.

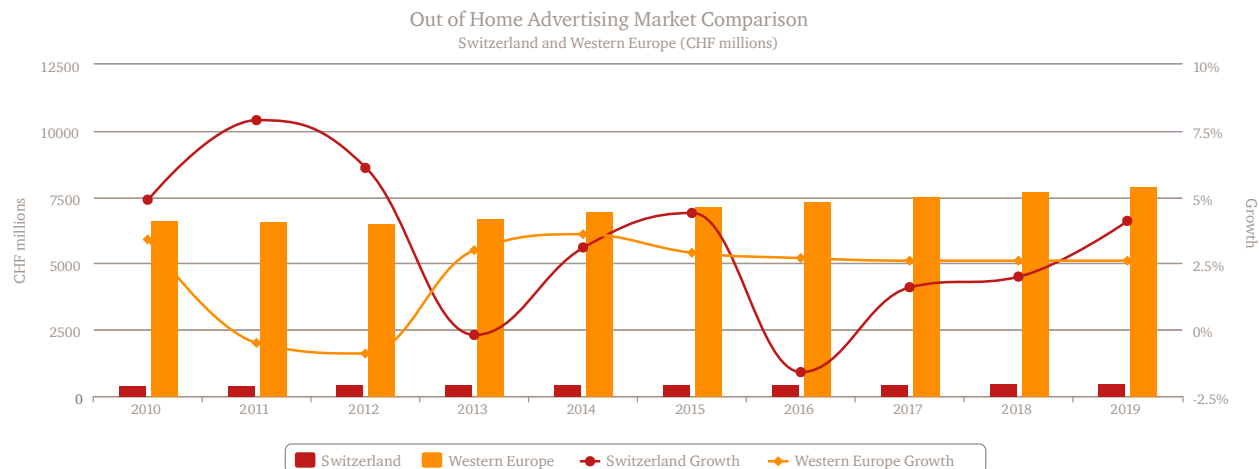
## Comparison to Western Europe

The Swiss OOH market is highly developed and represents the fourth largest market of its kind in Western Europe. Today, OOH advertising boasts a relative market share of 11 per cent of the total advertising mix. This exceeds European averages that generally

range from 5-10 per cent. It is expected that Switzerland will show lower annual growth rates compared to Western Europe.

The UK is the largest OOH market in Western Europe, with revenues of CHF 1.9 billion, followed by France with CHF 1.7 billion. The UK also leads in DOOH advertising, (ca. 25 per cent of OOH spending). We expect continuing strong growth in DOOH; it should surpass physical OOH by 2020.

Germany, the third-largest market in Western Europe, is expected to grow slowly and reach CHF 1.3 billion by 2019. Compared to Switzerland, the German market is quite decentralised and focuses on the big cities and the Rhine-Ruhr region. Ströer, the market leader, is continuing to expand its network across the country to provide more comprehensive coverage.



Analysis by PwC







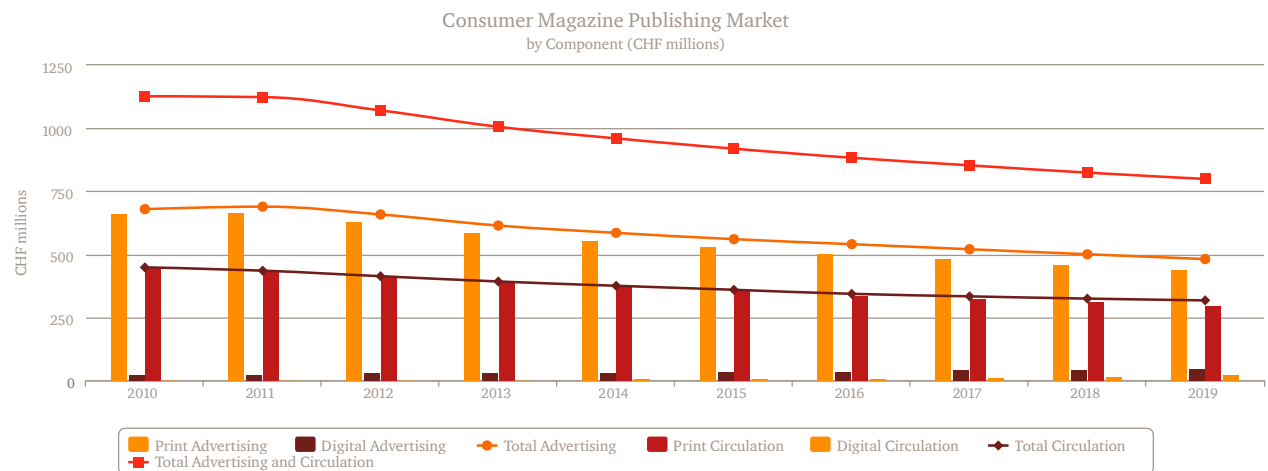
# ***Consumer Magazine Publishing***

*Consumer magazine publishers are increasingly focusing on their digital portfolio.*

