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Swiss Entertainment and Media Outlook
2011–2015

*Revenues, trends
and developments in
the Swiss entertainment
and media industry.*



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Editorial

November 2011

To our clients and friends both in and beyond the entertainment and media industry:

Welcome to the second annual edition of PwCs' Swiss Entertainment and Media Outlook, covering the forecast period of 2011–2015. The Swiss country edition is complementary to the Global Entertainment and Media Outlook, which was published in June 2011 for the 12th consecutive time, and provides you with further insights into the technological, political, social and economic trends and developments driving revenues in the Swiss entertainment and media market. Our forecasts and analyses for this second Swiss edition comprise 12 major entertainment and media (E&M) industry segments:

1. **Internet Access Spending: Wired and Mobile**
2. **Internet Advertising: Wired and Mobile**
3. **TV Subscriptions and Licence Fees**
4. **Television Advertising**
5. **Recorded Music**
6. **Filmed Entertainment**
7. **Video Games**
8. **Radio**
9. **Out of Home**
10. **Consumer Magazine Publishing**
11. **Newspaper Publishing**
12. **Casino and Online Gaming**

2010 saw a strong rebound in Swiss E&M spending. Though we noted a decline in GDP of –1.7 percent in 2009, the Swiss economy bounced back to growth in 2010, with GDP growing at a convincing 2.8 percent. The renewed economic growth had – and will likely continue to have – a positive effect on advertising. The continuing consumer appetite for broadband, combined with the proliferation of smartphones and tablets is spurring investment in digital content and eco-systems, many of which are driven by the industry probably most influenced by the shift towards digital: newspaper publishing.

These are only few of the findings of the second Swiss Entertainment and Media Outlook from PwC.

As a key input to this survey, a series of interviews with Swiss leaders of entertainment and media companies, governmental organisations and industry associations were conducted, each sharing their thoughts and knowledge on the underlying trends and developments that drive revenues in the Swiss E&M market. We would very much like to thank these leaders who have made themselves available to share their valuable time and input with us. The Swiss Entertainment and Media Outlook was produced by our Swiss team of entertainment and media experts. Please refer to the contacts section for contact details.

We wish you exciting and interesting reading.



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Executive Summary

The collaborative future: reshaping for consumer relevance and engagement

The overall direction of travel in the global entertainment and media (E&M) industry has remained consistent. Over the coming five years, we will see digital technologies progressively increase their influence across the industry, and that rapid change in technologies and consumer behaviours will continue across all E&M segments. While the pace of progress still varies by country and segment, these trends will see digital spending worldwide grow at 11.4 percent compounded annually through 2015, compared to a CAGR of just 3.3 percent for non-digital spending. This global trend can also be noticed in Switzerland.

However, two key things have changed since last year. In 2010, many companies were still searching for a position in the digital value chain and embedding their digital strategies, with no clear path to success emerging in this changed environment. In 2011 the focus has switched from inward to outward, as companies embrace the fact that multi-partner collaboration along the value chain – an approach that we highlighted in last year's Outlook – will be key.

As a result, 2011 has seen an upsurge in collaborative partnering – heralding the transformation of the E&M industry over the next five years into a digital collaborative ecosystem. This seismic shift is underlined by PwC's 14th Annual Global CEO Survey, published in early 2011 (see information panel), which shows that E&M industry CEOs now see collaboration as critical to innovation and consumer engagement. It can also help them address the industry's pressing challenges around talent, by providing access to vital and complementary skills. In Switzerland, examples of such collaboration can especially be noticed in the Swiss newspaper market, as described in Chapter 11.

At the same time, structural changes in the E&M market – principally the ongoing shift from higher-priced physical distribution to lower-priced digital distribution – will limit spending. Online ad rates are substantially lower than their counterparts in the traditional advertising media, and end-user prices for digital content are also generally lower than prices for physical content. As a result, the shift in usage from traditional media to digital media is not revenue neutral – as the digital share of the E&M market increases, spending will lag behind the growth in nominal GDP. This decoupling will change the historical relationship between E&M and GDP, under which E&M spending typically rose faster than nominal GDP during periods of economic expansion. During the next five years, we project that on a global level, E&M spending will grow at a 5.7 percent compound annual rate, well below the projected 6.5 percent compound annual increase in nominal GDP. In Switzerland, we do not see so far this trend. Swiss broadcast television advertising spending in 2010, for example,

PwC's CEO Survey 2011: focusing on collaboration, consumers and skills

PwC's 14th Annual Global CEO Survey highlights three key findings about the current priorities of leaders in the E&M industry. They are:

Reshaping their organisations for collaboration. More CEOs in E&M than in any other sector expect to form a new strategic alliance or joint venture in the coming year. 57 percent – compared to 39 percent across all industries – expect the majority of their innovations to be co-developed with partners outside their organisation.

Targeting innovation around consumer spending and behaviour. Two-thirds of E&M CEOs expect consumers to play a more active role in product and service development, putting customers and collaboration at the heart of their strategies for the digital age.

Tackling the skills conundrum. 77 percent of E&M CEOs are concerned about the availability of key skills and their future talent pipeline's quality, loyalty and mobility. This compares with just 56 percent of CEOs overall.

strongly outpaced GDP growth of 2.8 percent, and grew by a tremendous 13.5 percent. However, its decline a year earlier, of –4.1 percent, was also greater than the decline in GDP of –1.7 percent.

Therefore, the coming four years will see digital technologies progressively increase their dominance across all segments of entertainment and media as the digital transformation continues to expand and to escalate.

In this industry overview, we aim to define the context for the detailed forecasts in the Outlook.

In **part one**, we summarise our projections for all Swiss entertainment and media industry segments covered and compare these against projections for Western Europe.

In **part two**, we outline three key issues at the heart of industry developments.

Megatrends

1

The empowered consumer

+ engagement with the consumer becomes the principal driver of brand, content and device

2

The involved advertiser

+ advertisers shift their focus from audience measurement to engagement measurement in advertising

3

The collaborative digital enterprise

+ deep understanding of and insight into data in the digital value chain becomes of crucial importance

In **part three** of this overview, we summarise the impact of changing consumer behaviour and lay out seven success factors we believe will facilitate each organisation's transition to its optimal place in the new digital value chain.

Part One: Swiss Entertainment and Media Industry Revenues

2010 saw a strong rebound in Swiss entertainment and media spending. Though we noted a decline in nominal GDP of -1.7 percent in 2009, the Swiss economy already bounced back to growth in 2010, with nominal GDP growing at a convincing 2.8 percent. The renewed economic growth had – and will likely continue to have – a positive effect on E&M spending, particularly on advertising, the component with the greatest sensitivity to economic conditions. Consumer spending on entertainment and media and Internet access were less affected by the economy and managed to keep positive growth rates. In Switzerland,

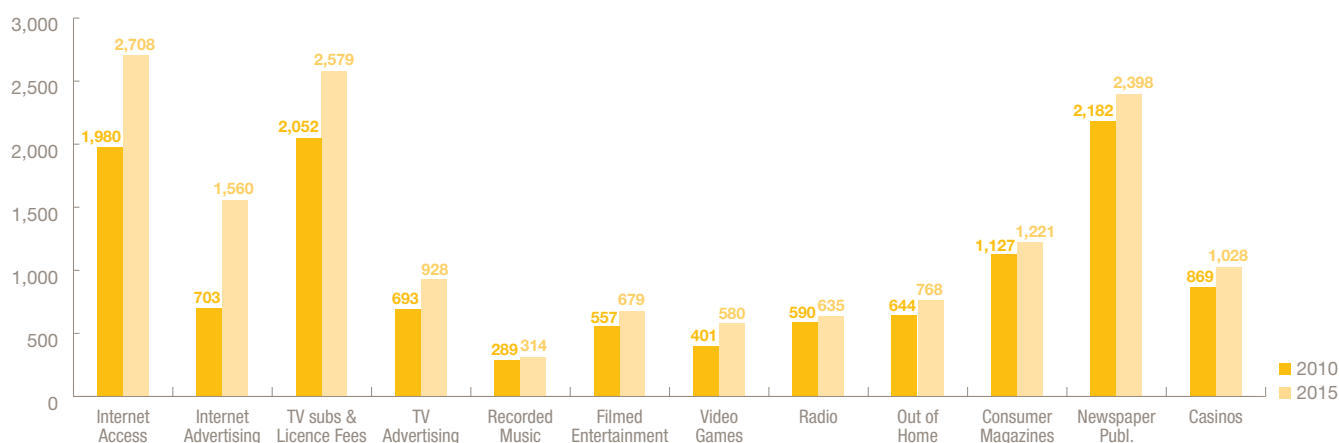
even spending on recorded music did not decline in 2010, this in contrast to most Western European countries. Overall, we expect spending in the selected Swiss E&M sectors to grow by a compound annual growth rate of 5.0 percent, from CHF 12.1 billion in 2010 to CHF 15.4 billion in 2015.

Our forecasts are based, amongst other things, on an average GDP growth of 3.0 percent up to 2015. However, this growth is fragile, due to the current uncertainties with respect to the deficits of several countries in the Eurozone, the corresponding pressure on the exchange rate of the Swiss franc, and a risk of deteriorating consumer confidence. The SECO for example, has already reduced its prognosis for growth in GDP for 2012. Though the SECO anticipated a 1.5 percent growth for 2012 in June 2011, it had adapted this to a mere 0.9 percent by September 2011. On October 5, 2011, the International Monetary Fund (IMF) warned that Europe may slip back into a recession in 2012.

Although the current economic woes were allowed for in our projection, we do not foresee this scenario happening. If Switzerland indeed were to slip into a recession in 2012, along with the rest of Western Europe, Swiss spending on the various entertainment and media areas, especially those related to advertising, will most probably be negatively affected. On the other hand, we have already started to notice that consumers tend to get used to the steady flow of financial doom-and-gloom messages, resulting in lower than expected downsizing of consumer spending. And last but not least, we do expect that ongoing financial insecurity will only boost the current digital transformation even more. To many enterprises, going digital not only means access to consumers through a new or enhanced channel, it also means being able to produce content at a significantly lower cost level.

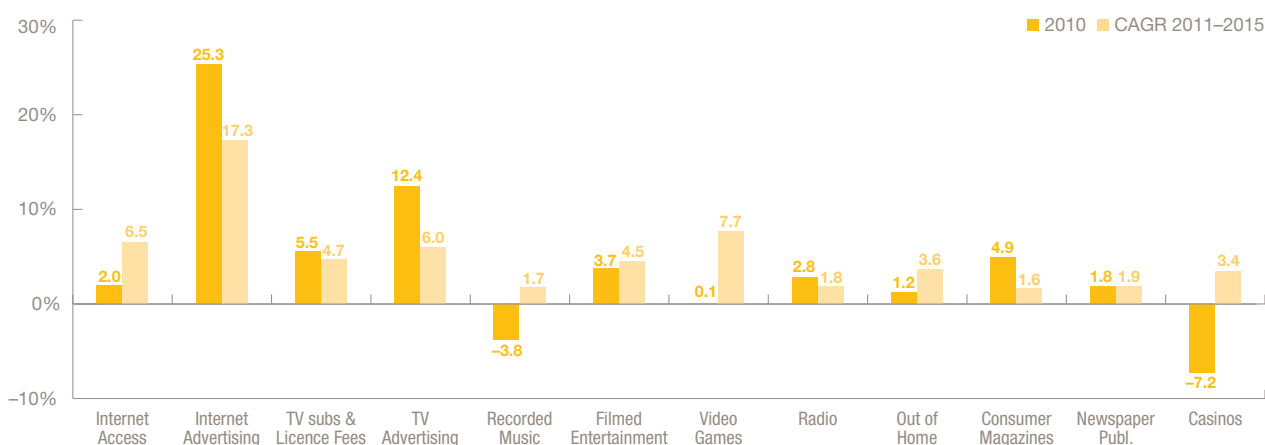
Swiss Entertainment and Media Market, per sector (in CHF millions)

CHF millions



Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Swiss Entertainment and Media Market Growth, per sector (in percentages)



Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

The following section gives a brief summary of the key developments and trends in each E&M sector:

1 Internet Access: Wired and Mobile

Market size and growth in Switzerland

- We expect the Swiss wired and mobile Internet access market to increase at a compound annual growth rate of 6.5 percent from CHF 1.9 billion in 2010 to CHF 2.7 billion in 2015.
- In comparison, we expect that the Western European market will grow by 5.8 percent compounded annually, and revenues will increase from CHF 61.2 billion in 2010 to CHF 81.2 billion in 2015.
- Switzerland has the second highest broadband penetration (38 percent) in Europe as of 31.12.2010, exceeded only by the Netherlands.
- Mobile data volume in Switzerland quadrupled during 2010 and it is generally expected that mobile data traffic will double every 6 to 7 months.

Market size and growth by component

- Wired broadband access is the largest component, at CHF 1.8 billion in 2010, and is projected to grow at a 5.4 percent compound annual rate to CHF 2.4 billion in 2015.
- Mobile Internet access spending, which totalled CHF 142 million in 2010, will be CHF 321 million in 2015, a 17.8 percent compound annual increase.

Principal drivers

- With approximately 3 million broadband subscribers, Switzerland is approaching broadband saturation, which will lead to slower growth in the number of broadband households. With increased availability, ongoing but small declines in pricing will result, if individual speed levels are compared. On balance, the growing share of premium broadband subscribers and the launch of high-speed broadband options have induced some subscribers to trade up to premium services, paying more in the process.
- Heavy investment in optical fibre and next-generation cable networks will further stimulate growth in broadband households. In combination with triple or quadruple play packages this will lead to price pressure, which can be offset by the proliferation of high-speed broadband options at premium fees or the uptake of higher speeds at stable prices.
- Growing penetration by smart phones and tablets is expanding the potential market for mobile Internet access.

2 Internet Advertising

Market size and growth in Switzerland

- We expect the Swiss Internet advertising market to increase at a compound annual growth rate of 17.3 percent, from CHF 703 million in 2010 to CHF 1,560 million in 2015.
- In comparison, we expect the Western European market to grow by 11.5 percent annually, from revenues of CHF 21.8 billion in 2010 to CHF 37.6 billion in 2015.

Market size and growth by component

- Total wired Internet advertising is expected to increase at an annual compound growth rate of 16.8 percent, from CHF 691 million in 2010 to CHF 1,504 million in 2015.
- Wired Internet advertising's main component – search advertising – will benefit most and increase at a compound annual growth rate of 17.9 percent, from CHF 363 million in 2010 to CHF 827 million in 2015.
- The second largest contributor to total wired advertising – classified advertising – will grow at a 16.8 percent compound annual rate from CHF 160 million in 2010 to CHF 347 million in 2015.
- The third largest contributor to total wired Internet advertising – display advertising – is expected to increase at a 14.6 percent compound annual growth rate, from CHF 159 million in 2010 to CHF 314 million in 2015.
- Despite previous beliefs, the strong trend towards performance marketing could not be sustained into 2010. We expect affiliate advertising to advance by an 11.9 percent compound annual growth rate from CHF 9 million in 2010 to CHF 15 million in 2015.
- Mobile advertising continues to be on the rise. We expect mobile Internet advertising to increase at a 35.6 percent compound annual growth rate from CHF 12 million in 2010 to CHF 56 million in 2015.

Principal drivers

- Constantly increasing bandwidth of Swiss Internet access, especially through advanced deployment of Fibre to the Home (FTTH) and EuroDOCSIS 3.0, is expected to substantially drive wired Internet advertising over the coming years.
- Mobile access growth, especially through increased HSPA+ network upgrades, deployment of LTE, and increased smartphone and tablet penetration will drive mobile Internet advertising.
- The use of wireless LAN, combined with the huge proliferation of smartphones and tablets in Switzerland, drives overall Internet time consumption. Although a large number of iPads sold in Switzerland are 3G enabled, many of these tablets are only used within the home environment, or when travelling to destinations that have WLAN access, such as hotels, resorts, airports or major railway stations.
- Internet consumption by WLAN can be increased even more considering the fact that the entire public transport network of the city of Zurich – Switzerland's

largest city – is already prepared for wireless access, allowing for seamless connectivity through mobile traffic offloading, positively influencing Internet advertising.

- The continuing change in consumer behaviour influenced by generations growing up with the Internet will further increase Internet advertising's importance and market size.
- In Switzerland, there is still a gap in advertising budget allocation between traditional media and Internet advertising. Whereas the use of the Internet as a medium to consume content continues to rise sharply, advertising budgets are still not allocated to the Internet in the same proportions. We believe this gap will be closed in the next five to seven years.
- The increasing importance of as well as the time spent by Swiss citizens using social networks, such as Facebook, Twitter, Xing, LinkedIn and others, is now starting to attract also the more conservative advertisers. These advertisers often have large inventory, boosting overall Internet advertising spending.

3 Television Subscriptions and Licence Fees

Market size and growth in Switzerland

- We expect the Swiss TV subscriptions and licence fees market to increase from CHF 2.1 billion in 2010 to CHF 2.6 billion in 2015, a compound annual growth rate of 4.7 percent.
- In comparison, the Western European market is projected to grow by 5.2 percent compounded annually. From CHF 67.0 billion in 2010, Western Europe will reach revenues of CHF 86.3 billion in 2015.

Market size and growth by component

- Subscription spending is the principal component of the market with revenues of CHF 1.1 billion in 2010, which represents 55.7 percent of all spending on TV subscriptions and licence fees. We project an increase at a 6.7 percent compound annual growth rate to CHF 1.6 billion in 2015.
- Public TV licence fees, the second largest component, with a market share of 40.8 percent, are expected to grow by 1.0 percent in accordance with overall household development. We expect revenues to increase from CHF 837 million in 2010 to CHF 880 million in 2015.

- Royalties for audiovisual works in 2010 amounted to CHF 46 million. We expect that the royalties for audiovisual works will increase at a 1.8 percent compound annual growth rate to CHF 50 million in 2015.
- VOD is projected to rise at a 23.2 percent compound annual growth rate from CHF 15 million in 2010 to CHF 43 million in 2015.
- PPV is rather insignificant in Switzerland and is projected to remain at a constant level of CHF 3 million through 2015.
- Mobile TV subscription spending is expected to grow at a 20.8 percent compound annual rate after a significant revenue drop in 2010 due to price reductions, reaching CHF 19 million in 2015, with a trend towards an advertisement-based financing strategy.
- The fastest growth is expected from mobile television advertising spending, with an average yearly growth of 71.9 percent from a very low base of CHF 1 million in 2010 to CHF 15.6 million in 2015.
- Online television advertising spending is expected to increase 19.1 percent annually, up from CHF 24.0 million in 2010 to CHF 57.4 million in 2015.
- Combined, the online and mobile television sector in Switzerland is expected to increase from CHF 25.0 million in 2010 to CHF 73 million in 2015, a compound annual growth rate of 23.9 percent.