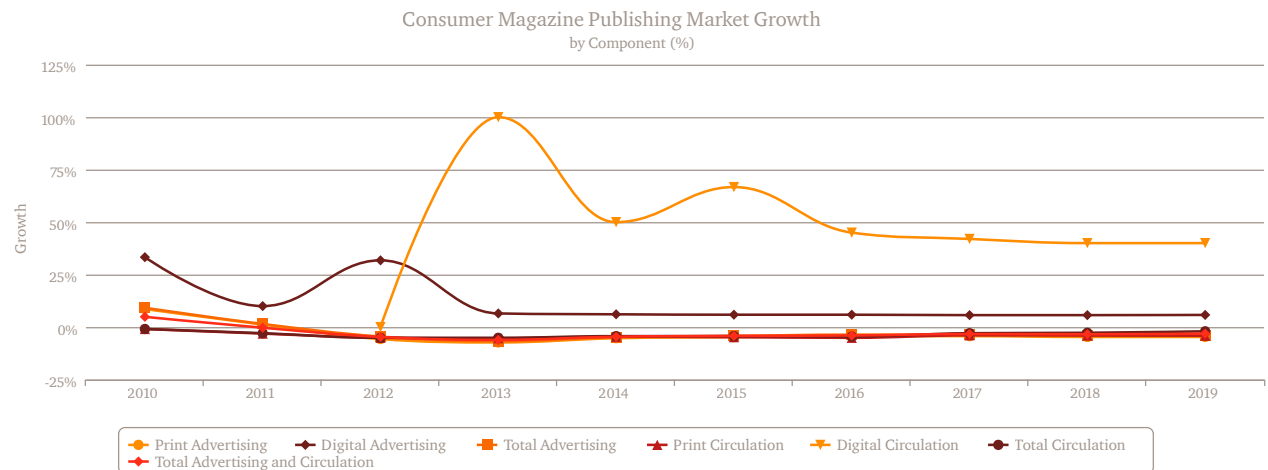
*Social media can be an important and easy way to keep customers interested in between editions.*

*Digital advertising is not expected to overtake print advertising within the forecast period.*





Analysis by PwC



Analysis by PwC

## Segment Definition

The consumer magazine publishing market comprises spending by advertisers on consumer print magazines, magazine websites and magazine mobile sites, including applications for smart devices. Consumer magazine publishing also reflects spending by readers on the purchase of magazines via subscriptions or at retail outlets and kiosks, as well as paid online and mobile subscriptions for portable devices. Magazines published under contract, known as customer magazines or custom publishing, are also included in the print advertising component.

Figures do not include licencing or other ancillary revenues. Trade magazines are not included.

## The Swiss Consumer Magazine Market

### Market Overview

There are two revenue streams within the consumer magazine publishing market: advertising and circulation spending. Both can be further subdivided into print and digital. In terms of overall print and digital spending, digital holds a four per cent share of the market, which shows that although digital content is emerging, print still represents the major factor in the consumer magazine market.

The traditional print magazine area showed decreasing readership again in 2014. Some exceptions, such as “LandLiebe” published by Ringier or the “Wandermagazin Schweiz”, still managed to gain readership despite overall declines in the consumer magazine publishing market. The massive offering of digital news is seen as the main reason for losses in the traditional print magazine area.

At present, over 75 per cent of the Swiss population own a smartphone; over 40 per cent own a tablet. The rising penetration of smart devices has a strong impact on consumer magazine publishers. They have to rethink their traditional business model so that profitability can be ensured in the emerging digital era. For that reason, both Ringier and Tamedia have invested in the digitisation of print magazines and restructured their business structure.

As many consumers are still not willing to pay for online magazine content, publishers are seeking other opportunities in the digital sector to generate further revenues. For example, Ringier invested in digital platforms *sistyle.ch* and the *scout* group in order to diversify its business model. Besides that, Ringier is also planning to cooperate with other players in the Swiss market in effort to satisfy the changing needs of advertising clients and changes in media consumption.

Also, Ringier announced in mid-August that Swisscom, Ringier and SRG are planning to establish a joint marketing company that focuses on dealing with the dramatically changing circumstances faced by advertising clients and Swiss media in general. The merger enables the collective development of new forms of advertising and advertising technology in Switzerland. It is the declared goal of the partners to strengthen the Swiss advertising market in a globalised context and to improve the digital business through the partners' complementary knowledge of media and technology. The new company will commence business in the first quarter of 2016, assuming the Competition Commission and DETEC/OFCOM approve the merger.

Moreover, Tamedia is currently restructuring its business model in order to generate higher digital revenues. Tamedia actually already announced new centralised departments that will start their business as of January 1, 2017. With the department "Advertising & Commuter Media", Tamedia will merge their sales teams into a centralised advertising market unit. The aim of the new organisational structure is to simplify the process of planning and booking cross-media and cross-platform campaigns for their advertising customers through technological innovations.

In the first half of 2015, most of the titles of the popular financial and business press lost readership compared to the previous half-year. However, there were some magazines that managed to gain additional readership, for example *LandLiebe* (+ 22'000 readers), *Beobachter* (+ 16'000) and *Tele* (+ 14'000).

Advertising revenues from consumer magazines and newspapers account for about 40 per cent of total advertising revenues in Switzerland. In 2014, the major contributors to "consumer magazine print" gross advertising revenues were the nutrition sector with 13.5 per cent; tourism, food and leisure with 10.8 per cent; and the fashion/sports business with 10.2 per cent. Tourism, food and leisure took over second place from the cosmetics sector.



## Market Growth

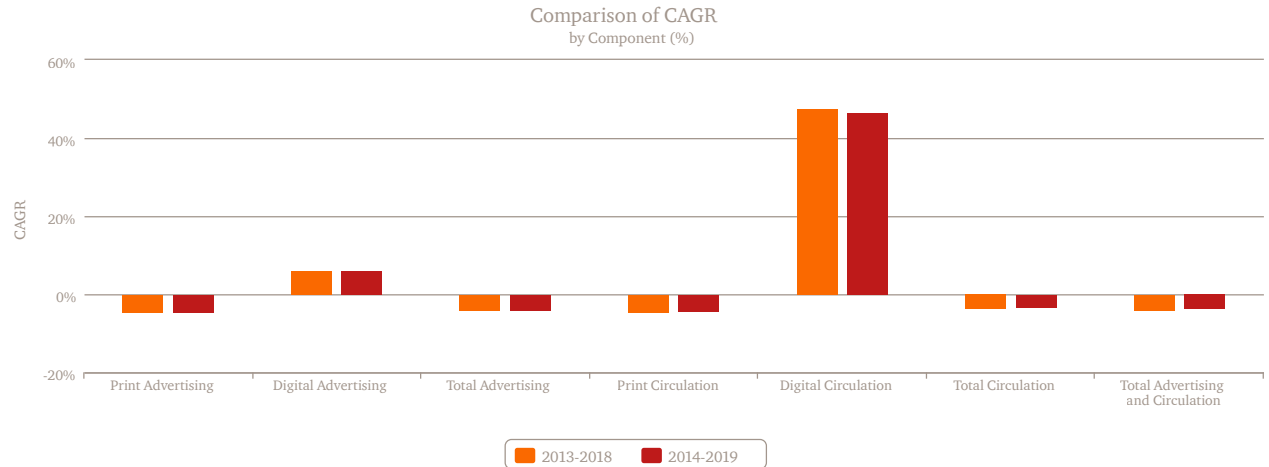
Our projection for the years ahead is slightly more positive than last year. We expect that the print advertising and circulation market will decline at a slower pace over the next several years. The structural downturn in the consumer magazine advertising market has decelerated.

The increased use of smart devices leads not only to a decline in digital revenues, but also to future possibilities for advertisers in the digital segment. An additional boost in digital advertising spending is expected, as well as in digital circulation spending. We would like to point out that the digital business will not replace the income from the print business in the consumer magazine market in the near future. We expect a slowdown in the digital advertising business and the digital circulation market as the readership of consumer magazines in Switzerland is more print-oriented.

## Key Players

Just a few publishers dominate the consumer magazine market in Switzerland. The main publishers are Ringier (Schweizer Illustrierte, SI Style, Schweizer LandLiebe, etc.), Tamedia (Schweizer Familie, Annabelle, 20 Minuten Friday, etc.) and Axel Springer Schweiz (Beobachter, Bilanz, etc.).

Ringier is planning to establish a joint venture with Axel Springer CH and contribute its consumer magazine business to Axel Springer JV. The aim of the partnership is to strengthen their competitiveness in the Swiss consumer magazine publishing and advertising market and to push the digitisation of their brands.



Analysis by PwC

## Principal Drivers

### ***New business models could offset revenue losses from the traditional print business***

Increasing broadband penetration and the ownership of smart devices will result in increased consumption of digital content. Print readership and subscriptions will be progressively supplanted by digital. With mobile apps and web pages, people can access digital content whenever and wherever they like, which in turn boosts the readership of digital consumer magazine offerings. However, as these digital publications don't generate sufficient revenues, publishers need to devise new revenue models in order to fill that gap.

### **Monetisation of digital offerings will be the next critical step**

Making online content accessible free of charge will gradually become an exception rather than the rule. Subscription-based payment models, probably combined with freemium offers, could represent a significant potential for circulation revenues. Specialised titles in particular often provide images and content that cannot be found elsewhere on the Internet at no cost, so that should spur the introduction of subscription fees. As the 50+ generation, with its greater ability and willingness to pay, is now also increasingly using mobile devices to access news and information, digital payment models are becoming very important.

### **The importance of digital advertising will rise, but print advertising will remain the major source of income for consumer magazine publishers**

There are several reasons why digital advertising is on the rise. Firstly, as digital content is attracting an ever-increasing readership, it makes it possible to reach a wider range of potential customers. Secondly, advertisers have the opportunity to enhance traditional ads with links to social networks or online shops that encourage interactive activities. And thirdly, it is possible to place video ads which have a stronger impact on people than display ads. Despite this trend, we believe that print advertising will remain the leading source of revenues for consumer magazine publishers through 2019.



*“In my opinion, digital and classic media are of equal importance at the moment. We have some leading players in Switzerland that remain essential but will be complemented by a digital offer or provide their own content digitally.”*

**Lennart Hintz**  
COO | MediaCom

## **Business Innovation**

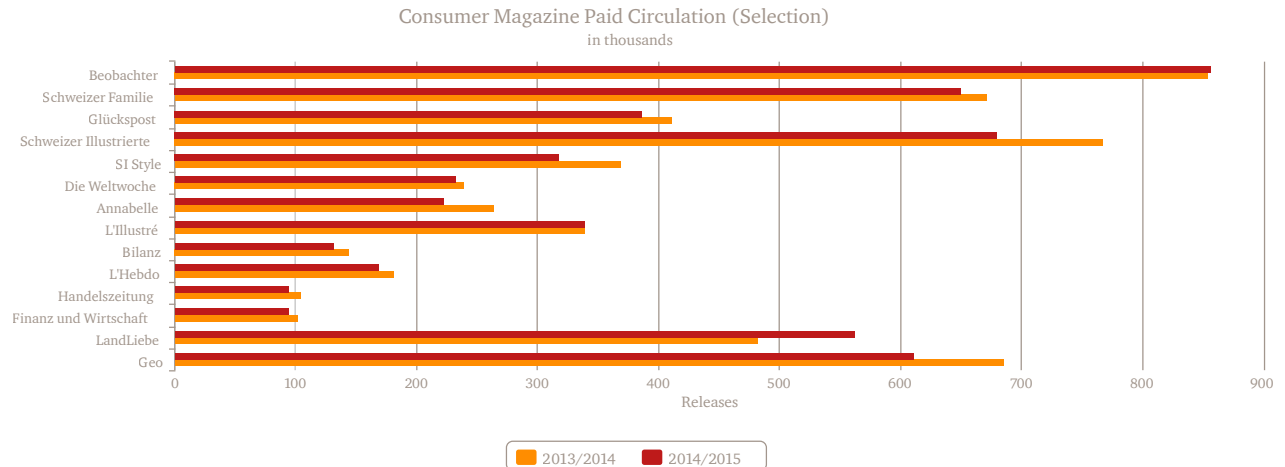
The Internet offers a platform where everyone can express themselves and share their opinion. About ten years ago, blogs became very popular among the mainstream. Every few seconds a new blog was created, often focused on topics that were similar to consumer magazine content. But unlike magazines, online content can be obtained for free, shared easily, as well as commented on and discussed. Consumer magazine websites are now starting to embrace this form of content creation.