Principal drivers

- Improving economic conditions, enhanced premium services and migration to digital will fuel spending on premium services and VOD after 2011.
- Increased availability of mobile TV will increase the subscriber base.
- IPTV, which contributes to subscription spending and VOD, will be the fastest-growing subscription technology in Switzerland.

4 Television Advertising

Market size and growth in Switzerland

- We expect the Swiss net television advertising market to increase from CHF 693 million in 2010 to CHF 927 million in 2015, a compound annual growth rate of 6.0 percent.
- In comparison, the Western European market will grow by a projected compound annual growth rate of 4.5 percent. Western Europe will reach revenues of CHF 37.9 billion in 2015 up from CHF 30.4 billion in 2010.

Market size and growth by component

- The principal component of television advertising in Switzerland, broadcast television advertising, will reach revenues of CHF 785.9 million in 2015, or 84.7 percent of total television advertising spending.
- Broadcast television sponsoring is expected to increase by 5.4 percent annually, from CHF 53 million in 2010 to CHF 69 million in 2015.

Principal drivers

- Faster than expected economic recovery and increased use of television to drive sales and market share will stimulate the overall advertising market.
- Increasing investment in broadband infrastructure, mobile and wired bandwidth capacity will further spur investments in mobile and online television media offerings, as well as consumer spending on such media, including the necessary hardware, such as smartphones and tablets.
- The introduction of Web-enabled TV sets and the expansion of online streaming in Western Europe will fuel online television advertising.
- Mobile TV rollouts and the shift from subscriber-supported to advertiser-supported services will expand the mobile television advertising market. However, this growth is fragile, as it is highly dependent upon flat-rate 3G/4G or innovative WiFi data traffic tariff plans, such as those offered by the mobile (virtual network) operators.

5 Recorded Music

Market size and growth in Switzerland

- We expect the Swiss recorded music industry to increase by an average of 1.7 percent a year between 2010 and 2015, going from CHF 289 million to CHF 314 million.
- Despite the average growth in the next 5 years, the Swiss market in 2015 will still be around 6 percent lower than it was in 2006.
- In comparison, the Western European market will decrease slightly by 0.3 percent, compounded annually. Western European revenues will decrease from CHF 7.9 billion in 2010 to CHF 7.8 billion in 2015.

Market size and growth by component

- We expect digital distribution to grow at an average of 12.7 percent a year between 2010 and 2015, effectively increasing by CHF 15–20 million every year to reach almost CHF 200 million in 2015. Even though yearly growth will slow down in that period compared to 2006–2010, there will still be double-digit yearly growth.
- By 2015, spending on physical formats will have fallen by more than 60 percent compared to 2006, reaching CHF 115 million.
- However, the decline will slow down to around a 7 percent decrease in 2015 compared to over 10 percent between 2006 and 2010. This is because the physical distribution market will begin to approach its base level.

Principal drivers

The key drivers for the evolution of the Swiss recorded music market are influenced by:

- Piracy, which remains an issue
- Changes in business models and related technical innovations in general, e.g., penetration of streaming music services rather than purchase of units (songs) for personal storage; continuous improvement in the convenience of digital stores and volume changes rather than price changes
- Market building companies like Apple with its cloud services in the new iOS5 and Google with its music service
- Moderate declines in the physical market as many people – principally in the expanding over 45 demographic – still prefer music in physical formats.

6 Filmed Entertainment

Market size and growth in Switzerland

- The total filmed entertainment market in Switzerland amounted to CHF 557.1 million in 2010. It is expected that the market will reach CHF 679.3 million in 2015, averaging 4.5 percent compounded annual growth between 2011 and 2015.
- In comparison, the Western European market will grow by the same compounded annual growth rate of 4.5 percent. Western European revenues will increase from CHF 19.9 billion in 2010 to CHF 24.5 billion in 2015.

Market size and growth by component

- The physical sell-through and box office market are the principal drivers of the Swiss filmed entertainment industry. Home video physical sell-through will grow by 3.4 percent compounded annually from CHF 309.6 million in 2010 to CHF 365.9 million in 2015. The box office market will expand from CHF 228.7 million to CHF 295.4 million in 2015, a 5.5 percent increase compounded annually.
- Home video in-store rentals will fall by 7.1 percent compounded annually to CHF 9.4 million in 2015 from CHF 14.0 million in 2010.
- Fastest growth is expected from electronic distribution spending, from CHF 4.8 million in 2010 to CHF 8.6 million in 2015, a compounded annual growth rate of 15.8 percent, partially substituting both physical sell-through and in-store rental spending.
- Overall home video spending will reach CHF 383.9 million in 2015, a compounded annual growth rate of 3.8 percent.

Principal drivers

- Box office spending will be enhanced by growth in 3D screens and 3D releases, which will raise average prices while dampening admissions growth.
- The proliferation of new electronic distribution services, the availability of content on tablets and other devices, and growing broadband penetration will drive electronic spending. Increased competition from electronic distribution services will cut into the physical rental market.
- The growth in Blu-ray will offset DVD declines and will expand the physical sell-through market as of 2011.
- Increasing broadband penetration, faster speeds and the availability of content storage solutions will support online streaming and online video subscriptions in Switzerland.
- Key factors affecting the market in any given year are the quality and attractiveness of individual releases, a development we cannot predict.

7 Video Games

Market size and growth in Switzerland

- We expect the Swiss video game industry to increase by an average of 7.7 percent a year between 2011 and 2015, growing from CHF 430 million to CHF 580 million. This makes video games one of the most dynamic segments in the Swiss entertainment and media industry.
- In comparison, the Western European market will grow by a projected 5.7 percent compounded annually. Western European revenues will increase from CHF 16 billion in 2011 to CHF 21 billion in 2015.

Market size and growth by component

- Console/handheld games will continue to be the largest segment of the market, increasing by 6.9 percent compounded annually from CHF 200 million in 2011 to CHF 265 million in 2015.
- We expect the second largest segment – online games – to be the fastest growing segment and it is expected to grow at an average yearly rate of 10.8 percent from CHF 137 million in 2011 to CHF 205 million in 2015.
- Video game advertising will have an average yearly growth of 10.1 percent. Video game advertising spending will grow from CHF 24 million in 2011 to CHF 34 million in 2015.
- Wireless games will increase at 7.8 percent compounded annually from CHF 36 million in 2011 to CHF 48 million by 2015.
- PC games sales will continue their sharp fall from previous years and decrease from CHF 33 million to CHF 28 million, a –4 percent compound annual rate.

Principal drivers

- Over the next few years the console game market will continue to be driven by new games being marketed and continued interest in the current generation of consoles: the Wii, Xbox 360, and PlayStation 3 (PS3). The latest handheld devices, the Nintendo 3DS, the PlayStation Portable (PSP), and the PSP Go, will also continue to support the market. We expect that, by 2015, the next generation of consoles will begin to be introduced, which will spur renewed growth in console games.
- The online market will benefit from an increase in penetration of broadband households combined with

growing digital distribution of content. The increasing popularity of massively multiplayer online games (MMOGs), with their subscription fees and microtransactions, is also aiding the growth of the market. Casual games and social network games are further important components of the online market, helping expand the demographic base and stimulate spending. Some developers are shifting their attention from console games to concentrate more on online games.

- The growth of smartphones and tablets, such as the iPad/iPad 2, with improved graphic capabilities, will raise the bar for the quality of wireless games and will drive demand for them. At the same time, new application stores that make the purchase of games more user-friendly will increase the number of gamers willing to purchase games. The growth of third-generation/fourth-generation (3G/4G) networks, with their faster speeds, will provide an environment enabling wireless games to approach the quality of console games.
- The market for PC games will continue deteriorating as consumers turn their attention to newer technologies. Piracy of PC games, which is prevalent in certain markets, has also hindered the growth of the segment. The growth of MMOGs, which usually require retail purchase of a PC game, will partially offset the continuing decline of the retail PC game market.
- Video game advertising is emerging as an additional revenue stream. The dynamic in-game advertising segment is increasing in importance and is being fuelled by the growth of the online game market.

8 Radio

Market Size and growth in Switzerland

- We expect the radio market to increase from CHF 590 million in 2010 to CHF 635 million in 2015. This means a rather modest average annual growth rate of 1.8 percent. In 2010, the share of radio reception fees in the total radio market accounted for some 76.5 percent, while advertising spending and sponsoring revenue generated the balance of 23.5 percent.

Market size and growth by component

- Digital radio (DAB, DAB+, HD Radio) in Switzerland is gaining ground but its share is still marginal compared to analogue radio. However, we are observing a move by the majority of radio stations to expand strongly into digital technology.

Principal drivers

- On June 18, 2010, the Swiss government announced a moratorium on radio and TV reception fees for the period 2011–2014. As a result, additional revenue from this source will be achieved by natural growth in the number of households and a stronger focus on fee collection, in particular from companies that are obliged to pay reception fees. Furthermore, the possible introduction of a device-independent collecting system (as of the beginning of 2015) as well as political pressure on the fee structure could have a sustainable impact on reception fee revenues.
- The traditional driver in the radio advertising market is a mix of music, information and presentation able to attract a clearly defined target audience. A radio station with a clear mix of well-chosen components has considerable appeal for advertisers since it allows the positioning of advertising messages geared toward specific target groups.
- With respect to digital radio, the key drivers are availability and penetration of low-cost reception devices and the adoption of the technology by households and the automotive industry. Installation of digital radios as a standard feature in cars might provide a strong boost to DAB+ or HD radio. Nowadays, digital automobile radios are available at electronics shops in Switzerland, although they are not considered standard when manufacturing cars. Besides this, car companies are starting to offer HD radio as optional equipment in their cars.

9 Out of Home

Market size and growth in Switzerland

- For the OOH market, we expect solid average annual growth of 3.6 percent up to 2015. We expect out of home advertising expenditure to increase from CHF 644 million in 2010 to CHF 768 million in 2015.

Market size and growth by component

- The physical out of home segment is expected to increase at a moderate annual growth rate of 1.6 percent, from CHF 634 million in 2010 to CHF 685 million in 2015.
- The digital out of home (DOOH) segment is expected to contribute heavily to the overall anticipated growth. We forecast an average annual growth rate for digital out of home advertising of 52.9 percent, up from CHF 10 million in 2010, to CHF 83 million in 2015.

This means that digital out of home advertising is expected to cross the 10 percent landmark in 2015 and reach 10.8 percent of total out of home spending.

Principal drivers

- After a significant decline of 12 percent in 2009, the Swiss OOH market recovered in 2010 and grew by 1.2 percent.
- The out of home market is being transformed by the deployment of digital billboards and other forms of digital screens and the expansion of captive video networks. Although digital technologies still account for a relatively small proportion of the out of home market, they are generating a large proportion of OOH growth.
- One of the main drivers for out of home spending is the increased mobility of the Swiss population and therefore increased exposure to the various forms of out of home advertising: research indicated that, on average, a person in Switzerland travelled 15,000 additional kilometres over the last 10 years and is expected to travel 130,000 kilometres per year by 2020. The mobility rate of the Swiss population exceeds 90 percent.
- The worldwide tendency towards increased urbanisation, leading to megacities or large agglomerations, also stimulates increased spending in out of home, as a larger audience can be reached.
- The cost of installing a DOOH infrastructure continues to decrease. This is one of the reasons the DOOH segment will grow strongly. Furthermore, digital signage solutions (optimised quality combined with greater flexibility in showing sequential ads, daypart bookings, pricing schemes based on effective audience, interactivity and enhanced measurability of advertising impact) spur investment in digital out of home.

10 Consumer Magazine Publishing

Market size and growth in Switzerland

- We expect the Swiss consumer magazine market to increase from CHF 1,127 million in 2010 to CHF 1,221 million in 2015, a 1.6 percent compound annual growth rate.
- In comparison, the Western European market will grow by a projected compound annual growth rate of 0.9 percent, from CHF 28.8 billion in 2010, to reach revenues of CHF 30.2 billion in 2015.

Market size and growth by component

- Spending on print advertising will increase from CHF 659 million in 2010 to CHF 689 million in 2015, a 0.9 percent compound annual growth rate.
- Spending on digital advertising will continue to grow strongly. Spending on digital advertising will increase from CHF 20 million in 2010 to CHF 88 million in 2015, a compound annual growth rate of 34.6 percent.
- Spending on consumer magazine print circulation will decrease from CHF 448 million in 2010 to CHF 429 million in 2015, a 0.9 percent compound annual decrease.
- Spending on consumer magazine digital circulation, a whole new market, is estimated to reach revenues of CHF 15 million in 2015, whereas today's revenues are negligible.

Principal drivers

- Improved economic conditions will lead to modest growth in print advertising spending during the next five years.
- Growth will be muted by declining readership, as consumers shift to online and digital sources and reduce their use of print magazines. Smartphone and tablet applications, especially, will substitute print subscriptions and readership, but at the same time new formats also provide opportunities to attract new readers. News and gossip titles will be most vulnerable to migration to the Internet as information available online reduces demand for print. Special interest titles will be less vulnerable to online competition.
- Despite the trend to digital advertising, we believe that print advertising will remain the main source of income during the next years.
- A major challenge for consumer magazine publishers is how to optimally benefit from the migration of readership from print, especially to tablet applications and other forms of online content.

11 Newspaper Publishing

Market size and growth in Switzerland

- We expect the Swiss newspaper publishing market to increase from CHF 2.2 billion in 2010 to CHF 2.4 billion in 2015, a compound annual growth rate of 1.9 percent.

- In comparison, the EMEA market will grow by a projected 1.6 percent compound annual growth rate and Western Europe by 1.0 percent compounded annually. For Western Europe, we expect newspaper publishing revenues to increase from CHF 51.9 billion in 2010 to CHF 54.6 billion in 2015.

Market size and growth by component

- Spending on print advertising is the principal component of the market, with revenues of CHF 1.3 billion in 2010, representing 61 percent of total spending. We expect an increase to CHF 1.5 billion in 2015, a 2.4 percent compound annual growth rate.
- We expect print circulation spending, the second largest component, representing 35 percent of total spending, to decrease from CHF 774 million in 2010 to CHF 768 million in 2015, a 0.2 compound annual decrease.
- Spending on digital advertising is expected to rise from CHF 67 million in 2010 to CHF 113 million in 2015, an 11.0 percent compound annual increase.
- Spending on digital circulation is expected to become a whole new market segment, with revenues reaching CHF 22 million in 2015.

Principal drivers

- Improved economic conditions will have a positive impact on both advertising and circulation spending.
- Nevertheless, under the influence of the migration of readers to the Internet and changing consumer behaviour, circulation and advertising spending will continue to decrease.
- Price increases, especially for Sunday newspapers, compensate in the short term for declines in circulation, but cannot be counted on looking forward.
- Mobile devices such as eReaders, tablets and smartphones are starting to represent a new outlet for circulation and related advertising revenues. As readership usage patterns have not been established for long, publishers need to experiment to find the optimal usability and attractiveness of such applications to its readership.
- Applications can cater to the specific needs of their readerships through the integration of additional content, related third-party content, video interviews and photo series.
- The general public is accustomed to paying for applications, allowing publishers to step away from the free content model to paid applications.

12 Casino and Online Gaming

Market size and growth in Switzerland

- We expect revenues from land-based Swiss casinos to increase from CHF 869 million in 2010 to CHF 1,028 million in 2015, which corresponds to a compound annual growth rate (CAGR) of 3.4 percent.
- Starting operations in 2012 and 2013, the recently granted new licences for the cities of Neuchatel and Zurich will contribute more than CHF 100 million in 2015. CAGR of the existing 19 land-based casinos, i.e., excluding revenues from the two additional licences, will amount to 1.2 percent from 2010 to 2015.
- In comparison, the Western European market will grow by a projected 2.5 percent compounded annually from 2010 to 2015. Starting at CHF 13,028 million in 2010, total gaming revenues will increase to CHF 14,765 million in 2015.

Market size and growth by component

- Since the first casinos were opened in 2002, slots have been attracting an increasing number of visitors as opposed to table games. While slots accounted for about 70 percent of revenues in the early 2000s, the share has now increased to over 80 percent. International comparisons indicate that a further shift to as much as 90 percent is likely.
- Online gaming offerings are growing apace. However, owing to the legal and regulatory uncertainties that surround the yet to be legalised online gaming market in Switzerland, and heterogeneous approaches abroad, this analysis does not include specific revenue forecasts for online gaming.

Principal drivers

- Macroeconomic factors continue to be the main influences on the online casino industry as a whole. A renewed onset of economic difficulties could trigger a similarly negative impact as in the past years (CAGR 2008 to 2010 in Switzerland of –5.2 percent and Western Europe –2.0 percent).
- One of the biggest industry challenges is to stay close to its customers and continue to match their changing tastes, needs, and lifestyle behaviours.
- Shifting demand and rising consumer expectations are forcing gaming operations to find ways to differentiate themselves from competition. This drives innovation and more compelling and encompassing offerings as only the best opportunities will trigger spending.
- Further supply side changes by the government and operators have the power to change the structure of the Swiss gaming industry. The two recently granted additional licences will cause significant revenue shifts within the market.
- Economic pressure will increase as a consequence of increased competition. Successful operators will focus on efficiency gains and cost optimisation.
- Complex issues will confront online gaming regulators at national and international levels. The regulatory environment is of key importance and influence to the further growth of the rising online gaming market.

Part Two: Developments at the Heart of the Industry

We identified three key issues at the heart of entertainment and media industry developments: the empowered consumer, the involved advertiser and organising business for digital, by transforming into a “Collaborative Digital Enterprise”.

1. The empowered consumer

Across the E&M industry, content producers, media owners, platforms and advertisers are being driven to create experiences that engage today’s empowered consumer, thereby creating multiple opportunities for monetisation. These efforts include redesigning their content experience to be multi-purpose and multi-platform, extending its consumer appeal across different social and physical contexts. This reflects the fact that engagement with the consumer is becoming the principal driver of brand, content and device, both from a social and technological perspective. The major challenge here is to get consumers to pay for content.

For many, the expectation that content can be accessed free has become an integral part of their lifestyles – as illustrated by the accompanying information panel on attitudes to piracy.

With the explosion of digital content, consumers have a choice and volume of content several magnitudes greater than five years ago, much of it available “free” – or at least at no extra cost on top of access. Through their Internet connections, consumers can stream and download large amounts of premium content via sophisticated services, many of which (such as Hulu in the US and BBC iPlayer in the UK) are free and/or cross-subsidised. In Switzerland, such catch-up services do not yet exist, apart from a channel’s own content (e.g. podcasts on sf.tv).