Vogue, for example, has a blog style section about various cities that gets updated with new reports by different authors every few days. Articles like this also help to bridge the one-month time span until the next issue of the magazine is published. It is important for consumer magazines to distinguish themselves through high-quality product without missing out on major trends

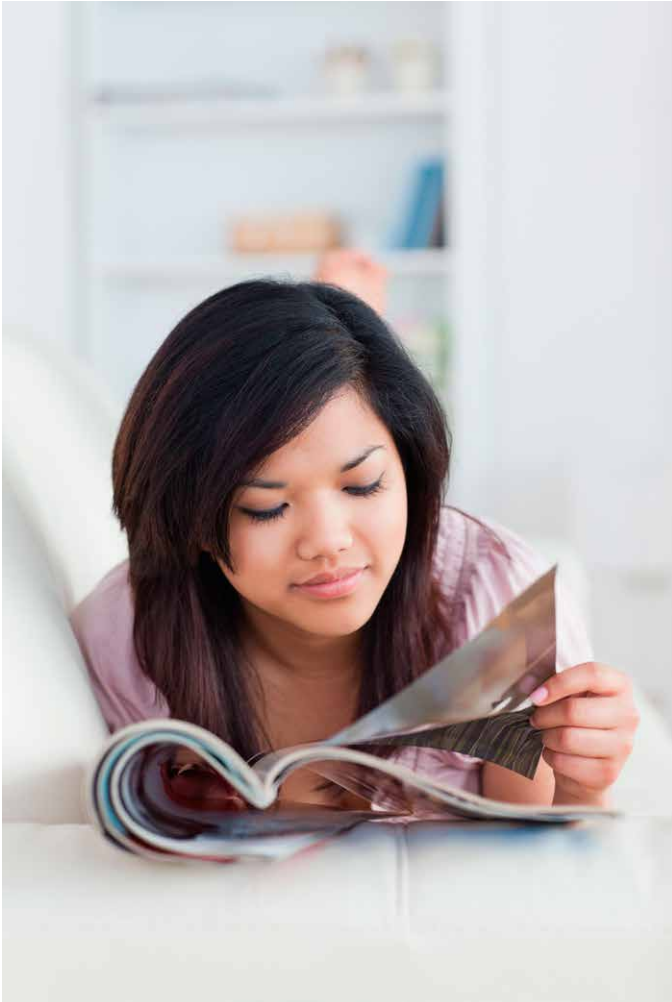
like multichannel media consumption or consumer interaction. Magazines with highly visual content are almost predestined to go well with mobile devices and the Internet.

GQ is another example of a magazine experimenting with new publishing methods. Their popular Instagram account allows GQ to be present in people’s everyday life and convey the lifestyle and mindset the magazine tries to communicate. In contrast to a printed magazine, digital platforms are more playful and experimental and can be used to increase consumer interaction.

Magazine publishers need to realise that content wasn’t responsible for the recent rather unsuccessful years, but rather the format in which it was communicated. In a world of pay-free, digital content, print is increasingly becoming a luxury good and publishers need to be more attentive than ever to their readers’ needs and thereby reinforce their loyalty.



Analysis by PwC

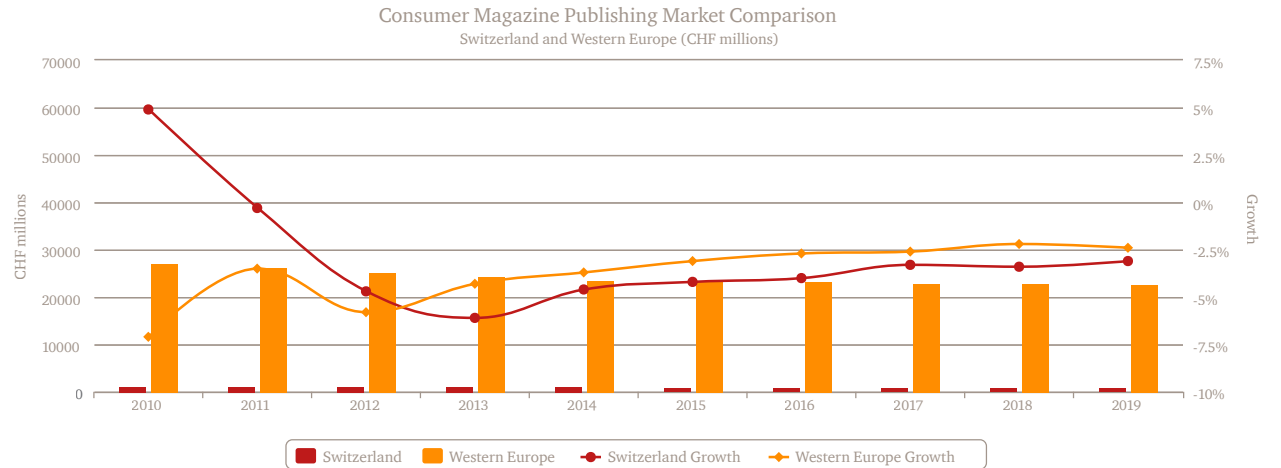


## Comparison to Western Europe

Among all Western European countries, Switzerland is facing almost the least favourable outlook for the coming years, second only to Portugal with its expected CAGR of -4.2 per cent. Some countries such as the UK, Ireland and Finland are even expected to show marginal growth, albeit at a rate of less than one per cent.

However, the market throughout Europe is expected to decline as digital revenues cannot offset losses in print advertising and circulation.

In terms of the consumer magazine market, France and Germany were by far the largest contributors in 2014, representing a 27 and 19 per cent share, respectively, of the total revenues generated in Western Europe.