Furthermore, piracy is not only rife, but also spreading across segments with the advance of digital. With e-readers now taking off among consumers, book and magazine publishers face the risk of encountering the same issues that music publishing did during its digital transformation several years ago – namely rampant digital theft and plummeting revenues. Global recorded music revenues in 2010 were 29.6 percent lower than in 2006, and are not expected to show growth again until 2014. However, here too, we believe Switzerland to be less affected by this global trend.

Attitudes to piracy: “everyone is doing it”

Recent PwC research among US consumers aged 18 to 59 – all of whom had acknowledged their participation in online piracy within the past six months – suggests that piracy behaviour will continue. Alongside price, other factors contributing to the respondents’ decision to pirate content are earlier access and a perception that “everyone is doing it”. The findings include:

- 81 percent of the consumers who admit to pirating TV, movie, and video content say they will continue to do so.
- Mobile piracy is set to increase, with 40 percent of those who pirate content via traditional methods saying they will probably also pirate on mobile devices within the next six months.
- 76 percent are “somewhat willing” to pay a nominal fee if the content can be accessed closer to its release date.
- However, they are prepared to pay no more than \$3 to download a movie and less than \$1 for a TV programme.

Source: The speed of life: discovering behaviors and attitudes related to pirating content – PwC Consumer intelligence series

Meanwhile, the cross-industry battle against piracy continues. In one of the latest moves, film and music industry copyright holders in the UK are in talks with Internet Service Providers (ISPs) about a voluntary code to block illegal file-sharing websites. And several industry bodies across the world have taken legal action to try and force ISPs to block websites with a track record of facilitating content piracy. So far, in Switzerland, no such actions have been taken.

What will people pay for?

In an industry that must generate profits to invest in new content experiences, a situation in which content cannot be effectively monetised is inherently unsustainable. If consumers do not start paying, the survival of the content industry is at risk, particularly if advertising-supported content revenue models do not deliver replacement revenues quickly enough.

Price is clearly a factor in consumers' decisions on whether to engage in piracy, but other considerations can more than offset this. In last year's Outlook, we highlighted quality, convenience and experience as key factors encouraging consumers to pay for content. To these three, we will now add two more: "participation" and "privilege".

In terms of participation, consumers love playing an active role in shaping their content – and are happy to pay to do so: witness the popularity of buying virtual equipment to gain a competitive edge on video gaming sites, and of voting for contestants in television shows. The advance of social media as a mainstream and monetisable platform for content and advertising underlines the rise of participation. Meanwhile, in terms of privilege, many consumers would like unlimited access to content for free – but are happy to pay for services that provide additional value and the ability to "jump the queue", such as special offers, advance information on discounts, and earlier access to content.

Going forward, companies need to turn these five attributes into sustainable, profitable and engaged relationships with the consumer, by offering advantages that more than offset the attractions of "free" pirated content. Examples are the adoption of "freemium" business models, where selected content can only be accessed at premium rates, or a shortening of release windows for the latest Hollywood blockbuster at premium rates. Engagement and revenues are driven by a combination of content and brand, through becoming a trusted provider of content experiences that people value above possible "free" alternatives.

Establishing content and brand engagement is one half of the monetisation equation. The other is the mechanics of how people will execute their financial transactions. While a growing proportion of business models seek to generate revenues from consumers, often in combination with advertising, there are questions about how to collect the money from consumers.

Again, various models are being tried. The approach of combining various services into a bundled triple-play or quad-play subscription is being further refined, as providers incorporate access to the same content over a variety of platforms. "Freemium" remains popular, combining a free ad-funded service with a premium subscription-based, ad-free variant. And segments such as video games tend to use micropayments.

The shift to streaming

At the same time, a significant shift is emerging away from payment models that involve buying and "owning" content that is stored on a device, and towards paying for the right to consume it on a "rented" basis via streaming from cloud-based services. Taking music as an example, the models currently in use range from the iTunes-style concept of paying per transaction to own a specific piece of content, to the Spotify subscription model giving the right to stream content from a library. A further concept is an e-wallet from which people can purchase content across platforms. Here, the example of Google Wallet typifies several attempts in the industry to win over customer confidence in mobile payment. Google Wallet has been designed for an open commerce ecosystem. It aims at becoming the virtual counterpart for many if not all of the cards one keeps in one's wallet today, as well as a large number of loyalty cards, gift cards, receipts, boarding passes, tickets, etc. Transactions are conducted through the use of Near Field Communication (NFC), which allows for simplified transactions, data exchange, and wireless connections between two devices in close proximity to each other, usually by no more than a few centimeters. It is expected to become a widely used system for making payments by smartphone in the United States and other countries, such as France. Many smartphones currently on the market already contain embedded NFC chips that can send encrypted data a short distance ("near field") to a reader located, for instance, next to a retail cash register. Shoppers who have their credit card information stored in their NFC smartphones can pay for purchases by waving their smartphones near or tapping them on the reader, rather than using the actual, physical credit card.

2. The involved advertiser

As content providers have set about using creative thinking and innovation to drive digital revenues from consumers, so advertisers and agencies have followed suit, becoming increasingly sophisticated in identifying and exploiting the new brand opportunities brought by digital content services and platforms. Advertisers want more information and more verifiable return on investment from their ad spend. They are also listening to – and engaging directly with – their consumers to a greater extent than ever before.

Ad agencies are moving to respond to these needs, providing their clients with new ideas for connecting with consumers via digital platforms, thus enhancing ad effectiveness and the return on investment (ROI) on spend. Agencies are also investing in the success of digital advertising by sharing the risks and rewards with brand owners, and trying out new ideas jointly with clients on an experimental basis. These new approaches are emerging against the background of a concerted recovery in advertising, led by online and TV, which has helped to restore the attractiveness of ad-funded models, often blended with a subscription revenue stream.

What will advertisers pay for?

The fundamentals of what advertisers are looking for remain consistent: they will pay to appear where the right people are watching, especially if they can interact with them in a personalised way. The move to digital media has vastly increased their opportunities to do this.

These core aims means advertisers want to use channels where consumers are both concentrated within their target segments and closely engaged with the content experience. And they are increasingly demanding transparent, verifiable evidence that they are hitting the right segments with the right messaging via the right platform, and thereby generating a good return on their ad spend. This demand is driving ongoing advances in audience measurement, with a shift in metrics away from volume toward engagement.

As content owners engage consumers across a widening array of platforms, advertisers on these platforms are following suit, collaborating, experimenting and innovating with E&M companies and other participants, embedding and targeting their messaging in new and increasingly sophisticated ways.

One sign of this growing sophistication is a more insightful view of the relationship between consumers' buying decisions and their use of electronic media. Every sale transaction involves three stages – research, purchase and delivery. Depending on an array of variables including the nature of the branded offering – from cars to fast-moving consumer goods to financial services – and the prevailing consumer culture, electronic media plays a greater or lesser role in each of the stages. Through an analysis of electronic media's influence at each stage, advertisers can target and structure campaigns to yield the optimal return.

In tandem with such approaches, a key current focus for brand owners is on using mobility and social networking to develop direct relationships with consumers, enabling advertisers to turn social media into social intelligence – and ultimately brand engagement. Today there are myriad examples of major brands making committed use of social networks, reflecting the fact that 66 percent of Internet users globally use social media, and many want to see their favourite brands participating in their conversations. Coca-Cola has nearly 24 million Facebook fans, and engages customers by allowing user-generated content on its site. The UK TV broadcaster ITV launched its ITV Live community during the 2010 FIFA World Cup, attracting two million users within four weeks through incentives such as direct chat with celebrities.

Filmed entertainment companies are also making growing use of social networks as a source of revenues. In early 2011, Warner Bros decided to stream its 2008 action film “Batman: The Dark Knight” on Facebook for about USD 3, attracting 1.5 million fans in a week. The experiment was deemed a success, and additional content is now available from Warner Bros. At the same time, Lionsgate was selling movie theatre tickets for “The Lincoln Lawyer” through social-shopping site Groupon for USD 6, equivalent to a discount of about 50 percent in many areas.

With commercial use of social media, the power of the concept – its free-form and fluid nature – is also its greatest challenge. In this context, it is significant that many of the current initiatives to create new monetisation models through platforms such as Facebook are experimental in nature. Whereas in the past companies used to conduct detailed research and planning before launch, today they may simply put something out there and see whether consumers take it up. In effect, companies are using the social networking community as a collaborative testing environment for the commercial viability of new ideas. If something works, they can escalate it; if it doesn't, they can simply drop it and try something else.

Branded digital entertainment is a further strong focus. While the concept of branded entertainment has been around for many decades, digital media – and especially social networking – have transformed its potential reach and profile. Consumers' rising receptiveness to branded entertainment is underlined by research published in Globalwebindex's 2011 Annual Report, showing that 71 percent of 16 to 18 year olds say they are more likely to buy a brand that tries to entertain them. Again, there are many examples of recent initiatives, including Burberry's "Burberry Acoustic", an online video series showcasing new British bands; BMW's "Wherever You Want to Go" movies on the shape of the mobile future; and IKEA's humorous online video series, "Easy to Assemble".

Customised content and TV

While online services and social media were initially seen as a threat to television consumption and advertising, they are proving to be complementary to TV revenues. Customised content across complementary platforms drives ad effectiveness. Indeed, TV and social networking are increasingly being integrated and experienced as a single offering and digital advertising is seen as additional to TV ad spending rather than as a replacement. DVRs have not killed TV advertising either, although – along with streamed and downloaded video content – they have heavily impacted DVD sales and rentals.

TV has also proved more adept at repurposing for other platforms, creating a consistent multichannel content experience while using robust authentication to keep control of rights usage. These efforts include generating customised content that attracts not only specific advertisers but also specific demographic profiles on specific platforms. The USA based CW Network – which shows teen-focused content such as "90210", "One Tree Hill", "Gossip Girl" and "Nikita" – has managed to generate parity between online and broadcast CPM advertising rates, by building a deeply-engaged niche audience and using data mining to understand and explain audience demographics.

The power of complementary cross-platform integration will driven deep content engagement is also evident in video games, which have succeeded by tapping into every aspect of digital – compelling content, interactivity with social networks, exciting graphics, and integration with mobile. More generally, customisation of their core content is an increasing priority for E&M companies, including creating additional content for certain types of devices, repurposing content directly for the web, and developing content that builds brands cross-channel. Again, the core driver is consumers' engagement with content, and their willingness to follow and consume that content across different platforms and devices.

Addressable advertising continues to advance

As the techniques for monetising social networks as advertising and commerce platforms continue to evolve and mature, advertisers are beginning to look to the next stage: using new platforms and technologies as central brand touchpoints, harnessing developments such as location-based marketing and addressable advertising to target content and messages at consumers based – respectively – on their location or demographics and interests.

It is significant that collaboration will be key for E&M companies, advertisers and platforms looking to capitalise on opportunities such as these. When the E&M CEOs in our Global CEO Survey say they expect most of their innovation to be driven by external partners, we believe this is the kind of emerging potential that they are targeting. However, addressable and location-based advertising do raise some regulatory and privacy issues, which need to be addressed.

3. The collaborative digital enterprise

E&M companies are heading towards a new operating model specifically designed for the digital ecosystem. We call it the collaborative digital enterprise, or CDE. This operating model will enable companies to harness the three key drivers of digital, demand and data. The CDE will emerge in many sectors in the next few years, but the digitalisation of content and the surrounding experience – the core offering made and delivered by the E&M industry – gives the model particularly powerful implications for E&M companies.

The CDE has its roots in technology, but is much bigger in that it is designed for an environment of constant disruption – and opportunity – caused by the emergence of the digital economy. This transformation means technology is no longer an isolated or enabling element within the enterprise. It is the enterprise. So true digital transformation requires a total recast of what a company does to stay relevant and lead, by conducting itself as a dynamic, interconnected, and continuously engaged enterprise. A company that is optimised in this manner will collaborate continuously with – and be enabled by – its entire customer, employee, and supplier ecosystem.

Migrating to the CDE model will also provide companies with a way to address changes to their cost base due to the move to digital. For example, book publishers are trying to work out the pricing structure for their digital books – but at the same time the physical cost base for their “old-world” product is rising, as fewer non-digital units are sold. These products will not be as profitable in terms of margins when fewer people are buying. Digital processes and interactions will help to keep the overall cost base down, whether the end-product is delivered digitally or non-digitally.

Of the three drivers, we have concentrated so far on the first two, digital and demand. To make the most of these two drivers, E&M companies will need to harness the third – data – by understanding and exploiting to the full the power and value of the information generated and stored in their collaborative value chains. To achieve this, E&M companies must master a skill that was once more associated with retailers: data mining. In last year’s Outlook, we

identified seven critical success factors for operating in the new digital value chain (see part three), and these factors remain relevant today. To varying degrees, they are all supported and enabled by the ability to mine and analyse data to create accurate, timely and actionable customer and operational intelligence, enabling them to develop content relevant to each platform and consumer segment, drive scale in the direction of the consumer, enhance the consumer’s engagement with the content, and create a much more attractive – and transparent – offering for advertisers.

A further driver of the need for quick and accurate data mining and analytics is the fact that more complex deals and collaborations are happening, and more rapidly. The growing interdependence of the digital environment demands that the ability to track and mine data applies not just within businesses, but also across their entire digital value chains.

For example, like music labels, movie studios will increasingly find that the content they generate is intermediated by channel providers. The relationships between studios and the actors’ and technicians’ unions such as the Screen Actors’ Guild may become more contentious, as digital revenue increases but the reporting capabilities lag behind. Guild members want their fair share of the revenues that the studios are generating – so studios will need auditable visibility of the data held by their collaboration and distribution partners. The same imperative for data visibility and insight along the entire digital value chain applies to content rights. The ability to track and report on the distribution of content is a major challenge for the studios and guilds, and was one of the key issues brought up in the last round of negotiations between the two.

At the same time, advertising agencies are collaborating with third-parties to add value to their client relationships, by helping them ensure they are operationally ready for marketing campaigns. This might include verifying that call centres are sufficiently resourced for a campaign, and that back office systems are set up to handle a new product or delivery mechanism. Agencies are also helping brands navigate an increasingly fragmented and digitised media landscape by integrating and streamlining their media spend management processes (see information panel).

Future-proof content

As new digital platforms reach mainstream adoption, the ability to deliver customised content for new platforms and channels will be key to success. Specifically, in combination with the right balance of creative and digital skills, it will enable companies to “future-proof” their content against changes in the platform landscape.

Over time, we believe the technology and device landscape will shift towards open standards, which will attract wider and more sustainable support from consumers and content providers than proprietary systems. By developing their content in line with these open standards, companies can reduce the need to repurpose or recreate it when the environment changes. At the same time, tagging the digital content with relevant metadata will help people search for it and boost consumption across all platforms. A vital enabler for future-proofing of content – and indeed for the overall operations of the collaborative E&M company of the future – is digital workflow. Companies with a well-designed and executed end-to-end digital workflow around their content have an inbuilt competitive advantage over those without this, because it enables them to create and deliver higher-quality multi-platform content experiences faster and at lower cost. Even when the end product is non-digital, all in-house creation will still be generated and managed through the digital workflow, delivering higher agility, greater consumer responsiveness and lower costs.

All this will help to future-proof the content in a shifting digital value chain. In our view, content is currently part-way along a journey to future-proofing.

Talent

A key challenge in building the E&M CDE of the future is that many companies need to rebalance their talent base more evenly, shifting it away from people who create content and toward those with the IT and technological skills to repurpose it across multiple platforms. Also, while companies do benefit from staff with a long service record and experience, experience shows that entrenched employees too often make decisions based on ‘gut feel’ for their market. Instead, decision-makers need to use data mining, analytics and management information tools to provide the hard, objective insight required for the best decisions.

The collaborative digital enterprise: at the nexus of market change

As the digital ecosystem evolves, we believe that more and more E&M companies will reshape themselves for it by harnessing the three drivers of digital, demand, and data to create a collaborative digital enterprise. The CDE is po-

Media spend management

Marketing functions are under growing pressure to provide explicit proof of the value and ROI of marketing budgets, demonstrate how new media channels complement traditional one, reduce the complexity of media buys across multiple brands, and accomplish more with less or flat spend. As a result, agencies are constantly faced every clients demands for greater flexibility, tracking and accountability across all their media.

In response, forward-looking advertisers are developing and implementing a simplified and more powerful end-to-end process for media spend management – thereby helping make better media spending decisions, save money, stay in control and react faster to market change. Agencies are also using media spend management techniques and tools to create stronger relationships by adding value to their client stakeholders.

For advertisers and agencies that transform media spending management, experience shows that the benefits can be compelling:

- Media buying management becomes a source of competitive advantage.
- Every placement is used to deliver the highest return – across brands, markets and media platforms – and these returns are transparent and verifiable by the client.
- Global consumers are reached in the most efficient and effective way possible.
- Agencies create greater process efficiency to increase profitability while also increasing client service levels.

sitioned at the nexus of significant new market dynamics, including industry-wide digital transformation; the broader shift to an overall collaborative ecosystem-based economy; and the higher degree of agility that companies will need to remain competitive in this environment. The final, mission-critical piece of the jigsaw is the CDE’s differentiated ability to collaborate – enabling it to pursue clearly identified goals holistically through close, transparent and trusting two-way relationships with customers, employees, distribution and technology partners, and suppliers.

In PwC’s view, the next five years will see the CDE model emerge as a template for the successful E&M company. Not all E&M players will evolve this way; some have unique embedded advantages that will enable them to “go it alone”. But we believe that the organisations that adopt this model will generally be more successful in the digital ecosystem that will emerge by 2015.

Part Three: Achieving a Position in the Digital Value Chain

While desirable content, a cohesive strategy, and rigorous execution will always be important, based on our results with global entertainment and media organisations, we have identified seven success factors we believe will facilitate each organisation's transition to its optimal place in the new digital value chain, to a CDE. None of these seven success factors are stand-alone solutions. On the contrary, they all interrelate to each other. In times of growing global competition, with a growing number of new entrants to the market place, organisations need to be prepared for competition by seeking and exploiting the potential for organisational excellence.

1. Strategic flexibility

In practice, the ability to identify and realise opportunities for diversifying revenue whether by service, model, customer, geographic market, and/or maturity of proposition is critical for success. This implies, for example, detailed customer segmentation know-how, in-depth understanding of customer needs and values, product lifecycle, consumer willingness to spend and the translation of this knowledge into compelling products and services.

2. Delivery of engagement and relationship with the customer through the consumption experience

A relationship defined around experience with content across platforms, combined with strong usability of the offering, tailored to the medium (e.g., smartphone, tablet, PC/Mac, television screen, widescreen) needs to be developed. Furthermore, continues interaction with consumers through, for example, social media should help assure product accuracy and support an optimum marketing mix.