Analysis by PwC



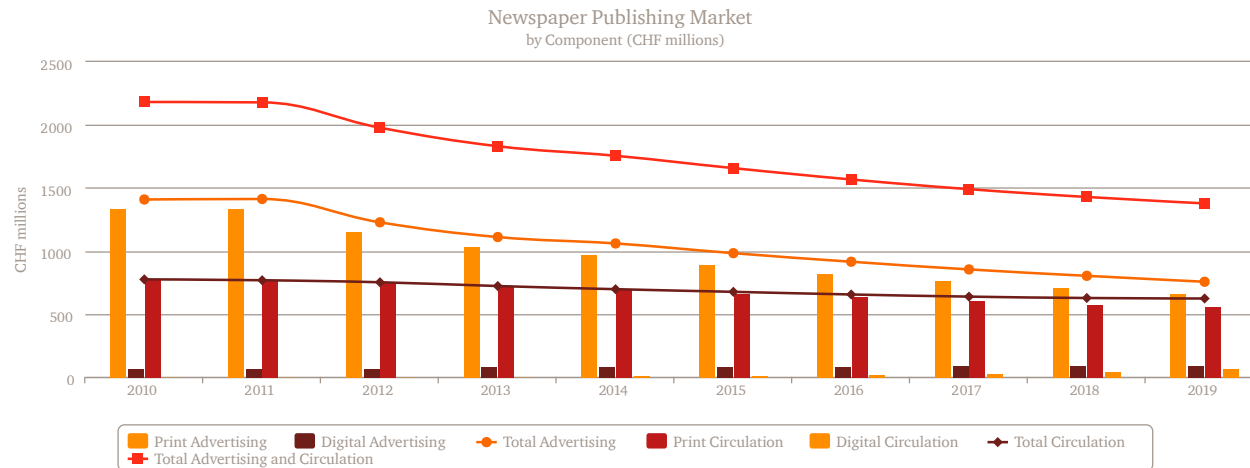


# ***Newspaper***

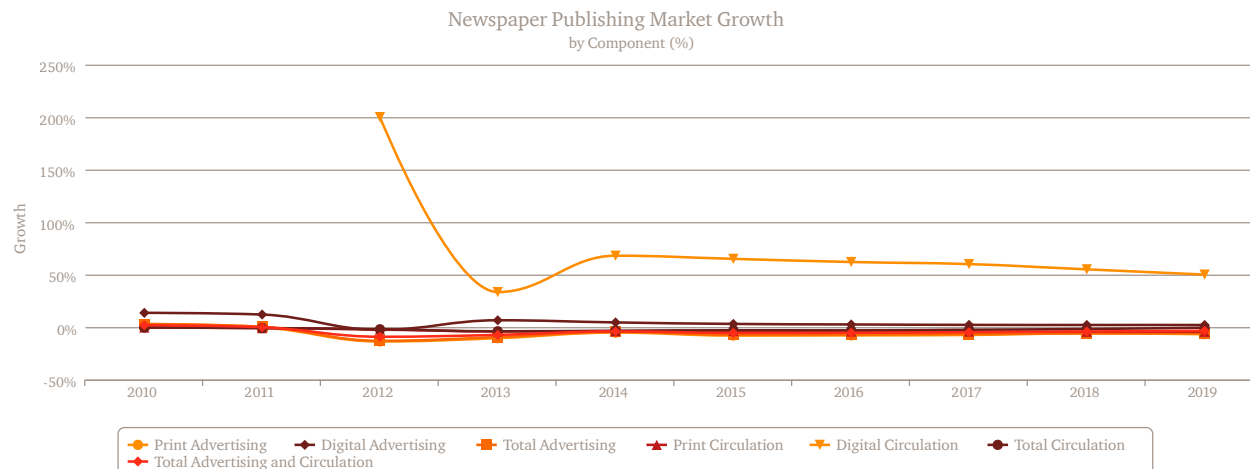
*Crossmedia offers  
extend the influence of  
newspaper advertising.*

*Publishers cooperate in print  
and sales to save costs.*

*New digital business models might be the  
solution to declining print revenues.*



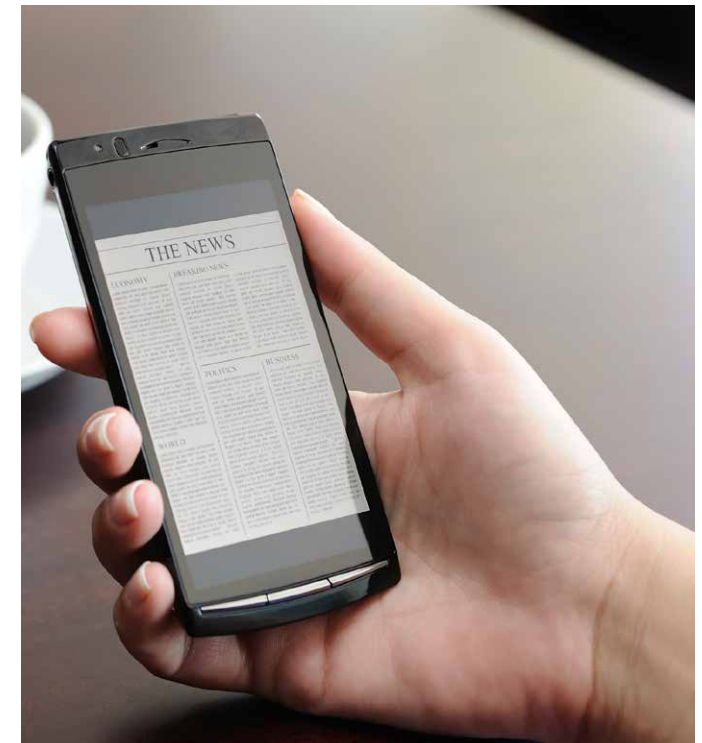
Analysis by PwC



Analysis by PwC

## Segment Definition

The newspaper publishing market comprises spending on daily print, regional weekly and Sunday newspapers by advertisers and readers, as well as digital advertising on newspaper websites and within mobile applications. Spending by readers includes newsstand and kiosk purchases, subscriptions, payments for newspapers delivered to mobile devices and fees for accessing online content.



## The Swiss Newspaper Market

### Market Overview

For decades, newspapers have been a successful medium in Switzerland. However, the newspaper publishing market has been struggling over the past few years. In all of Europe, print advertising and circulation are expected to remain in a downward trend. Digital sources of revenue cannot make up for the decline of the print market. In Switzerland, the same tendencies can be observed and Swiss publishing houses are getting creative in the search for new revenue sources as well as for cost reduction.