3. Economies of scale and scope

Synergies between different activities in conglomerates and using digital standards to exploit scale need to be driven hard.

4. Speed in decision-making and execution, with the appetite to experiment and fail

This means reducing time-to-market by inspiring, empowering and encouraging individuals, devolving more accountability, and streamlining governance to accelerate decisions whilst allowing for failure. An important overarching dimension is embedding a “need for speed” mindset so an entire organisation is willing and able to quickly react to changes and to seize them as opportunities.

5. Agility in talent management

It is essential to attract and retain key talent and then align and provide individuals with incentives to deliver the strategy using objective setting, rewards, and performance management.

6. Ability to monetise brand and/or rights across platforms

Some examples of this are music labels that monetise music events, independent producers who diversify into talent management, and broadcasters who go into Web TV, leveraging the expertise, branding, and customer data they own and/or can collect.

7. Strong capabilities in partnership structuring and mergers and acquisitions targeting and integration

As partnering becomes of much greater importance, organisations find themselves in greater competition for strategic assets than ever before. Therefore, it is crucial to quickly recognise and act upon trends and developments in the industry in order to maintain a competitive advantage.

Entertainment and media companies inside and outside of Switzerland are all exploring paths to sustainable digital revenues. At the same time, organisations from outside the traditional boundaries of the entertainment and media industry, such as the information technology, telecommunications or consumer electronics sectors, are increasingly putting their focus on end-user services. Therefore, the entertainment and media industry is currently at a defining moment of laying the foundation for its redefined business models in ways that will ultimately redraw the value chain. Organisations that identify their optimal place in that value chain by actively implementing the above-mentioned seven success factors will be well placed to succeed.

1 Internet Access Spending: Wired and Mobile

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Executive Summary

Definition

- Wired and mobile Internet access revenue comprises fees paid by consumers to Internet service providers (ISPs) and to wireless carriers for Internet access via mobile devices, whether provided as a stand-alone service or as part of a service bundle in which the Internet component is estimated. Figures do not include the purchase of content such as music. Neither do the figures include spending on entertainment content downloaded over the Internet or through mobile phones, which are included in the respective content chapters. Access fees for phones provided by corporations to employees so that they can access the corporate network are not included. Internet access is a key driver of entertainment and media advertising and content spending in most segments.

Market size and growth in Switzerland

- We expect the Swiss wired and mobile Internet access market to increase at a compound annual growth rate of 6.5 percent from CHF 1.9 billion in 2010 to CHF 2.7 billion in 2015.
- In comparison, we expect that the Western European Market will grow by 5.8 percent compounded annually, and revenues will increase from CHF 61.2 billion in 2010 to CHF 81.2 billion in 2015.
- Switzerland has the second highest broadband penetration (38 percent) in Europe as per 31.12.2010, exceeded only by the Netherlands.
- Mobile data volume in Switzerland quadrupled during 2010 and it is commonly expected that mobile data traffic will double every 6 to 7 months.

Market size and growth by component

- Wired broadband access is the largest component, at CHF 1.8 billion in 2010, and is projected to grow at a 5.4 percent compound annual rate to CHF 2.4 billion in 2015.
- Mobile Internet access spending, which totalled CHF 142 million in 2010, will be CHF 321 million in 2015, a 17.8 percent compound annual increase.

Principal drivers

- With approximately 3 million broadband subscribers, Switzerland is approaching broadband saturation, which will lead to slower growth in the number of

“One of the main differentiating factors within the media and telecommunications industry is the necessity for building personal client relationships in order to better understand and address the client’s needs.”

Nicolas Perrenoud, CEO Finecom

broadband households. With increased availability, ongoing but small declines in pricing will result. On balance, the growing share of premium broadband subscribers and the launch of high-speed broadband options have induced some subscribers to trade up to premium services, paying more in the process.

- Heavy investment in optical fibre and next-generation cable networks will further stimulate growth in broadband households. In combination with triple or quadruple play packages this will lead to price pressure, which can be offset by the proliferation of high-speed broadband options at premium fees or the uptake of higher speeds at stable prices.
- Growing penetration by smart phones and tablets is expanding the potential market for mobile Internet access.

Market Overview

- On July 28, 2011, France Télécom announced its intention to sell Orange Switzerland after the unsuccessful acquisition of Sunrise in 2010. France Télécom expects to generate at least EUR 1.5 billion in the sale of its Swiss subsidiary. It is expected that Orange Switzerland will be sold to a private equity firm.
- In May 2011, Sunrise announced its newest product, IPTV, with introduction scheduled for the end of 2011. Sunrise is planning to use the VDSL infrastructure (20 Mbit/s) of Swisscom instead of its own ADSL infrastructure (5 Mbit/s).
- Competition between cable and telephone providers – heightened by triple or quadruple play offerings on the parts of both – led to lower broadband rates.
- Swisscom is building a fibre network jointly with the larger utility companies, whereas upc cablecom, Switzerland’s leading cable operator, is upgrading its network to EuroDOCSIS 3.0 in order to compete with the fibre rollout by Swisscom and the utility compa-

nies. By 2017, we expect that around 90 percent of all Swiss households will have access to Internet connections exceeding 100 Mbps.

- In July 2011, Orange and upc cablecom announced their cooperation based on a mobile virtual network operator (MVNO) agreement.
- To address the ongoing growth of the Internet and its related decrease in available IPv4 addresses (e.g., IANA's central pool of available IPv4 addresses was exhausted on February 3, 2011), global companies joined together in the world IPv6 day for a trial of the IPv6 protocol on June 8, 2011. The aim of this stress test was to discover potential bottlenecks and weaknesses for operating in dual stack mode (IPv4 and IPv6 in parallel mode).
- On April 21, 2011, the Swiss Federal Court published its ruling in the case of Swisscom against the Competition Commission (ComCo) regarding sanction proceedings. The Swiss Federal Court upheld Swisscom's appeal against ComCo and also rejected the appeal against the judgment lodged by the Federal Department of Economic Affairs (EDV).

Initiated in 2007, ComCo found Swisscom to be dominant in the market and deemed Swisscom's mobile termination charges as too expensive.

- In February 2011, upc cablecom achieved an Internet speed of 1.37 gigabits per second over a coaxial television cable. This speed qualified as world-record cable connectivity.
- The Federal Communications Commission (ComCom) announced in January 2011 that it will postpone the allocation of Swiss mobile radio frequencies. The auction of the mobile radio frequencies will be held in the first quarter of 2012.
- Finecom, Switzerland's second largest cable operator, moved to free to air for its digital television and introduced catch-up viewing on 24 television stations in 2010.
- In 2010, ComCom reduced the price for the unbundling of the last mile for the years 2009 and 2010, after this had already been reduced to a cost-based level in 2008. The price was set at CHF 16.70 for the year 2010. Furthermore, ComCom reduced the prices for collocation and interconnection.

Internet Access Market: Wired and Mobile by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Wired Internet Access											
Broadband	1,484	1,621	1,705	1,808	1,838	1,975	2,068	2,170	2,278	2,387	5.4
Total Wired Internet Access	1,484	1,621	1,705	1,808	1,838	1,975	2,068	2,170	2,278	2,387	5.4
Mobile Access	69	105	129	134	142	161	195	246	290	321	17.8
Total Internet and Mobile Access	1,553	1,726	1,834	1,942	1,980	2,135	2,263	2,416	2,568	2,708	6.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Internet Access Market Growth: Wired and Mobile by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Internet Access											
Broadband	15.3	9.2	5.2	6.0	1.7	7.4	4.7	4.9	5.0	4.8	5.4
Total Internet Access	15.3	9.2	5.2	6.0	1.7	7.4	4.7	4.9	5.0	4.8	5.4
Mobile Access	102.9	52.2	22.9	3.9	5.8	13.2	21.4	26.2	17.8	10.8	17.8
Total Internet and Mobile Access	17.6	11.1	6.3	5.9	2.0	7.8	6.0	6.8	6.3	5.4	6.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Wired Internet Access Households and Spending

- We expect broadband Internet access spending to increase by a compound annual growth rate of 5.4 percent and will reach CHF 2.4 billion in 2015, an increase of CHF 526 million over 5 years.
- By 2015, around 3.5 million households will have broadband access, corresponding to a penetration rate of 97.2 percent compared to 84.3 percent at year-end 2010.
- With over 37 percent broadband coverage, Switzerland holds second place in the OECD ranking as of December 2010 (the average of all OECD countries is 24.9 percent).
- To address the increased demand for bandwidth, Switzerland's largest telecommunication company, Swisscom, is concluding cooperation agreements with municipal electricity providers such as IWB, AMB, EWB, SIG, EWL, EWM, SGSW and EKT. The target of these municipal electricity providers is to provide FTTH for approximately 30 percent of all Swiss households by 2013 and for approximately 80 percent by 2020.
- According to the OECD figures from December 31, 2010, around one percent of all Swiss households were connected to a glass fibre network at year-end 2010.
- In December 2010, ComCom reduced the price for the unbundling of the last mile for the years 2009 (from CHF 18.80 to CHF 17.30) and 2010 (from CHF 18.40 to CHF 16.70) after Sunrise filed a complaint about the original prices set by Swisscom.
- With a penetration of more than 90 percent at year-end 2010, Switzerland is second in the Western European market, exceeded only by the Netherlands with 91.7 percent. We expect that by 2015, Switzerland will have 100 percent Internet household penetration.
- In comparison, Western Europe had a household penetration at year-end 2010 of 75.2 percent. We expect that the penetration rate will be 85.8 percent by 2015.

Internet Access Market: Wired by Component (CHF Millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Wired Internet Access											
Broadband	1,484	1,621	1,705	1,808	1,838	1,975	2,068	2,170	2,278	2,387	5.4
Total Wired Internet Access	1,484	1,621	1,705	1,808	1,838	1,975	2,068	2,170	2,278	2,387	5.4

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Internet Access Market: Wired by Households (millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Broadband Households (millions)	1.86	2.29	2.56	2.79	2.90	3.10	3.20	3.30	3.40	3.50	3.8
Broadband Penetration (%)	56.5	69.0	76.2	82.1	84.3	89.3	91.2	93.2	95.2	97.2	2.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Internet Households (millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Households (millions)	2.26	2.64	2.86	3.04	3.12	3.30	3.38	3.45	3.52	3.60	2.9
Penetration (%)	68.7	79.5	85.1	89.4	90.7	95.1	96.3	97.5	98.6	100.0	2.0

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Wired Internet Broadband Households and Spending

- The national broadband plan, part of the universal service obligation since 2008, is expanding broadband availability and boosts broadband penetration.
- Upgraded infrastructure will facilitate higher-speed options at premium prices, boosting average monthly access spending and overall access spending growth.
- At year-end 2010, approximately 793,000 customers were using Internet provided by a cable provider, an increase of 6 percent compared to the prior year. In comparison, around 2.06 million customers were using DSL connections at year-end 2010.
- As a result, the vast majority of broadband subscribers are direct customers of Swisscom. At year-end 2010, Swisscom counted 1.58 million broadband customers. This is an increase of 7.2 percent compared to year-end 2009 (1.47 million broadband subscribers). Compared to the total broadband connections in Switzerland at year-end 2010 of 2.065 million subscribers, over 77 percent of all DSL broadband subscribers are customers of Swisscom.
- The cooperation agreements between Swisscom and municipal electricity providers (e.g., EWZ, SIG and IWB) were the subject of investigations by the Swiss

“The role of the state comprises, amongst others, in providing the basic infrastructure for broadband connectivity from an economical point of view. Based on this premise, the Internet content and related services should be offered by the free market.”

Peter Messmann, Leader Telecom EWZ

Federal Competition Commission (ComCo) in 2011. It concluded that the cooperation agreements are not auditable and therefore ComCo did not explicitly allow or forbid the agreements. Currently, around 12 processes are pending at ComCo. Nevertheless, Swisscom announced it would continue to modernise its copper infrastructure, substituting it with glass-fibre technology in order to ensure its competitiveness in providing sufficient bandwidth.

- We expect an ongoing consolidation in the Swiss cable provider market during the upcoming years due to increased competition and the need to upgrade the cable networks.

Broadband

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Households (millions)	1.86	2.29	2.56	2.74	2.86	3.10	3.20	3.30	3.40	3.50	4.1
Penetration (%)	56.5	69.0	76.2	82.1	84.3	89.3	91.2	93.2	95.2	97.2	2.9
Spending (CHF millions)	1,484	1,621	1,705	1,808	1,838	1,975	2,068	2,170	2,278	2,387	5.4

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, oecd.org/sti/ict/broadband

Mobile Internet Access Spending

- On October 28, 2010, CVC Capital Partners (“CVC”) announced the successful completion of the CHF 3.3 billion acquisition of Sunrise Communications AG from TDC after receiving clearance for the transaction from the Swiss Competition Commission, the Federal Office of Communications (“BAKOM”) and ComCom. Preceding this transaction, ComCom had stopped the planned merger of Orange Communications SA and Sunrise Communications AG in April, 2010.

On July 28, 2011, France Télécom announced its intention to sell Orange Switzerland.

- In January 2011, ComCom announced it will postpone the allocation of Swiss mobile radio frequencies. The auction of mobile radio frequencies was originally planned for March 18, 2011.

In May 2011, ComCom announced that the auction will be held in the first quarter of 2012. ComCom also announced that it will introduce additional bidding restrictions (spectrum caps) in order to prevent one operator from acquiring more than half of all duplex frequencies.

- At year-end 2010, the penetration rate for mobile devices in Switzerland was around 120 percent, aligning Switzerland with the average European market. During 2010, 3.97 million mobile phones were sold, including 1.5 million smartphones.
- We expect that the number of Swiss mobile Internet subscribers will more than double in the next 5 years, from 1.13 million to 3.35 million in 2015. Simultaneously, we expect spending on mobile Internet access to increase from CHF 142 million in 2010 to CHF 321 million in 2015, a 17.8 percent increase on a compound annual basis.

Mobile

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Mobile Internet subscribers (millions)	0.45	0.73	0.93	1.01	1.13	1.34	1.72	2.30	2.86	3.35	24.3
Penetration (%)	5.2	8.4	10.5	11.2	12.4	14.4	18.3	24.1	29.5	36.8	24.3
Spending (CHF millions)	69	105	129	134	142	161	195	246	290	321	17.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

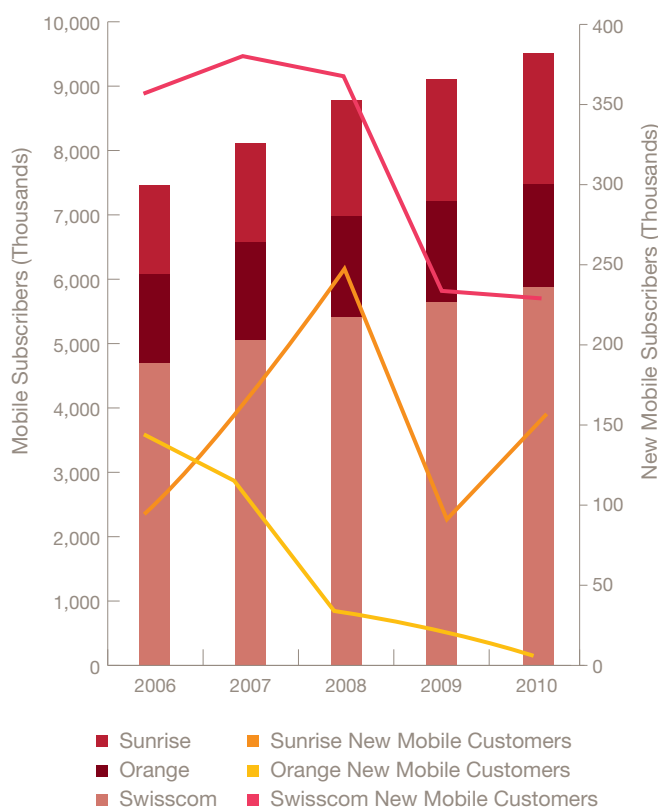
- The mobile market in Switzerland continued to grow during the last five years. The figures below show that the market share for Swisscom, Sunrise and Orange continued to grow with a CAGR of 4.7 percent for Swisscom, 8.2 percent for Sunrise and 2.4 percent for Orange.

In 2010, Swisscom's share of all new customers was 58 percent (387,000), compared to Sunrise with 40 percent and Orange with 2 percent.

- The figure also indicates that the number of new customers declined over the last 5 years, except for Sunrise, from 2009 to 2010 (+72.2 percent). One of the reasons for this increase might be the introduction of Apple's iPhone along with the MTV mobile next contracts.

Mobile Subscriber Market Growth (%)

Switzerland	2006	2007	2008	2009	2010
Swisscom	8.22	8.10	7.25	4.32	4.03
Orange	11.69	8.17	2.25	1.43	0.38
Sunrise	7.42	11.98	16.14	5.08	8.33

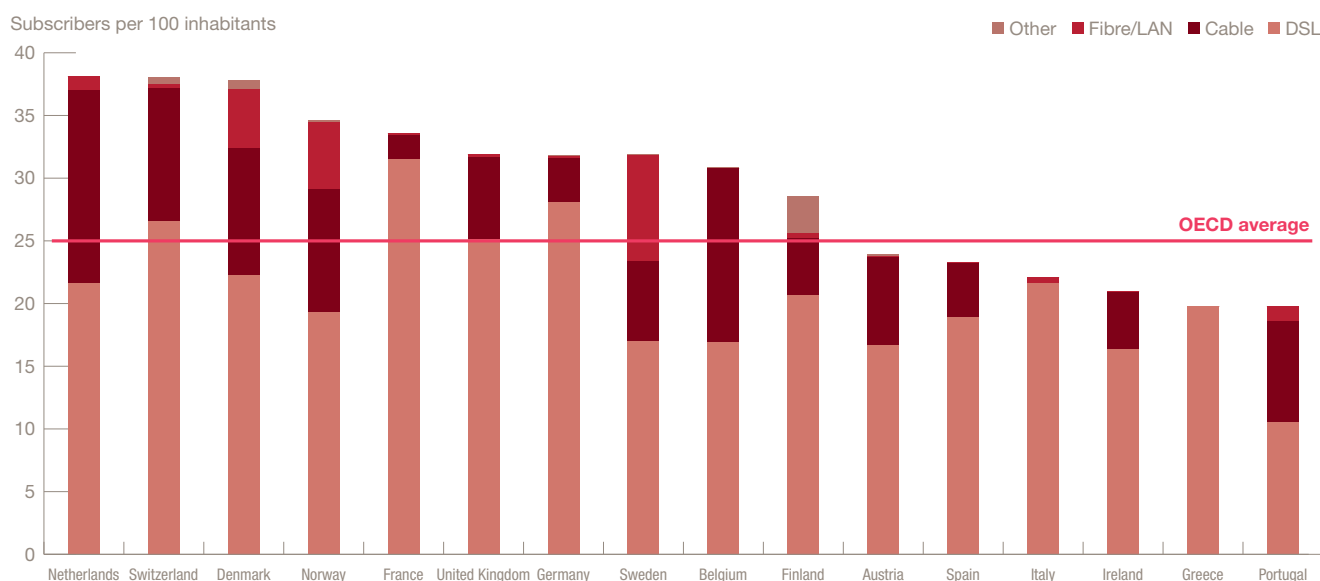


Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Communications Commission (ComCom)

The Swiss Wired and Mobile Internet Access Market Compared to Western Europe

- In September 2010, the telecommunication providers agreed to reduce the mobile termination costs by up to 50 percent in stages. This staged approach had a small effect on mobile prices for end-consumers, and instead resulted primarily in declining wholesale sales of the telecommunication providers (source: "Tätigkeitsbericht der ComCom 2010").
- Nearly all telecommunication providers have invested in their infrastructure and in their mobile infrastructure and now operate their UMTS networks with HSPA (3.6–7.2 Mbit/s download and up to 1.4 Mbit/s upload).
- At year-end 2010, Switzerland had the second largest broadband penetration rate, only exceeded by the Netherlands.
- At year-end 2010, the Western Europe wired and mobile Internet access market amounted to CHF 61.6 billion. France, Germany, Italy and the United Kingdom accounted for 79.4 percent of the total access market.
- We expect the Western Europe wired and mobile Internet access market to grow at a 5.7 percent compound annual growth rate, reaching CHF 81.2 billion in 2015. Compound annual growth rates vary between 5 (Germany) and 7.6 (Spain) percent with an average rate of 5.8 for all Western European wired and mobile Internet access markets.

Fixed (wired) broadband penetration (subscribers per 100 inhabitants, by technology), December 2010



Source: OECD

Internet Access Market: Wired and Mobile by Country (CHF millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Austria	1,551	1,846	1,841	1,775	1,891	1,993	2,121	2,274	2,386	2,530	6.0
Belgium	1,489	1,691	1,877	1,970	2,065	2,159	2,304	2,484	2,638	2,779	6.1
France	7,759	9,532	11,344	12,255	13,125	14,003	15,085	16,310	17,011	18,021	6.5
Germany	10,513	11,579	12,104	12,568	12,976	13,788	14,583	15,502	15,921	16,566	5.0
Italy	9,255	9,654	10,693	11,016	11,321	11,931	12,615	13,423	14,048	14,751	5.4
Spain	3,950	4,715	5,347	5,584	6,221	5,950	6,541	7,225	7,934	8,987	7.6
Switzerland	1,673	1,830	1,923	2,015	2,047	2,196	2,318	2,462	2,604	2,738	6.0
United Kingdom	7,711	8,969	10,557	11,198	11,504	12,034	12,794	13,575	14,249	14,854	5.2
Western Europe Total	43,899	49,818	55,686	58,379	61,149	64,053	68,361	73,255	76,791	81,226	5.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

“Today, it is more important than ever to have the courage and skill to try out new ideas for products and services. It is therefore a pity, even dangerous, that carriers and ISPs are outsourcing their technical platforms and therefore losing the ability to implement ideas quickly.”

Matthias R. Koch, CEO Monsoon

- The Western European mobile Internet subscribers market consists of 116.27 million subscribers. Switzerland's contribution to this market is minor but the compound annual growth rate of 24.3 percent until 2015 is more than the double the average Western European compound annual growth rate of 11.8 percent, and is the highest compound rate in Western Europe.
- We expect Switzerland's mobile Internet subscriber market, at CHF 142 million in 2010, to increase by a compound annual growth rate of 17.8 percent to CHF 321 million in 2015. This compound annual growth rate is more than double Western Europe's growth rate of 9.7 percent. This growth rate can be attributed to new mobile devices, such as tablets or smart phones, and the increased mobility of consumers, but also to the unique situation of Switzerland with its mobile broadband Internet access infrastructure covering nearly all of Switzerland, making wireless broadband an alternative to lower bandwidth fixed broadband Internet connections.

Mobile Internet Subscribers (millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Austria	0.56	0.89	1.19	1.41	1.60	1.89	2.43	3.25	3.93	4.62	23.6
Belgium	0.59	0.97	1.30	1.49	1.69	2.00	2.57	3.40	4.11	4.83	23.4
France	4.20	8.50	14.60	17.80	21.98	26.00	30.15	34.25	38.23	42.30	14.0
Germany	4.90	9.20	13.60	19.00	23.20	28.10	32.40	37.60	40.80	44.65	14.0
Italy	23.60	24.50	29.10	31.60	34.58	37.35	40.13	42.91	45.70	48.50	7.0
Spain	2.74	3.87	5.08	5.72	6.51	7.84	10.28	13.23	16.18	19.11	24.0
Switzerland	0.45	0.73	0.93	1.01	1.13	1.34	1.72	2.30	2.86	3.35	24.3
United Kingdom	7.80	12.50	20.70	23.40	25.58	27.72	29.75	31.64	33.54	35.47	6.8
Western Europe Total	44.84	61.16	86.50	101.43	116.27	132.24	149.43	168.58	185.35	202.83	11.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Mobile Internet Subscribers (CHF millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Austria	93	148	196	222	239	267	322	405	456	536	17.6
Belgium	107	161	214	246	267	297	362	450	511	561	16.0
France	697	1,402	2,409	2,804	3,280	3,664	3,999	4,259	4,437	4,909	8.4
Germany	1,219	2,288	3,157	3,465	3,847	4,425	4,996	5,735	6,087	6,662	11.6
Italy	3,913	4,042	4,802	4,977	5,160	5,419	5,655	5,869	6,061	6,231	3.8
Spain	455	639	837	901	972	1,105	1,364	1,644	1,878	2,218	17.9
Switzerland	68	104	129	133	142	161	195	246	290	321	17.8
United Kingdom	1,206	1,811	2,801	3,074	3,263	3,428	3,564	3,668	3,758	3,837	3.3
Western Europe Total	7,758	10,595	14,545	15,822	17,169	18,767	20,456	22,278	23,478	25,275	8.0

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

2 *Internet Advertising: Wired and Mobile*

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Executive Summary

Definition

- Internet advertising – wired and mobile – consists of spending by advertisers on paid search, display, classified, video, and other online formats as well as advertising delivered to mobile phones via formats designed for mobile handset displays.

Market size and growth in Switzerland

- We expect the Swiss Internet advertising market to increase at a compound annual growth rate of 17.3 percent, from CHF 703 million in 2010 to CHF 1,560 million in 2015.
- In comparison, we expect the Western European market to grow by 11.5 percent annually, from revenues of CHF 21.8 billion in 2010 to CHF 37.6 billion in 2015.

Market size and growth by component

- Total wired Internet advertising is expected to increase at an annual compound growth rate of 16.8 percent, from CHF 691 million in 2010 to CHF 1,504 million in 2015.
- Wired Internet advertising's main component – search advertising – will benefit most and increase at a compound annual growth rate of 17.9 percent, from CHF 363 million in 2010 to CHF 827 million in 2015.
- The second largest contributor to total wired advertising – classified advertising – will grow at a 16.8 percent compound annual rate from CHF 160 million in 2010 to CHF 347 million in 2015.
- The third largest contributor to total wired Internet advertising – display advertising – is expected to increase at a 14.6 percent compound annual growth rate, from CHF 159 million in 2010 to CHF 314 million in 2015.
- Despite previous beliefs, the strong trend towards performance marketing could not be prolonged into 2010. We expect affiliate advertising to advance by an 11.9 percent compound annual growth rate from CHF 9 million in 2010 to CHF 15 million in 2015.
- Spending on mobile advertising continues to rise. We expect mobile Internet advertising to increase at a 35.6 percent compound annual growth rate from CHF 12 million in 2010 to CHF 56 million in 2015.

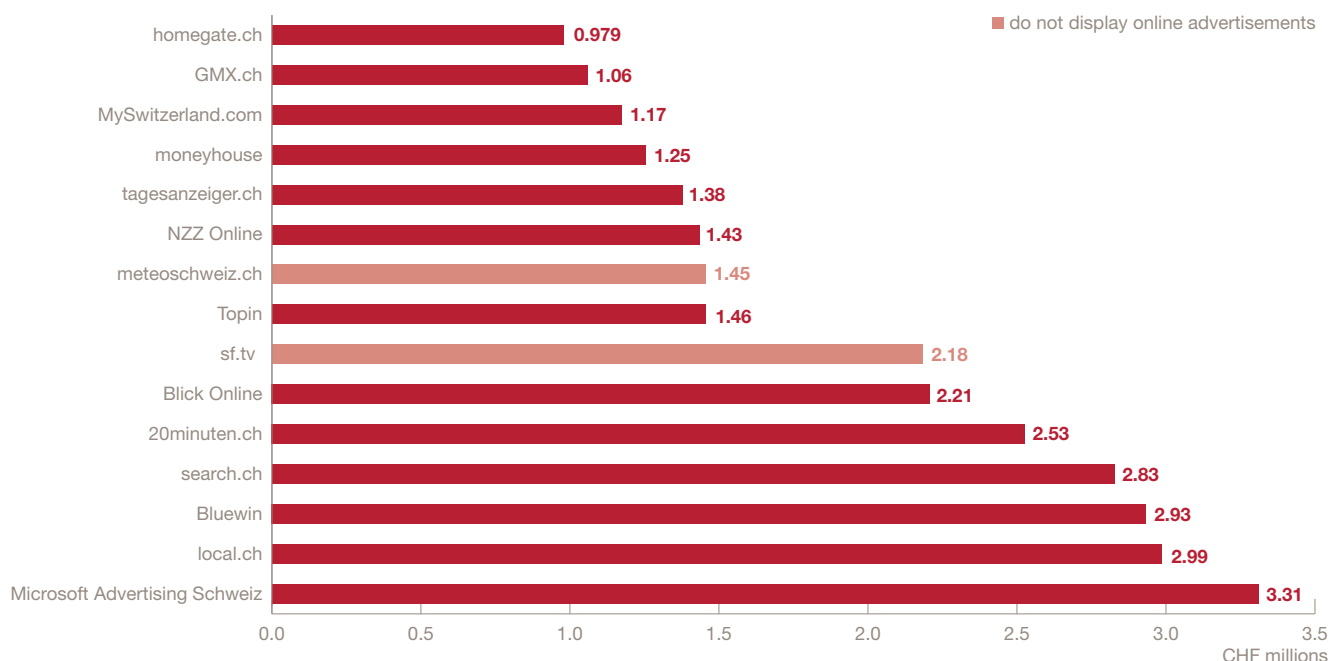
Principal drivers

- Constantly increasing bandwidth of Swiss Internet access, especially through advanced deployment of Fibre to the Home (FTTH) and EuroDOCSIS 3.0, is expected to substantially drive wired Internet advertising over the coming years.
- Mobile access growth, especially through increased HSPA+ network upgrades, deployment of LTE, and increased smartphone and tablet penetration will drive mobile Internet advertising.
- The use of wireless LAN, combined with the huge proliferation of smartphones and tablets in Switzerland, drives overall Internet time consumption. Although a large number of iPads sold in Switzerland are 3G enabled, many of these tablets are only used within the home environment, or when travelling to destinations that have WLAN access, such as hotels, resorts, airports or major railway stations.
- Internet consumption by WLAN can be increased even more considering the fact that the entire public transport network of the city of Zurich – Switzerland's largest city – is already prepared for wireless access, allowing for seamless connectivity through mobile traffic offloading, positively influencing Internet advertising.
- The continuing change in consumer behaviour influenced by generations growing up with the Internet will further increase Internet advertising's importance and market size.
- In Switzerland, there is still a gap in advertising budget allocation between traditional media and Internet advertising. Whereas the use of the Internet as a medium to consume content continues to rise sharply, advertising budgets are still not allocated to the Internet in the same proportions. We believe this gap will be closed in the next five to seven years.
- The increasing importance and time consumption of Swiss citizens in social networks such as Facebook, Twitter, Xing, LinkedIn and others now start to attract also the more conservative advertisers. These advertisers often have large inventories, boosting overall Internet advertising spending.

Market Overview

- Increasing broadband penetration has substantially driven rich media display advertising with its sophisticated animation and video content. These features explain a large portion of display advertising's recent growth and will continue to attract advertisers to this format.
- Classified advertising continues to benefit from the shift of consumer attention from print to digital. But not only the ads themselves drive people online the ability to read related content combined with improved navigation also supports growth in this Internet advertising sector.
- A continuing increase in advertisers' demand for higher marketing efficiency and effectiveness, combined with technological advances in media consumption devices will stimulate demand for display advertising, especially for rich media on mobile devices.
- Use of smartphones is on the rise in Switzerland. In 2010, 1.5 million devices were sold, corresponding to a 38 percent market share. In comparison, Swisscom, which serves approximately 63 percent of total Swiss mobile subscribers, estimated that only one and a half year ago, in March 2010, 25 percent of all active mobile handsets in Switzerland were smartphones.
- On a global level, 303 million smartphones were sold in 2010, an astonishing increase of 75 percent compared to 2009.
- In 2010, an estimated 52 percent of all Swiss smartphones were iOS operated (i.e. Apple iPhones), 23 percent were Android devices (e.g. Samsung, Sony Ericsson) and the remaining 25 percent were divided between other operating systems such as RIM (BlackBerry), Symbian (mainly Nokia) or mobile Windows 7 (e.g. HTC).
- Continuous innovation by smartphone manufacturers will continue to drive smartphone penetration and the mobile Internet advertising market. In September 2011, for example, six mobile device manufacturers – HTC, LG, Motorola Mobility (which was acquired by Google), Research in Motion, Samsung Mobile and Sony Ericsson – promised to introduce Near Field Communications-enabled devices that support Isis, the USA nationwide mobile commerce network spearheaded by Verizon Wireless. Isis technology standards enable consumers to make point-of-sale purchases, store and present merchant loyalty cards and redeem vouchers and offers all by holding a smartphone against a corresponding reader device. If these manufacturers succeed in developing a common standard, this may well be applied in Europe, boosting mobile commerce.
- In July 2011, the most popular websites in Switzerland, based on NET-Matrix-Audit unique clients analysis, were Microsoft Advertising Switzerland, local.ch and bluewin.ch. Swiss publishing websites and portals are also well visited: amongst the top fifteen websites are search.ch and 20minuten.ch (Tamedia), blick.ch (Ringier) and nzz.ch (NZZ Gruppe). Both sf.tv and meteoschweiz.ch do not display online advertisements.

Top 15 Swiss Websites, July 2011



Source: PricewaterhouseCoopers AG, NET-Matrix Audit

Internet Advertising Market by Component (CHF millions)

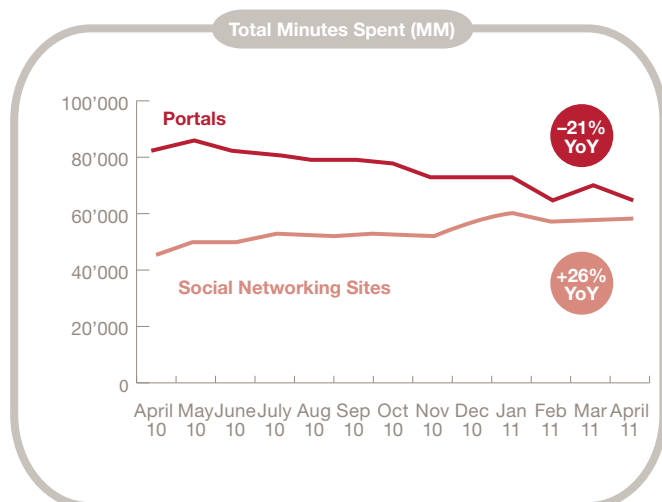
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Wired											
Search	131.9	187.8	246.6	287.8	363.4	438.7	539.3	627.5	724.0	827.2	17.9
Classified	77.0	120.1	136.9	136.4	159.5	194.4	233.1	268.9	306.2	347.2	16.8
Display	47.0	52.2	86.0	119.1	158.9	183.2	222.8	251.9	283.6	314.4	14.6
Affiliate	5.0	7.5	8.3	8.8	8.7	9.5	10.8	12.0	13.5	15.2	11.9
Total Wired	260.9	367.6	477.8	552.1	690.5	825.8	1,006.0	1,160.3	1,327.3	1,504.0	16.8
Mobile											
Mobile	1.1	2.2	4.3	8.7	12.1	17.6	26.1	33.8	43.1	55.5	35.6
Total Mobile	1.1	2.2	4.3	8.7	12.1	17.6	26.1	33.8	43.1	55.5	35.6
Total Wired and Mobile	262.0	369.8	482.1	560.8	702.6	843.4	1,032.1	1,194.1	1,370.4	1,559.5	17.3

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Media Focus

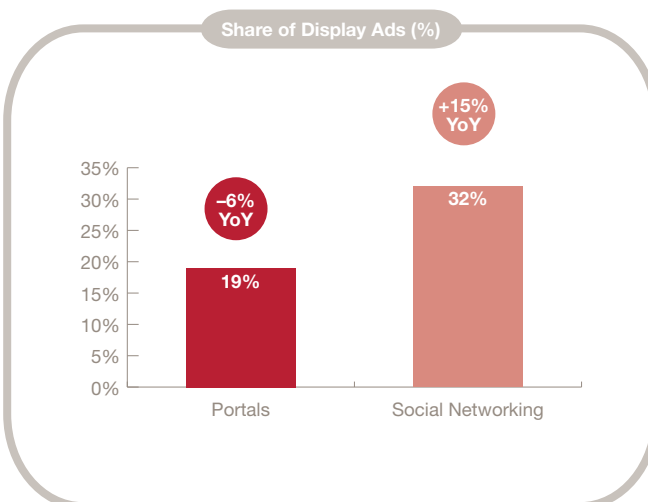
- Advertisers and media agencies are increasingly turning to social media platforms for their display inventory. Research conducted by Comscore in the USA found that over the period of August 2010 to May 2011, users increasingly spent their time on social media platforms, such as Facebook and Twitter, and less on portals, such

as Yahoo! and AOL. As a result, social network display ad inventory is growing on average by 15 percent, versus an average 6 percent decline for portals. In Switzerland, Facebook is reported to have approximately 2.5 million users.