The market is characterised by acquisitions and collaboration between publishing houses. AZ Medien for instance acquired Dietschi AG (Oltener Tagblatt), while Ringier and Axel Springer merged their operations to form a joint venture. Tamedia is now responsible for printing the Neue Zürcher Zeitung as well as the Neue Luzerner Zeitung, and NZZ Mediengruppe shut down one of its printing centres. By cooperating in print and distribution, economies of scale can lead to cost reduction.

On the other hand, the publishing market has been driven by a process of diversification that has mostly taken place through the continued acquisition of non-publishing businesses. Ringier is investing in entertainment opportunities like sports marketing as well as in online classifieds such as scout24 and e-commerce platforms. With the acquisition of the online platform architonic, NZZ Mediengruppe is following through on its proposition with high quality architecture and design data and content. Recently approved by the Competition Commission was Tamedia's acquisition of the e-commerce platform ricardo.ch. With acquisitions like these, the slump in print circulation can be slowed down.

The newspaper advertising market exhibits trends that are similar to those in the circulation market. Digital revenues are rising

but cannot compensate for the decrease in print advertising. Not only are advertisers shifting from traditional formats like print to new media offers, but also the whole Swiss advertising market is experiencing a decline. Except for the more measurable Internet media, all advertising channels suffered losses in 2014. Despite its downtrend, print media advertising remains a corner-stone of the Swiss advertising landscape; however, it is apparent that publishers are beginning to view spending by readers as an equally important source of revenue. While circulation income has traditionally been the minority revenue stream, these trends mean that it will develop into being equivalent to advertising.

The more important the readers and their payments become for the newspaper market, the more important satisfying content will be. In today's globalised world, it is nearly impossible for comparatively small players like the Swiss publishers to keep up with the flood of instant reports on international news. National newspapers are therefore increasingly focusing on background reports. The trend can easily be spotted in this year's remodelling of the NZZ.

The Swiss newspaper publishing market remains special not only because of its distinct geographical and linguistic boundaries, but also because of the influence of the Swiss political system of direct democracy, where most decisions are taken at the local or regional level. This makes local and regional news an important factor within the political landscape. It is likely that those localised businesses will be the most significant source of advertising income in the coming years. Local news coverage is therefore also a good way to make up for the decreasing interest in international news in print segment.

As a result of the decline in traditional print advertising revenues, digital service expansion and monetisation continues. Mobile and tablet editions are now developed features in the Swiss market. Watson, a newspaper that is only available online and highly oriented towards mobile traffic, increased its user count by 950'000

in 2014 alone. In Austria, NZZ Mediengruppe launched NZZ.at, a paid newspaper that was created solely for digital use. It is likely that free offerings will diminish over time as market players seek to further monetise their digital platforms.

### Market Growth

As in previous years, the dynamism of change within the Swiss newspaper publishing market remains high, thus making it extremely challenging to arrive at a four-year forecast. However, the data show that, compared to last year's estimates, this year's prognosis for compound annual growth is slightly more negative.

A number of key factors are responsible for the increased downward tendency within this market. Most notably, the publishing market suffered severely from the strong Swiss Franc in 2014. Because of the elimination of the euro/franc exchange



rate floor in early 2015, is especially the print advertising segment expected to decline sharply.

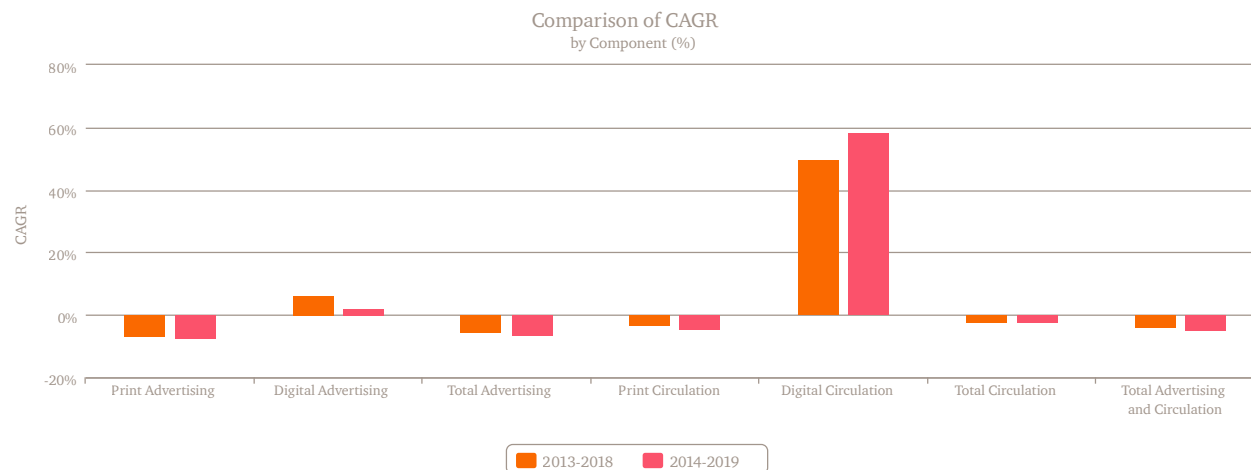
Although print advertising revenues are on the wane, they will remain the most dominant source of income over the forecast period. However, publishers may be starting to view reader spending as equally important as advertising, given the shift in revenue streams. As print advertising and circulation revenues are falling, revenues from digital offers are expected to rise versus the previous years.

We do not assume that the digital business will supplant print revenues entirely in the near future. While it is true that the print market is struggling, there remains scope for innovation that could lead to renewed interest from particular consumer groups. In this regard, it must be noted that the growth in digital revenues has been felt most by national outlets; regional and local papers have actually had problems fostering greater interest in their digital offerings, which suggests that the regional audience remains largely print oriented.