Compared to 2010, people are spending more time on social networks and less time on portals



Social networks have also brought huge quantities of inventory online



Source: comScore US Media Metrix Panel Only Data, April 2011 comScore US Ad Metrix, April 2011

Internet Advertising Market Growth by Component (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Wired											
Search	47.9	42.4	31.3	16.7	26.3	20.7	22.9	16.4	15.4	14.3	17.9
Classified	45.8	56.0	14.0	–0.4	16.9	21.9	19.9	15.4	13.9	13.4	16.8
Display	29.1	11.1	64.8	38.5	33.4	15.3	21.6	13.1	12.6	10.9	14.6
Affiliate	45.8	50.0	10.7	6.0	–1.1	9.2	13.7	11.1	12.5	12.6	11.9
Total Wired	46.2	40.9	30.0	15.6	25.1	19.6	21.8	15.3	14.4	13.3	16.8
Mobile											
Mobile	100.0	100.0	95.5	102.3	39.1	45.5	48.3	29.5	27.5	28.8	35.6
Total Mobile	100.0	100.0	95.5	102.3	39.1	45.5	48.3	29.5	27.5	28.8	35.6
Total Wired and Mobile	46.9	41.1	30.4	16.3	25.3	20.0	22.4	15.7	14.8	13.8	17.3

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Media Focus, Google, Microsoft, Yahoo!, Morgan Stanley

Wired Internet Advertising

Search Advertising

- Wired Internet advertising is dominated by search advertising. Search advertising in Switzerland is currently estimated to consume 52 percent of the total wired and mobile Internet advertising. It is expected that this share will have expanded to 53 percent by 2015.
- Google is the clear market leader for search advertising with an estimated 80–95 percent market share in Switzerland, followed by Tamedia's search.ch. Despite this relatively small market share, search.ch has developed very positively in the first half of 2011. Tamedia, that manages search.ch in cooperation with Swiss Post, has expanded its search.ch sales force over the course of 2009–2010, resulting in higher sales turnover. Furthermore, new service offerings (e.g. the integrated Doodle scheduler) and geo-location based mobile applications, such as public transport information, increased search.ch traffic.
- In contrast to other Western European countries, Yahoo! and Microsoft's search engine Bing only plays a minor role in Switzerland. We expect Yahoo! and Microsoft to try to challenge Google's dominant position in the Swiss market.
- In May 2010, the U.S. Federal Trade Commission decided not to object to the planned takeover of AdMob by Google. According to the FTC, the combination of the two leading mobile advertising networks raised serious antitrust issues, however the agency's concerns were overshadowed by Apple's decision to roll out a competing mobile ad network.
- Resulting from the takeover, Google decided to clearly differentiate between its newly acquired AdMob network and its existing AdSense solution. Starting September 2011, AdMob is Google's primary, specialised solution for app developers whereas AdSense offers a unified, specialised service for mobile website publishers.
- In November 2010, the European Commission decided to open an antitrust investigation into allegations that Google Inc. had abused its dominant position in online search, in violation of European Union rules (Article 102 TFEU). The opening of formal proceedings followed complaints by search service providers about unfavourable treatment of their services in Google's unpaid and sponsored search results coupled with an alleged preferential placement of Google's own services. According to the European Commission, this initiation of proceedings did not imply that the Commission had proof of any infringements. It only signified that the Commission would conduct an in-depth investigation of the case as a matter of priority.
- In June 2011, the U.S. Federal Trade Commission also started an antitrust investigation into Google's search business, and expanded its investigation in August 2011 to include the company's Android mobile operating system and Web services, despite previous decisions not to object to the AdMob takeover. The FTC is investigating whether Google prohibits smartphone makers that make phones based on a Android from using rivals' services.

- Traditionally, search advertising has been considered to be most interesting for small to medium sized enterprises (SMEs) with little known brands. This is because they can profit from smart keyword choices and advertising texts, as customers usually use genre/category terms instead of brand names for their searches.
- However, large companies with well-known brands are tending to increase their budget for search advertising and search engine optimisation. The reason is that search engines such as Google increasingly assume the role of primary entry point for Internet users, even if they actually know the brand they are looking for.

Search Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Search (CHF millions)	131.9	187.8	246.6	287.8	363.4	438.7	539.3	627.5	724.0	827.2	17.9
Growth (%)	47.9	42.4	31.3	16.7	26.3	20.7	22.9	16.4	15.4	14.3	17.9

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Google, Microsoft, Yahoo!, Morgan Stanley

Classified Advertising

- Classified Internet advertising spending celebrated a true comeback in 2010. After a surprising decline in revenues of 0.4 percent in 2009, this sector rebounded and showed a healthy 16.9 percent growth in 2010.
- For 2011 and beyond, we expect growth to continue and even accelerate, as in Switzerland there is also a growing interest for classified advertising other than the top three sectors jobs, real estate and cars. Other areas are for example friends, motorcycles, sailing boats, yachts, fashion, etc.
- Classified Internet advertising is expected to reach almost CHF 200 million in 2011. With 23 percent of all Internet advertising spending this represents the second largest sector after search, which is more than double the size of classified advertising, but 1 percentage point ahead of display.
- For the period 2011–2015, we expect a compound annual growth rate of 16.8 percent, leading to a market size of CHF 347.2 million in 2015.
- The growth in classified advertising is illustrated by the increase in unique visitors to any of the Scout24 classifieds portals: according to Net-Metrix Profile 2001-1, 25 percent of all Swiss Internet users visited one of the Scout24 platforms at least once per month. As a result AutoScout24, MotoScout24, ImmoScout24 and JobScout24 were able to increase their number of unique visitors by 13 percent, compared to the previous year.

Classified Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Classified (CHF millions)	77.0	120.1	136.9	136.4	159.5	194.4	233.1	268.9	306.2	347.2	16.8
Growth (%)	45.8	56.0	14.0	-0.4	16.9	21.9	19.9	15.4	13.9	13.4	16.8

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Media Focus, Google, Microsoft, Yahoo!, Morgan Stanley

Display Advertising

- Swiss display advertising spending in 2010 reached a substantially higher level than anticipated. With a massive growth rate of 33.4 percent, display Internet advertising generated revenues of CHF 158.9 million in 2010. We expect display Internet advertising to continue to grow with a compound annual growth rate of 14.6 percent until 2015 and to reach a total market volume of CHF 314.4 million.
- Display advertising has proven to be subject to cutbacks during economic slow-downs when advertisers tend to stay with more established high-reach, brand-building advertising media, such as television, or more focused Internet advertising media, such as keyword search.
- Yet, display advertising growth is fueled by increased overall Internet advertising spending and more focus on branding, especially within social networks.

- Advertisers using classical display advertising increasingly tend to demand performance-related advertising strategies in order to link display spending directly to its targeted success. This leads to a shift from cost-per-thousand (CPM) cost models to more performance-oriented cost models, such as cost-per-customer (CPC) or cost-per-action (CPA). Since classical display advertising can be structured with performance-oriented cost models or combined with other forms of Internet advertising, it tends to benefit from this development.
- Corporations are starting to discover the full potential of advertising on social media platforms. In order to respond to this trend, jobs.ch and XING joined forces in

that as of October 2010 jobs.ch became responsible for the marketing of jobs classifieds and recruiter memberships on the XING platform in Switzerland. Through the cooperation, XING members get access to a larger number of vacancies, whereas recruiters can now also reach those profiles that are not actively looking for a new position.

- Internet platforms increasingly offer advertisers display advertising based on the location of Internet users. This fosters country-wide competition between suppliers of display advertising space and increases the available inventory for Swiss advertisers.

Display Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Display (CHF millions)	47.0	52.2	86.0	119.1	158.9	183.2	222.8	251.9	283.6	314.4	14.6
Growth (%)	29.1	11.1	64.8	38.5	33.4	15.3	21.6	13.1	12.6	10.9	14.6

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Media Focus, Google, Microsoft, Yahoo!, Morgan Stanley

Affiliate Advertising

- Affiliate Internet advertising is expected to grow from CHF 8.7 million in 2010 to CHF 15.2 million in 2015, an 11.9 compound annual growth rate.
- The affiliate advertising industry has four core players: the merchant (also known as 'retailer' or 'brand'), the network, the publisher (also known as 'the affiliate') and the customer.
- We expect the practice of affiliate marketing to continue growing. A business rewards one or more affiliates for each visitor or customer brought by the affiliate's marketing efforts with cash or gifts for the completion of an offer and the referral of others to the site. Growth

will occur as advertisers seek to differentiate themselves from the vast Internet advertising inventory.

- Consumers are carrying out more research online than ever, and the recession has fuelled consumers' interest in bargains.
- As a result, new business models emerged or thrived during the recession, such as voucher-code and cash-back sites. As one of the pioneers, the group-buying site Groupon also debuted during the recession, and this new addition to the affiliate family has been rapidly gaining ground, with other sites adopting similar business models. In Switzerland, DeinDeal.ch emerged as one of the leading platforms for such group-buying activities.

Affiliate Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Affiliate (CHF millions)	5.0	7.5	8.3	8.8	8.7	9.5	10.8	12.0	13.5	15.2	11.9
Growth (%)	45.8	50.0	10.7	6.0	-1.1	9.2	13.7	11.1	12.5	12.6	11.9

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Media Focus, Google, Microsoft, Yahoo!, Morgan Stanley

Mobile Internet advertising

- Growth in mobile Internet advertising spending slowed down in 2010 and reached a level of 39.1 percent, corresponding to revenues of CHF 12.1 million. We expect mobile Internet advertising to continue to show robust growth rates and to reach revenues of CHF 55.5 million in 2015, a stunning compound annual growth rate of 35.6 percent.
- By 2015, therefore, mobile Internet advertising will have doubled its market share, from 2 percent in 2011 to 4 percent of all Internet advertising spending in 2015.
- Mobile Internet advertising is becoming an integrated part of Swiss media agencies' advertising and communication mix. Mobile applications are considered especially attractive for Swiss media agencies and, to a slightly lesser extent, Swiss advertisers. We therefore expect substantial growth in mobile Internet advertising during the coming years, especially as Swiss consumers are getting accustomed to using mobile applications.
- The introduction of Apple's iAdd concept for iPhone products and the launch of its newest generation iPhone 4, followed by similar developments from other operating systems, such as Android, combined with the continuing high speed of innovation from smartphone and tablet device manufacturers will further boost the growth of the mobile Internet advertising market.
- Mobile video advertising offers strong characteristics of online video advertising because of the ability to engage with consumers through an interactive, "lean in" branding experience that is highly scalable. In addition, it is truly a full screen experience that offers enhanced targeting capabilities. Video in general drives (mobile) Internet traffic and thus also offers great possibilities for (mobile) Internet advertising.
- In August 2011, comScore released an analysis of the online advertising market in the United Kingdom across the general population of fixed line Internet users, online video viewers and smartphone users. Among its findings, the analysis showed mobile and video advertising gaining traction in reaching a sizeable percentage of the total audience. In June 2011, 63.1 percent (or nearly 2 out of 3 online video viewers in the UK) were exposed to video advertisements. Among the total number of smartphone users in the same time period, 25.4 percent recalled seeing an ad while browsing the Internet or using an application on their devices. In comparison, 95.3 percent of fixed line Internet users were exposed to online display advertising.

Mobile Internet Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Mobile (CHF millions)	1.1	2.2	4.3	8.7	12.1	17.6	26.1	33.8	43.1	55.5	35.6
Growth (%)	100.0	100.0	95.5	102.3	39.1	45.5	48.3	29.5	27.5	28.8	35.6

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Google, Microsoft, Yahoo!, Morgan Stanley, AdMob, Millennial

The Swiss Internet Advertising Market Compared to Western Europe

- Internet advertising growth in Switzerland is expected to outpace that in Western Europe due to the influence of the Internet generations, combined with a continuing "catch-up" effect. The reason for this is that up until now Internet advertising has been less aggressively pushed by large advertising agencies and less actively pursued by dominant press companies. We expect Switzerland to more than close the gap to Western Europe over the coming years.
- With an estimated average annual growth rate of 17.9 percent, the Swiss search advertising market is expected to continue to outpace the Western European growth rate of 10.4 percent compound annual growth rate for search advertising.
- Also in the area of display, classifieds and other forms of Internet advertising, Switzerland is expected to grow faster than the Western European average. Swiss compound annual growth rates for these wired Internet advertising sectors are expected to reach a level of 12.0 percent until 2015, versus 11.2 percent for Western Europe.

- With an estimated compound annual growth rate of 35.6 percent, Swiss mobile Internet advertising is expected to grow slightly above the Western European average of 33.9 percent by 2015. In terms of expected

revenues, the Swiss mobile advertising market is comparable to Sweden, and larger than the ones in Austria, Belgium or Denmark. Yet, in 2015 it will still be only half the size of the Dutch mobile Internet advertising market.

Internet Advertising (CHF millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Total Internet advertising: wired and mobile	11,143	15,339	18,354	19,336	21,837	24,394	27,440	30,709	34,176	37,558	11.5
Mobile	61	123	179	259	404	591	809	1,086	1,397	1,736	33.9
Total mobile	61	123	179	259	404	591	809	1,086	1,397	1,736	33.9
Wired											
Total wired	11,082	15,216	18,175	19,077	21,433	23,803	26,632	29,623	32,779	35,822	10.8
Internet display, classified, other advertising	6,091	8,351	9,592	9,692	10,919	12,082	13,486	15,092	16,880	18,547	11.2
Internet search advertising	4,991	6,865	8,583	9,385	10,514	11,721	13,146	14,531	15,899	17,274	10.4
Austria											
Total Internet advertising: wired and mobile	137	195	285	325	404	483	571	674	778	895	17.3
Mobile	0	1	3	4	8	13	17	22	29	36	33.6
Total mobile	0	1	3	4	8	13	17	22	29	36	33.6
Wired											
Total wired	137	194	281	321	395	471	554	652	749	860	16.8
Internet display, classified, other advertising	99	137	182	182	218	260	294	345	405	473	16.8
Internet search advertising	38	56	99	139	178	210	260	306	344	387	16.8
Belgium											
Total Internet advertising: wired and mobile	253	350	399	424	531	640	748	861	972	1084	15.3
Mobile	1	3	3	7	12	17	21	29	36	44	30.7
Total mobile	1	3	3	7	12	17	21	29	36	44	30.7
Wired											
Total wired	252	347	395	416	520	623	727	832	936	1040	14.9
Internet display, classified, other advertising	151	208	237	238	289	341	393	449	510	571	14.6
Internet search advertising	101	139	158	178	231	282	334	383	426	469	15.2

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Denmark											
Total Internet advertising: wired and mobile	320	446	522	540	560	602	652	713	782	854	8.8
Mobile	1	2	4	8	10	16	19	24	29	35	27
Total mobile	1	2	4	8	10	16	19	24	29	35	27
Wired											
Total wired	319	443	518	531	549	587	633	689	753	819	8.3
Internet display, classified, other advertising	224	308	335	329	332	348	369	403	440	480	7.7
Internet search advertising	95	136	183	202	218	238	264	287	313	339	9.3
France											
Total Internet advertising: wired and mobile	1,662	2,037	2,419	2,475	2,672	2,908	3,174	3,479	3,831	4,189	9.4
Mobile	5	13	20	36	52	73	90	118	144	169	26.5
Total mobile	5	13	20	36	52	73	90	118	144	169	26.5
Wired											
Total wired	1,657	2,024	2,399	2,439	2,620	2,835	3,084	3,361	3,687	4,020	8.9
Internet display, classified, other advertising	1,176	1,483	1,706	1,692	1,781	1,871	2,004	2,184	2,434	2,693	8.6
Internet search advertising	481	541	693	747	839	963	1,079	1,177	1,253	1,326	9.6
Germany											
Total Internet advertising: wired and mobile	2,441	3,495	4,184	4,457	4,997	5,568	6,284	7,117	7,986	8,732	11.8
Mobile	14	28	40	52	69	93	123	166	218	270	31.3
Total mobile	14	28	40	52	69	93	123	166	218	270	31.3
Wired											
Total wired	2,428	3,466	4,144	4,405	4,928	5,475	6,161	6,951	7,768	8,462	11.4
Internet display, classified, other advertising	1,250	1,817	2,098	2,154	2,340	2,537	2,835	3,208	3,611	3,888	10.7
Internet search advertising	1,178	1,650	2,046	2,251	2,588	2,938	3,326	3,743	4,158	4,574	12.1
Italy											
Total Internet advertising: wired and mobile	687	943	1,134	1,205	1,383	1,563	1,756	1,973	2,220	2,498	12.6
Mobile	21	28	28	28	31	39	51	67	86	108	28
Total mobile	21	28	28	28	31	39	51	67	86	108	28
Wired											
Total wired	666	915	1,106	1,177	1,351	1,524	1,705	1,906	2,134	2,390	12.1
Internet display, classified, other advertising	483	634	713	732	811	884	1,006	1,143	1,301	1,481	12.8
Internet search advertising	183	281	392	445	541	640	699	763	833	909	10.9

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Netherlands											
Total Internet advertising: wired and mobile	784	1,016	1,120	1,152	1,214	1,271	1,378	1,528	1,708	1,892	9.3
Mobile	3	5	12	22	29	38	47	59	73	90	25.2
Total mobile	3	5	12	22	29	38	47	59	73	90	25.2
Wired											
Total wired	781	1,010	1,109	1,130	1,185	1,233	1,330	1,470	1,635	1,802	8.7
Internet display, classified, other advertising	320	445	482	485	508	528	568	630	701	775	8.8
Internet search advertising	461	566	627	644	677	705	763	840	934	1,027	8.7
Sweden											
Total Internet advertising: wired and mobile	262	370	482	561	703	843	1,032	1,194	1,370	1,560	17.3
Mobile	1	2	4	9	12	18	26	34	43	56	35.6
Total mobile	1	2	4	9	12	18	26	34	43	56	35.6
Wired											
Total wired	261	368	478	552	691	826	1,006	1,160	1,327	1,504	16.8
Internet display, classified, other advertising	129	180	231	264	327	387	467	533	603	677	12.0
Internet search advertising	132	188	247	288	363	439	539	628	724	827	17.9
Switzerland											
Total Internet advertising: wired and mobile	262	370	482	561	703	843	1,032	1,194	1,370	1,560	17.3
Mobile	1	2	4	9	12	18	26	34	43	56	35.6
Total mobile	1	2	4	9	12	18	26	34	43	56	35.6
Wired											
Total wired	261	368	478	552	691	826	1,006	1,160	1,327	1,504	16.8
Internet display, classified, other advertising	129	180	231	264	327	387	467	533	603	677	12.0
Internet search advertising	132	188	247	288	363	439	539	628	724	827	17.9
United Kingdom											
Total Internet advertising: wired and mobile	3,269	4,571	5,456	5,746	6,618	7,411	8,409	9,339	10,288	11,256	11.2
Mobile	12	27	44	62	134	223	332	454	596	756	41.4
Total mobile	12	27	44	62	134	223	332	454	596	756	41.4
Wired											
Total wired	3,257	4,544	5,412	5,684	6,484	7,188	8,077	8,885	9,692	10,500	10.1
Internet display, classified, other advertising	1,373	1,929	2,202	2,247	2,783	3,234	3,715	4,176	4,653	5,145	13.1
Internet search advertising	1,884	2,615	3,210	3,437	3,701	3,954	4,362	4,709	5,040	5,354	7.7

Sources: PricewaterhouseCoopers, Wilkofsky Gruen Associates, Media Focus, Google, Microsoft, Yahoo!, Morgan Stanley, AdMob, Millennial

3 TV Subscriptions and Licence Fees

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Executive Summary

Definition

- The TV subscriptions and licence fee market consists of consumer spending on subscriptions to basic and premium channels accessed from cable operators, satellite providers, telephone companies, other distributors, VOD, PPV, and TV distributed to mobile phones. In Switzerland, mandatory public TV licence fees as well as royalties for audiovisual works are also included.

Market size and growth in Switzerland

- We expect the Swiss TV subscription and licence fee market to increase from CHF 2.1 billion in 2010 to CHF 2.6 billion in 2015, a compound annual growth rate of 4.7 percent.
- In comparison, the Western European market is projected to grow by 5.2 percent compound annually. From CHF 67.0 billion in 2010, Western Europe will reach revenues of CHF 86.3 billion in 2015.

Market size and growth by component

- Subscription spending is the principal component of the market with revenues of CHF 1.1 billion in 2010, which represents 55.7 percent of all spending on TV subscriptions and licence fees. We project an increase at a 6.7 percent compound annual growth rate to CHF 1.6 billion in 2015.
- Public TV licence fees, the second largest component, with a market share of 40.8 percent, are expected to grow by 1.0 percent in accordance with overall household development. We expect revenues to increase from CHF 837 million in 2010 to CHF 880 million in 2015.
- Royalties for audiovisual works in 2010 amounted to CHF 46 million. We expect the royalties for audiovisual works to increase at a 1.8 percent compound annual growth rate to CHF 50 million in 2015.
- VOD is expected to rise at a 23.2 percent compound annual growth rate from CHF 15 million in 2010 to CHF 43 million in 2015.
- PPV is insignificant in Switzerland and is projected to remain at a constant level of CHF 3 million through 2015.
- Mobile TV subscription spending is expected to grow at a 20.8 percent compound annual rate after a significant revenue drop in 2010 due to price reductions, reaching CHF 19 million in 2015, with a trend towards an advertisement-based financing strategy.

Principal drivers

- Improving economic conditions, enhanced premium services and migration to digital will fuel spending on premium services and VOD after 2011.
- Increased availability of mobile TV will increase the subscriber base.
- IPTV, which contributes to subscription spending and VOD, will be the fastest-growing subscription technology in Switzerland.

Market Overview

- In 2010, a total of 3.21 million TV households were counted in Switzerland out of 3.44 million households overall, which represent a TV household penetration of 93.5 percent. We expect total TV households in Switzerland to increase at a 1.3 percent compound annual growth rate to 3.43 million in 2015, which reflects a Switzerland-wide TV household penetration of 95 percent.
- Subscription household penetration is defined as the relation between cable (analogue and digital) and IPTV subscription households compared to total TV households in Switzerland. TV subscription households in Switzerland will increase at a 1.8 percent compound annual growth from 3.26 million in 2010 to an estimated 3.57 million by 2015.
- Subscription TV household penetration increased significantly over the past years and is expected to remain stable at around 104 percent of all TV households in Switzerland. This possibly surprising result can be explained by a certain number of subscription TV households in Switzerland that have subscriptions with more than one provider.
- The subscription TV market was hurt by the deteriorating economy. The take-up rate for subscription TV services grew as the economic environment improved. In 2010, subscription spending grew by 9.5 percent. Further growth is expected for 2011 due to improved economic conditions and rising discretionary income on the one hand and more attractive premium packages and more HD channels on the other. We expect a compound annual growth rate of 6.7 percent by 2015 in subscription TV spending.

- In general, triple play and even quadruple play packages are making subscription TV more appealing by combining it with broadband Internet access and telephone at an implicit discount for each component when purchased together.
- Despite political discussions, the public TV licence fee rate for TV households is expected to remain stable over the coming years. A modest 1.0 percent growth in public TV licence fee revenues is expected, resulting from an overall increase in TV households and an improved collection process.
- A strongly expanding digital TV household universe will drive the VOD market. VOD spending in Switzerland will almost triple from CHF 15 million in 2010 to CHF 43 million in 2015, a 23.2 percent compound annual increase.
- Technology upgrades, such as HSPA+ network upgrades as currently conducted by Swisscom and 4G LTE networks, will lead to increased spending on mobile TV subscriptions even with a trend to an advertisement-based financing strategy. Mobile TV subscription spending is forecasted to total an estimated CHF 19 million in 2015.

TV Subscriptions and Licence Fee Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
TV Subscriptions	899	933	976	1,043	1,142	1,286	1,396	1,495	1,551	1,582	6.7
Public TV Licence Fees	766	801	810	828	837	847	856	865	873	880	1.0
Royalties for Audiovisual Works	41	44	49	46	46	47	47	48	49	50	1.8
Video on Demand	0	5	10	13	15	19	23	28	34	43	23.2
Pay per View	3	3	3	3	3	3	3	3	3	3	0.0
Mobile TV	0	0	10	12	8	9	11	13	16	19	20.8
Total Subscriptions and Licence Fees	1,709	1,786	1,858	1,945	2,052	2,210	2,336	2,452	2,527	2,579	4.7

Source: PricewaterhouseCoopers AG, BILLAG, SRG SSR idée suisse, Swisscable, Swisscom, Suissimage, upc cablecom, Swiss Federal Office of Communications, Swiss Federal Office of Economic Affairs, Walt Disney

TV Subscriptions and Licence Fee Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
TV Subscriptions	2.2	3.9	4.5	6.9	9.5	12.5	8.6	7.1	3.8	2.0	6.7
Public TV Licence Fees	0.3	4.5	1.2	2.3	1.1	1.2	1.0	1.0	1.0	0.9	1.0
Royalties for Audiovisual Works	-0.6	6.6	12.8	-6.1	-1.1	1.8	1.8	1.8	1.8	1.8	1.8
Video on Demand	0.0	100.0	100.0	25.0	21.8	22.1	22.3	22.7	23.5	25.4	23.2
Pay per View	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mobile TV	0.0	0.0	100.0	21.7	-35.4	14.4	25.0	20.0	25.0	20.0	20.8
Total Subscriptions and Licence Fees	1.4	4.5	4.0	4.7	5.5	7.7	5.7	4.9	3.1	2.0	4.7

Source: PricewaterhouseCoopers AG, BILLAG, SRG SSR idée suisse, Swisscable, Swisscom, Suissimage, upc cablecom, Swiss Federal Office of Communications, Swiss Federal Office of Economic Affairs, Walt Disney

Subscription Households and Spending

- The subscription market in Switzerland competes with free services, including free digital terrestrial television (DTT) and especially with free-to-air (FTA) satellite services. However, the availability of a large selection of channels on free services does not suppress subscription penetration. Nonetheless, even when the economy improves, free services will remain a competitive

threat to subscription services. To combat competition from free services, cable and IPTV providers are enhancing their offerings with HD channels, thematic and/or linguistic packages and an increasing base of VOD offerings.

- Combined with subscription TV household growth, TV subscription spending in Switzerland is forecast to grow at 6.7 percent compound annually for the forecast period 2011–2015. TV subscription spending will rise from CHF 1.1 billion in 2010 to CHF 1.6 billion in 2015.

TV Subscriptions

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions, incl. VAT)	899	933	976	1,043	1,142	1,286	1,396	1,495	1,551	1,582	6.7
Households (millions)	2.90	2.94	3.01	3.11	3.26	3.34	3.43	3.51	3.55	3.57	1.8
Penetration (%)	96.1	95.4	97.1	99.3	101.6	102.6	103.8	104.9	104.8	104.2	0.5

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom, upc cablecom, Swiss Federal Office of Economic Affairs

TV Subscriptions Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (%)	2.2	3.9	4.5	6.9	9.5	12.5	8.6	7.1	3.8	2.0	6.7
Households (%)	2.1	1.3	2.3	3.5	4.9	2.3	2.6	2.4	1.2	0.6	1.8
Penetration (%)	3.4	–0.7	1.8	2.2	2.3	0.9	1.2	1.1	–0.1	–0.6	0.5

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom, upc cablecom, Swiss Federal Office of Economic Affairs

Analogue and Digital Cable TV Subscription Households

- The overall cable TV subscription household base is facing severe competition from IPTV as well as from a moderately growing subscription satellite and free DTT subscriber base. In Switzerland, we therefore expect to see a compound annual decline of 3.5 percent with regard to the overall cable TV subscription household base. We expect the overall cable universe to decline from 2.84 million in 2010 to a projected 2.38 million households in 2015. On the other hand, the shift from analogue cable to digital cable households will gain in pace. We expect the digital cable household universe to grow at a 19.5 percent compound annual growth rate to 1.88 million in 2015 compared to 770,000 in 2010.
- Cable TV subscription penetration is forecast to fall from 88.5 percent of total TV households in 2010 to 69.5 percent in 2015, mainly due to the growth of IPTV.

“According to a survey by Swisscable about 40 percent of new IPTV subscribers are dual users.”

Matthias Lüscher, Head of Public Relations, Swisscable

- Overall, cable TV subscription market growth in Switzerland is expected to average 3.7 percent compound annually and progress from CHF 1.0 billion in 2010 to reach CHF 1.2 billion in 2015. Although the number of cable TV subscription households is expected to decrease, the cable TV subscription market is forecast to grow moderately. Such a divergent development is primarily based on increasing services for the digital cable universe for which customers are willing to pay a premium.

- upc cablecom, Switzerland's largest cable provider, reinforced its intention to enter the mobile market by applying for a Mobile Network Code (MNC) with the Swiss Federal Office of Communications (OFCOM). upc cablecom will render services as a mobile virtual network operator in cooperation with Orange, Switzer-

land's third largest provider of telecommunication services. Such cooperation would provide upc cablecom with the opportunity of complementing its land-line portfolio with additional mobile products via the Orange network.

Cable Subscriptions

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions, incl. VAT)	893	916	940	973	1,011	1,095	1,139	1,173	1,198	1,211	3.7
Households (millions)	2.88	2.88	2.89	2.88	2.84	2.73	2.60	2.48	2.42	2.38	–3.5
Of which Digital Households (millions)	0.28	0.40	0.51	0.60	0.77	1.04	1.35	1.62	1.79	1.88	19.5
Penetration (%)	95.5	93.5	93.3	91.9	88.5	83.8	78.8	74.1	71.4	69.5	–4.7

Source: PricewaterhouseCoopers AG, Swisscable, upc cablecom, Swiss Federal Office of Economic Affairs

Cable Subscriptions Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (%)	1.7	2.6	2.6	3.5	3.9	8.3	4.0	3.0	2.1	1.1	3.7
Households (%)	1.4	–0.1	0.3	–0.3	–1.3	–4.0	–4.7	–4.8	–2.5	–1.4	–3.5
Of which Digital Households (%)	12.0	43.2	27.2	17.6	28.5	35.0	30.0	20.0	10.0	5.0	19.5
Penetration (%)	2.7	–2.1	–0.2	–1.5	–3.7	–5.3	–6.0	–6.0	–3.7	–2.7	–4.7

Source: PricewaterhouseCoopers AG, Swisscable, upc cablecom, Swiss Federal Office of Economic Affairs

Internet Protocol Television (IPTV) Subscription Households

- Providers of telecommunication services are using their broadband infrastructure to offer IPTV in triple (or even quadruple) play packages that combine TV with broadband Internet access, voice, and in some cases also mobile.
- To date, Swisscom TV dominates the Swiss IPTV market. On May 26, 2011, Sunrise, Switzerland's second largest provider of telecommunication services, announced it would launch its own IPTV offer toward the end of 2011. The Sunrise IPTV offer will use VDSL broadband technology and is expected to include features such as time shifting, VOD, and an electronic programming guide (EPG).
- We anticipate IPTV households in Switzerland will almost triple over the forecasted period. By 2015, we expect a 23.1 percent compound annual increase from 420,000 in 2010 to an estimated 1.19 million IPTV households in Switzerland.
- IPTV will generate over 50 percent (CHF 240 million) of the entire TV subscription revenue growth in Switzerland over the next five years. Compared to 13.1 percent in 2010, by 2015, IPTV is expected to account for 34.7 percent of all TV households in Switzerland. IPTV penetration will thus grow at a 21.5 percent compound annual growth rate over the forecast period.
- Furthermore, we anticipate the IPTV market in Switzerland to almost triple revenues. Compared to CHF 131 million in 2010, in 2015, the IPTV market in Switzerland is estimated to generate revenues of CHF 371 million.

IPTV Subscriptions

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions, incl. VAT)	6	17	35	70	131	190	257	321	354	371	23.1
Households (millions)	0.02	0.06	0.12	0.23	0.42	0.61	0.82	1.03	1.13	1.19	23.1
Penetration (%)	0.7	1.9	3.8	7.4	13.1	18.7	25.0	30.8	33.5	34.7	21.5

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom, Swiss Federal Office of Economic Affairs

IPTV Subscription Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (%)	100.0	195.0	108.3	96.6	88.7	45.0	35.0	25.0	10.0	5.0	23.1
Households (%)	100.0	195.0	100.0	96.6	81.5	45.0	35.0	25.0	10.0	5.0	23.1
Penetration (%)	100.0	189.1	99.0	94.2	77.0	43.0	33.2	23.4	8.6	3.7	21.5

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom, Swiss Federal Office of Economic Affairs

Satellite TV Households

- It is important to point out that satellite TV in Switzerland predominantly consists of free-to-air (FTA) services. Satellite TV households acquire the necessary equipment once and, aside from the mandatory public TV licence fee, they do not incur recurring expenses. Satellite TV subscriptions (e.g., specific language packages) are negligible in the Swiss market.
- We expect the number of satellite households to increase slightly at a 0.7 percent compound annual growth rate from 570,000 in 2010 to 590,000 in 2015. As the total number of TV households is expected to increase by 1.3 percent annually, the satellite TV household penetration will decline slightly from 17.7 percent in 2010 to 17.2 percent through 2015.

Satellite Subscriptions

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions, incl. VAT)	0	0	0	0	0	0	0	0	0	0	0.0
Households, incl. free to air (millions)	0.27	0.34	0.42	0.53	0.57	0.57	0.58	0.58	0.58	0.59	0.7
Penetration (%)	9.0	11.0	13.7	16.9	17.7	17.6	17.5	17.3	17.3	17.2	–0.6

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom

Satellite Subscription Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households, incl. free to air (%)	22.7	25.0	25.0	25.0	7.2	0.7	0.7	0.7	0.7	0.7	0.7
Penetration (%)	0.0	22.5	24.4	23.5	4.6	–0.7	–0.6	–0.6	–0.5	–0.6	–0.6

Source: PricewaterhouseCoopers AG, Swisscable, Swisscom

Video on Demand (VOD) and Pay per View (PPV)

- VOD is available in digital cable households and IPTV households. VOD is only available as a bandwidth and storage-intensive push VOD service for satellite personal-video-recorder (PVR) subscribers. Growth in the digital cable and IPTV universe is expanding the potential market.
- Growth in the underlying VOD household base will expand the potential market for VOD over the next five years. In 2010, there were approximately 950,000 households in Switzerland capable of accessing VOD. We expect that total to more than double at a 15.1 percent compound annual rate during the next five years to 1.92 million in 2015.
- We expect the VOD market in Switzerland to increase at a 23.2 percent compound annual growth rate from CHF 15 million in 2010 to CHF 43 million in 2015.
- In general, the expanding digital subscriber base, i.e., digital cable plus digital satellite plus IPTV, will expand the PPV market. However, as cable and IPTV providers market their VOD services more heavily than PPV, we do not expect further growth in the Swiss PPV market.
- We therefore expect the PPV market in Switzerland to remain flat at CHF 3 million annually through 2015.
- We expect that over-the-top (OTT) television offerings, such as Apple TV or Google TV, will at present not lead to cord-cutting in Switzerland, but will rather be used as additional services. However, as the content on offer increases over time, this may change.

Video on Demand and Pay per View

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Video on Demand Spending (CHF millions)	0	5	10	13	15	19	23	28	34	43	23.2
Pay per View Spending (CHF millions)	3	3	3	3	3	3	3	3	3	3	0.0
VOD and PPV Households (millions)	0.35	0.46	0.62	0.82	0.95	1.19	1.45	1.64	1.79	1.92	15.1

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swisscable, Swisscom, upc cablecom, Walt Disney

Video on Demand and Pay per View Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Video on Demand Spending (%)	0.0	100.0	100.0	25.0	21.8	22.1	22.3	22.7	23.5	25.4	23.2
Pay per View Spending (%)	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VOD and PPV Households (%)	40.0	31.4	34.8	32.3	15.7	25.4	21.8	13.1	9.1	7.3	15.1

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swisscable, Swisscom, upc cablecom, Walt Disney

Mobile TV

- Mobile TV was originally envisioned as a subscription-based service through which new revenues could be generated in a saturated market. However, low take-up rates have led some providers to shift to an advertiser-supported model. In essence, people are looking to access FTA programming on their mobile phones.
- While we expect most mobile TV users to access the service for free, we believe a specialised premium market exists for sports, movies and other premium programming that people will be willing to pay for.
- We expect the number of mobile TV subscribers to increase from 70,000 in 2010 to 180,000 in 2015. Mobile TV subscription spending totalled CHF 8 million in 2010, down from CHF 12 million in 2009. Price reductions in 2010 led to this decrease in short-term revenue. We expect total spending to rise to CHF 19 million by 2015, a 20.8 percent compound annual increase.