## Key Players

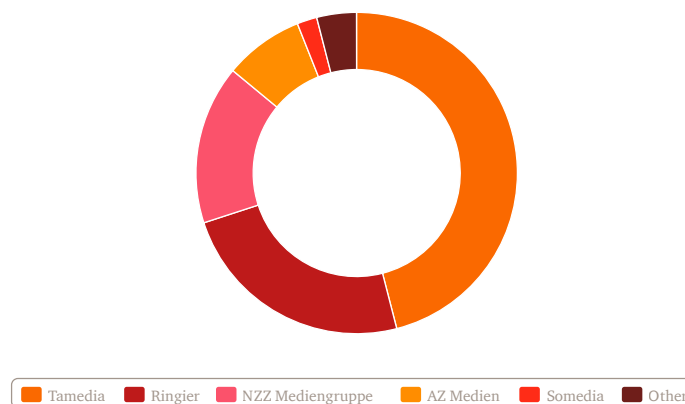
Due to the continuous consolidation activity, the titles of only a handful of publishers make up the vast majority of market circulation. In Switzerland today, the market is dominated by only a few publishers: Tamedia, Ringier, NZZ Mediengruppe, Somedia (previously Südostschweiz Medien) and AZ Medien AG.

With its cost-free publication 20 minutes, a newspaper available in all regions and languages of Switzerland, and a variety of other important newspapers such as Tages-Anzeiger, Tamedia is the highest-circulation publishing house in Switzerland. It is followed by NZZ Mediengruppe with titles like Neue Zürcher Zeitung and St. Galler Tagblatt, and then Ringier which offers Blick as its most important newspaper.



Analysis by PwC

Market Share: Newspaper  
in per cent



Analysis by PwC



## Principal Drivers

### **Crossmedia offers new ways of addressing potential clients**

FM1today is the first product of regional media innovation cell NZZ Mediengruppe. The online portal combines content from TV broadcaster TVO and radio station FM1 with normal newspaper content. The new platform is targeting a younger audience by offering entertainment, news and services of importance to this consumer group. “Crossmedia” stands for the inclusion and adaptation of all various channels a publisher offers so the entire content can be consumed seamlessly. Cooperating in content creation leads not only to additional cost savings, but also to higher recognition of potential customers as the advertising communication is extended.

### **Growth in the digital market will not offset the decline in the print market**

We expect that print circulation and print advertising market spend will continue to decrease. The migration of readers to the Internet, along with changing consumer behaviour, will take a significant toll. The digital circulation and digital advertising market will gain ground in the coming years, but it is unrealistic to assume that this growth will offset the decline in the print market.

### **Price increases have reached a maximum**

Price increases compensated in the short term for declines in circulation; however, consumers’ will to spend more for content has reached a peak. Readers will switch to cheaper digital offers if prices for printed newspapers continue to rise. Therefore, we expect that print circulation revenue will fall further and only be partially offset by digital circulation.

### **Publishers have to find the right way to adapt their IT infrastructure and make digital applications attractive.**

Mobile devices, such as tablets and smartphones, represent an important avenue for circulation and the generation of related advertising revenues. The extent of increases in digital circulation is largely dependent on how publishers handle adapted IT infrastructure. This includes payment models as well as the usability of applications, social features, and the mining of Big Data. Regional players will need to approach this issue in a different way than their national counterparts, given the regional population’s current preference for print media.

### **Publishers need to focus on new income channels**

Swiss publishers must continue to think about new revenue sources outside the publishing market in order to compensate for the decline in their traditional market. The online classifieds segment has witnessed various acquisitions by publishing houses in recent years. Tamedia and Ringier are dominating the market with websites like tutti.ch and autoscout24.ch. As Marc Walder, CEO of Ringier, which already generates 32.1 per cent of its revenues through digital offers, puts it: “If you are not disrupting yourself, you will be disrupted – and vanish.”



*“In five years, NZZ will have further strengthened its position in the premium market. NZZ plans to lead in terms of innovation because there’s no way back to the ideal world. Specialised media will continue to gain importance. Customers’ need for information will still exist five years from now.”*

**Veit Dengler**  
CEO | NZZ Mediengruppe



*“Precedents show that, if language, appeal and platform are chosen correctly, news can also reach the young audience. Young, mobile news doesn’t have to be trash at all.”*

**Adrian Zaugg**  
Head of Corporate Strategy | SRG SSR

## Business Innovation

In a time of digitisation, newspaper publishers are struggling to monetise their content. Paywalls were an experiment that didn’t prove to be very successful. A Dutch digital start-up introduced a new form of paying for published content. Instead of paying a certain subscription rate per newspaper, the reader only pays for the articles that are actually read. A study by Reuter, which observed that the average consumer only uses 1.5 news apps shows the potential of news aggregators. The publisher sets the exact amount per article, which equates to roughly 20 US cents. Launched in April 2014, blendle has already more than 300’000 users who buy articles of various publishers, including The Wall Street Journal and The New York Times, via this micropayment system. Blendle points out an array of advantages over regular paywall systems. Similar to Apple’s or Google’s online newspaper kiosk, blendle combines various publishers in their app and website that can be accessed via smartphone, tablet or computer. This one-stop-shop solution lets the customer read various news from different sources by purchasing just a single app.

Consumer preferences are tracked and used to suggest articles to the reader. However, probably the most important feature of blendle is the possibility to get a refund on articles that didn’t

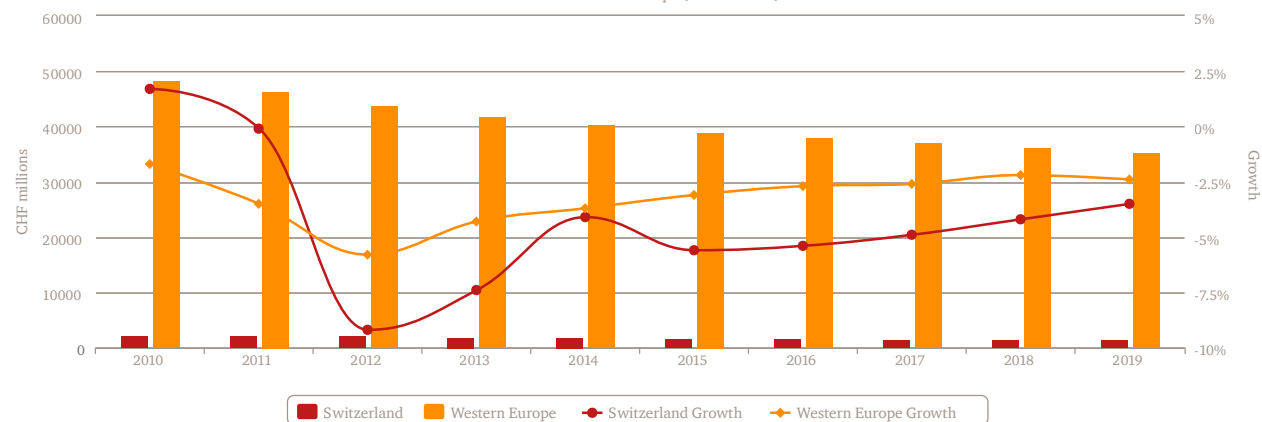
meet the reader's expectations. As a result, consumers don't have to fear clickbaiting articles that feature a nice headline without offering adequate content. According to blendle, about 5 per cent of all articles read get refunded. The company perceives itself as an accompanying service to traditional paywall models that target a young audience who were not willing until now to pay for journalism. To ensure a satisfying amount of articles from the app, blendle only launches in a new country if the majority of newspapers are willing to cooperate. Although Swiss publishers haven't yet shown much of interest in the service, the German part of Switzerland can already access this news platform, as the version that was already launched in Germany will now be supplemented with Swiss offers. So far, only two Swiss newspapers have joined. It will be interesting to see if the new online kiosk can gain a foothold.

## Comparison to Western Europe

The Swiss market accounts for 4.5 per cent of the Western European market. Due to significant decreases in circulation, the Swiss market is expected to decline faster than the Western European market on average. Only five countries, led by Greece, Finland and Ireland, report lower growth rates.

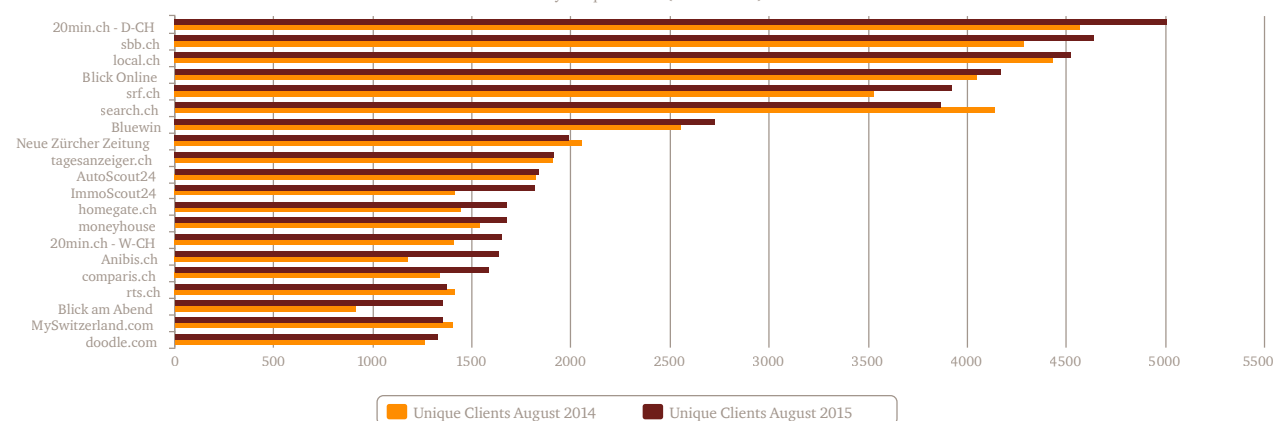
The Swiss newspaper market is comparable in size to the Spanish, Norwegian and Austrian newspaper markets. Digital revenues are expected to rise throughout Western Europe, except for Ireland where negative growth rates in newspaper digital advertising have been recorded. In terms of digital circulation spending, Switzerland shows the highest anticipated growth rate.

Newspaper Publishing Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

Top 20 Swiss Websites in August 2015  
Measured by Unique Clients (in thousands)



Analysis by PwC

# *About*

The Swiss Entertainment and Media Outlook presents 5-year annual historical data and forecasts for the next five years across eleven industry segments, plus an annually adapted deep-dive into a hot topic and a special focus report on current media trends. In each segment of the outlook we share our point of view on the Swiss entertainment and media market and offer detailed commentaries on the major developments in the coming years.



*[www.pwc.ch/outlook](http://www.pwc.ch/outlook)*

## About this Publication

This sixth Swiss Entertainment and Media Outlook was produced by our Swiss team of entertainment and media experts from across all PwC Assurance and Advisory service lines and located in various offices throughout Switzerland.

## Your Key Contacts



### **Patrick Balkanyi**

Partner, Assurance  
Leader Technology, Communications,  
Entertainment and Media Industries  
+41 58 792 26 76  
patrick.balkanyi@ch.pwc.com



### **Bogdan Sutter**

Director, Advisory  
Leader Telecommunication, Media  
and Technology Consulting  
+41 58 792 77 51  
bogdan.sutter@ch.pwc.com

## Acknowledgements

We would also like to thank the following experts for their contribution to this publication (in alphabetical order):



**Nadia Eberle**  
Advisory



**Nathalie Fahrni**  
Advisory



**Anke Gerding**  
Assurance



**Philipp Gnädinger**  
Assurance



**Jana Huber**  
Advisory



**Barbara Mebold**  
Assurance



**Benjamin Opel**  
Advisory





# *Swiss Entertainment and Media Outlook 2015*

## Executive Summary