Mobile TV

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	0	0	10	12	8	9	11	13	16	19	20.8
Subscribers (millions)	0.00	0.00	0.05	0.06	0.07	0.08	0.10	0.12	0.15	0.18	20.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swisscom

Mobile TV Growth

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (%)	0.0	0.0	100.0	21.7	–35.4	14.4	25.0	20.0	25.0	20.0	20.8
Subscribers (%)	0.0	0.0	100.0	21.7	14.9	14.4	25.0	20.0	25.0	20.0	20.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swisscom

Public TV Licence Fees

- Public TV licence fees are the second largest component in the market. The aim of the public TV licence fee is to support and finance public and private licenced TV channels. On behalf of the Swiss federal administration, BILLAG executes the collection process of the radio and TV levy. As per January 2011, BILLAG changed its collection process by sending out annual invoices. The change is meant to reduce collection costs compared to the quarterly collection process for prior periods.
- Public TV licence fees are subject to Swiss VAT, currently at 2.5 percent. Total revenues amounted to CHF 837 million (including VAT) in 2010.
- Licence fees for private TV households currently amount to total CHF 462 per year, of which CHF 169 is for radio and CHF 293 for private TV use. Companies are charged between CHF 611.80 and CHF 1,407.20 per year, depending on the number of radio and TV sets. Radio fees vary from CHF 223.60 to CHF 514.40 per year. TV licence fees range from CHF 388.20 to CHF 892.80 per year for companies.
- On June 18, 2010, the Swiss federal government decided not to further increase the public TV licence fee for the financing period 2011–2014. Future revenue growth is based on the increase in total TV households as a result of overall household development and an improved fee collection process for businesses.
- We expect public TV licence fees in Switzerland to increase at a 1.0 percent compound annual rate, corresponding to the expected overall household development, to CHF 880 million (including VAT) in 2015.
- In Switzerland, Suissimage is the body that looks after the copyrights and fair remuneration for authors of audiovisual works. Royalties collected through Suissimage from the users of audiovisual works amounted to CHF 46 million in 2010. Historically, the development of these royalties is positively correlated with the overall economic development in Switzerland. We assume that the royalties for audiovisual works will increase at a 1.8 percent compound annual growth rate to CHF 50 million in 2015.

Public TV Licence Fees

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Public TV Licence Fees (CHF millions, incl. VAT)	766	801	810	828	837	847	856	865	873	880	1.0
Royalties for Audiovisual Works (CHF millions)	41	44	49	46	46	47	47	48	49	50	1.8
Growth (%)	0.3	4.6	1.8	1.8	1.0	1.2	1.1	1.0	1.0	0.9	1.1

Source: PricewaterhouseCoopers AG, BILLAG, Suissimage, Swiss Federal Office of Communications, Swiss Federal Office of Economic Affairs

The Swiss TV Subscriptions and Licence Fee Market Compared to Western Europe

- In 2010 the entire Western Europe TV subscriptions and licence fee market amounted to CHF 67.0 billion. The largest contributors were France at CHF 13.3 billion, the United Kingdom at CHF 12.5 billion, and Germany at CHF 12.0 billion. We expect the market to grow at a 5.2 percent compound annual rate to reach revenues of CHF 86.3 billion in 2015. Compound annual growth rates range from 3.6 percent in Germany to 7.6 and 7.8 percent in Belgium and Portugal respectively. Switzerland's total contribution is minor and its compound annual growth rate of 4.7 percent is well in the middle of the Western European spectrum.
- The Swiss compound annual growth rate 2011–2015 of 1.8 percent for subscription TV households is lower than the Western European average of 3.1 percent, which can be explained by the high Swiss subscription TV household penetration of more than 100 percent of total TV households. Lower rates are also noted in the Netherlands (0.8 percent), Denmark (1.0 percent), and Austria (1.2 percent). Not surprisingly, all countries show high levels of penetration (Netherlands 101.1 percent, Austria 95.7 percent, Denmark 90.8 percent). The highest growth rate is predicted for Greece, despite the current economic woes, at 7.8 percent annually, but with penetration climbing to just 15.7 percent in 2015.
- The Swiss compound annual decline rate of 3.5 percent with regard to cable subscription TV households contrasts with the Western European average of a compound annual growth rate of 0.1 percent. This can be explained by the increasing competition from IPTV service providers. The entire Western European picture is quite heterogeneous, with growth rates from as low as –3.0 percent in Denmark to as high as 8.4 percent in Greece.
- We note and anticipate a continuous trend towards IPTV in Western Europe as well as in Switzerland. At a compound annual growth rate of 12.3 percent the total of IPTV households in Western Europe will almost double, from 15.84 million in 2010 to 28.32 million in 2015. The Swiss growth rate of 23.1 percent is almost twice as high as the Western European average.
- In Western Europe, we anticipate a 2.5 percent compound annual increase to 31.9 million subscribers in 2015. Satellite penetration in this market is expected to reach a level of 18.2 percent by 2015. Currently, out of 28.21 million subscription satellite TV households in Western Europe, the UK accounts for 9.85 million followed by Italy with 4.70 million, and France with 4.29 million.
- Switzerland accounted for 570,000 satellite TV households in 2010 and we anticipate a slight increase to 590,000 by 2015. These households do not qualify as subscription satellite TV households as there are almost no recurring service fees in Switzerland compared to other Western European countries. Once the initial equipment (i.e., satellite dish and set-top box) is acquired and a one-time payment of CHF 60 has been made in order to receive a decoder chip for Swiss TV programmes, the consumer is able to watch TV content without further payments (except for public TV licence fees).
- The Swiss compound annual growth rate of 15.1 percent with regard to VOD households is slightly higher than the Western European average of 10.6 percent. The Western European picture is quite heterogeneous with compound annual growth rates ranging from as low as 2.7 percent in Finland to as high as 32.0 percent in Greece. Moreover, the development in VOD households seems to be positively correlated with the development in digital cable TV and IPTV households in Western Europe. Of 37.23 million VOD households in Western Europe in 2010, France accounted for 10.10 million, followed by Germany with 7.10 million, and the UK with 3.75 million.
- The Western European market for PPV services is highly inconsistent. In 2010, three countries (Italy, France, and Spain) accounted for over 80 percent of the entire Western European revenues. Switzerland and most of the Western European countries do not show significant PPV market activity.
- The mobile TV subscription market is not yet fully developed. In 2010, Western Europe accounted for 2.82 million subscribers with 1.37 million from Italy, 0.94 million from France, and 0.27 million from Spain. All countries with an active market expect a double-digit compound annual growth rate up until 2015. The Swiss growth rate of 20.8 percent for subscribers and spending remains below the European average growth rate of 31.9 percent.

- As in Switzerland, all Western European countries, with the exception of Spain, levy a public TV licence fee. Usually, revenue development correlates with TV household development. The Western European average annual compound growth rate of 0.9 percent is not significantly lower than the projected growth rate of 1.0 percent in Switzerland. Portugal introduced its public TV licence fee in 2004 and is still catching up, which explains the projected growth rate of 5.9 percent at the upper end of the Western European spectrum.
- The decline in fees of 5.5 percent in the Netherlands represents the lower end as it was decided to discontinue fees and the amount represents government contributions from general tax revenues. France, Germany, and the UK together accounted for almost two-thirds of the total fee revenues in 2010, which can be explained by these countries' populations and the fact that these fees are typically charged per household.

TV Subscriptions and Licence Fee Market by Country (CHF millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Austria	1,688	1,905	2,053	2,079	2,108	2,192	2,321	2,417	2,541	2,668	4.8
Belgium	1,395	1,536	1,695	1,485	1,584	1,709	1,840	1,980	2,135	2,288	7.6
Denmark	1,666	1,764	1,853	1,935	1,962	2,027	2,130	2,220	2,312	2,412	4.2
Finland	661	758	749	829	855	915	972	1,036	1,104	1,185	6.7
France	7,421	8,584	9,233	12,396	13,278	14,404	15,528	16,500	17,005	17,549	5.7
Germany	10,711	10,741	11,022	11,702	11,982	12,397	12,799	13,303	13,894	14,330	3.6
Greece	471	516	537	547	550	552	582	605	663	718	5.5
Ireland	498	530	578	629	724	754	782	822	875	924	5.0
Italy	4,879	6,075	6,808	7,018	7,241	7,580	8,190	8,782	9,432	10,168	7.0
Netherlands	3,036	3,293	3,492	3,536	3,721	3,937	4,097	4,285	4,492	4,697	4.8
Norway	1,252	1,504	1,713	1,896	2,074	2,232	2,399	2,570	2,743	2,926	7.1
Portugal	1,064	1,170	1,312	1,372	1,434	1,532	1,682	1,818	1,954	2,087	7.8
Spain	2,600	2,732	2,857	2,734	2,781	2,896	3,054	3,274	3,493	3,731	6.1
Sweden	1,811	1,929	2,051	2,110	2,159	2,238	2,380	2,491	2,609	2,730	4.8
Switzerland	1,709	1,786	1,858	1,945	2,052	2,210	2,336	2,452	2,527	2,579	4.7
United Kingdom	10,417	11,035	11,255	11,877	12,460	13,045	13,662	14,216	14,764	15,314	4.2
Western Europe Total	51,280	55,856	59,066	64,091	66,964	70,619	74,756	78,772	82,544	86,305	5.2

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, BILLAG, SRG SSR idée suisse, Swissscable, Swisscom, Suissimage, upc cablecom, Swiss Federal Office of Communications, Swiss Federal Office of Economic Affairs, Walt Disney

4 *Television Advertising*

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Executive Summary

Definition

- The television advertising market comprises advertiser spending on both terrestrial and multichannel television, on TV web sites, on programmes streamed from TV websites, and on mobile TV. Television advertising figures are shown as net revenues and do not include agency commissions and discounts.

Market size and growth in Switzerland

- We expect the Swiss net television advertising market to increase from CHF 693 million in 2010 to CHF 927 million in 2015, a compound annual growth rate of 6.0 percent.
- In comparison, the Western European market will grow by a projected compound annual growth rate of 4.5 percent. Western Europe will reach revenues of CHF 37.9 billion in 2015 up from CHF 30.4 billion in 2010.

Market size and growth by component

- The principal component of television advertising in Switzerland, broadcast television advertising, will reach revenues of CHF 785.9 million in 2015, or 84.7 percent of total television advertising spending.
- Broadcast television sponsoring is expected to increase by 5.4 percent annually, from CHF 53 million in 2010 to CHF 69 million in 2015.
- The fastest growth is expected from mobile television advertising spending, with an average yearly growth of 71.9 percent from a very low base of CHF 1 million in 2010 to CHF 15.6 million in 2015.
- Online television advertising spending is expected to increase 19.1 percent annually, up from CHF 24.0 million in 2010 to CHF 57.4 million in 2015.
- Combined, the online and mobile television universe in Switzerland is expected to increase from CHF 25.0 million in 2010 to CHF 73 million in 2015, a compound annual growth rate of 23.9 percent.

Principal drivers

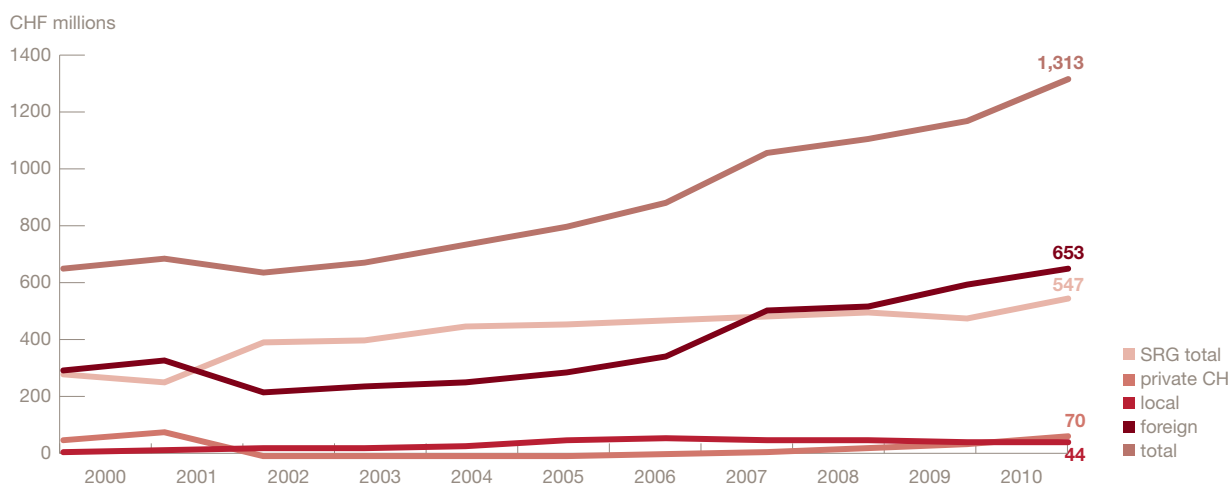
- Faster than expected economic recovery and increased usage of television to drive sales and market share will stimulate the overall advertising market.

- Increasing investment in broadband infrastructure, and mobile and wired bandwidth capacity will further spur investments in mobile and online television media offerings, as well as consumer spending on such media, including the necessary hardware, such as smartphones and tablets.
- The introduction of web-enabled TV sets and the expansion of online streaming in Western Europe will fuel online television advertising.
- Mobile TV rollouts and the shift from subscriber-supported to advertiser-supported services will expand the mobile television advertising market. However, this growth is fragile, as it is highly dependent upon flat-rate 3G/4G or innovative WiFi data traffic tariff plans, such as those offered by the mobile operators.

Market Overview

- There are two key players in the Swiss television advertising market – Goldbach Media and Publisuisse. The former has established itself as the marketer for all CH advertising windows on private TV stations. The latter markets the advertising space for SRG SSR. Recently Ringier entered the arena.
- The market can be divided along three main vectors: broadcast, IP TV, and mobile TV. In broadcast, television companies sell the advertising slots and realise the resulting income. These encompass the Swiss TV channels in all regions, and the TV companies from abroad with dedicated Swiss advertising windows. Since 2007, the foreign broadcasters have surpassed SRG SSR with their Swiss advertising windows in terms of revenues (private Switzerland-wide and regional broadcasters, such as Tele24, TV3 until the end of 2001, 3+ since 2006, TeleZüri, and TeleBärn play a secondary role). In contrast to the SRG SSR channels, the foreign channels are not regulated by Switzerland, i.e., they are not bound by public service stipulations.
- Web TV companies usually sell advertising space in the form of TV spots or banner ads. Typically, commercials are shown when accessing the programmes, and when switching channels. While viewing, the customer is exposed to the TV channel's advertising, just as when watching linear TV.
- The same applies to mobile TV. Mobile network operators, such as Swisscom or Orange, have dedicated offerings, and new entrants have started with their own apps, such as Blick TV and 20 Minuten TV from the Swiss publishing houses Ringier and Tamedia respectively.

TV advertisement revenues



Source: PricewaterhouseCoopers AG, SRG SSR, Goldbach Group

Market Development

- As of September 2011 Goldbach Media will no longer be the sole marketer of TV advertising for all private channels in Switzerland. TF1's Swiss advertising window for the French-speaking part of Switzerland will be marketed by Ringier.
- In May 2011, two additional foreign TV stations, the French station W9 and Luxembourg TV channel AB1, announced they aim to start their own Swiss TV advertising window in 2011.
- Online TV and Mobile TV present an opportunity to market products to a considerably younger customer base. Typically, younger generations are quick to adapt to new technologies. For example 40 percent of Zattoo viewers are under 30 years old.
- One of the strongest effects for broadcast TV and advertising persisted – the shift of the prime time for media consumption, time-shifting and mobile viewing. The classic prime time shifts to a continuously later time in the evening. Attention is distracted, as customers increasingly watch TV while checking e-mails and/or engaging in social media activities.

Television Advertising and Sponsoring

Broadcast Television Advertising

- 2010 showed an unexpectedly strong recovery of the TV advertisement volume, CHF 50 million above the

projected amount from last year's forecast. This is due to the unexpectedly strong performance of the Swiss economy, which was doing very well despite its all time high currency exchange rate against the euro and US dollar. Accordingly, we believe the growth of TV advertising volume will continue with a compound annual growth rate of 5 percent, above last year's projection of 3.1. Most of this growth will be achieved via the advertising income of the foreign channels.

Broadcast Television Sponsoring

- Sponsoring is expected to grow slightly faster, with peaks in every straight year due to the major sports events (Olympic Games, FIFA World Championships, UEFA European Championships). In Switzerland, sponsoring revenue goes almost exclusively to SRG SSR.

Online Television Advertising

- Online television advertising is expected to grow at a considerably higher rate than broadcast advertising. There are four players in the Swiss market, Zattoo.com, Wilmaa, Teleboy.ch and Nello.tv. Nello.tv is the only paid subscription-based online television operation. The other three are financed through advertising, or through additional subscription fees for premium services, such as high quality resolution. Advertising space is marketed directly or in cooperation with Goldbach Audience, a division of Goldbach Group.

Television Advertising and Sponsoring

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Broadcast Advertising and Sponsoring											
Broadcast Advertising – net (CHF millions)	560.0	581.0	565.0	542.0	615.0	648.8	688.0	717.9	747.5	785.9	5.0
Broadcast TV Sponsoring (CHF millions)	54.0	56.0	63.0	54.0	53.0	55.0	59.0	61.0	65.0	69.0	5.4
Total Advertising and Sponsoring – net (CHF millions)	614	637	628	596	668	704	747	779	813	855	5.1
Online and Mobile Television Advertising											
Online TV Advertising (CHF millions)	4.1	8.3	15.6	19.8	24.0	29.1	34.4	40.7	49.0	57.4	19.1
Mobile TV Advertising (CHF millions)	0.0	0.0	0.5	0.9	1.0	1.5	2.2	4.4	10.4	15.6	71.9
Total Online and Mobile TV Advertising	4.1	8.3	16.1	20.7	25.0	30.6	36.6	45.1	59.4	73.0	23.9
Total Switzerland (CHF millions)	618	645	644	617	693	734	784	824	872	928	6.0
Growth (%)	5.2	4.4	–0.2	–4.3	12.4	6.0	6.7	5.2	5.8	6.4	6.0
Western Europe											
Total Western Europe (CHF millions)	31,323	32,634	31,651	28,246	30,418	31,407	33,011	34,469	36,544	37,968	4.5
Growth (%)	3.6	4.2	–3.0	–10.8	7.7	3.3	5.1	4.4	6.0	3.9	4.5

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz, Media Focus, Publisuisse, Goldbach Media

Broadcast Television Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending – net (CHF millions)	560.0	581.0	565.0	542.0	615.0	648.8	688.0	717.9	747.5	785.9	5.0
Growth (%)	2.8	3.8	–2.8	–4.1	13.5	5.5	6.1	4.3	4.1	5.1	5.0

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz, Media Focus, Publisuisse, Goldbach Media

Broadcast Television Sponsoring

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending – net (CHF millions)	54.0	56.0	63.0	54.0	53.0	55.0	59.0	61.0	65.0	69.0	5.4
Growth (%)	2.6	3.7	12.5	–14.3	–1.9	3.8	7.3	3.4	6.6	6.2	5.4

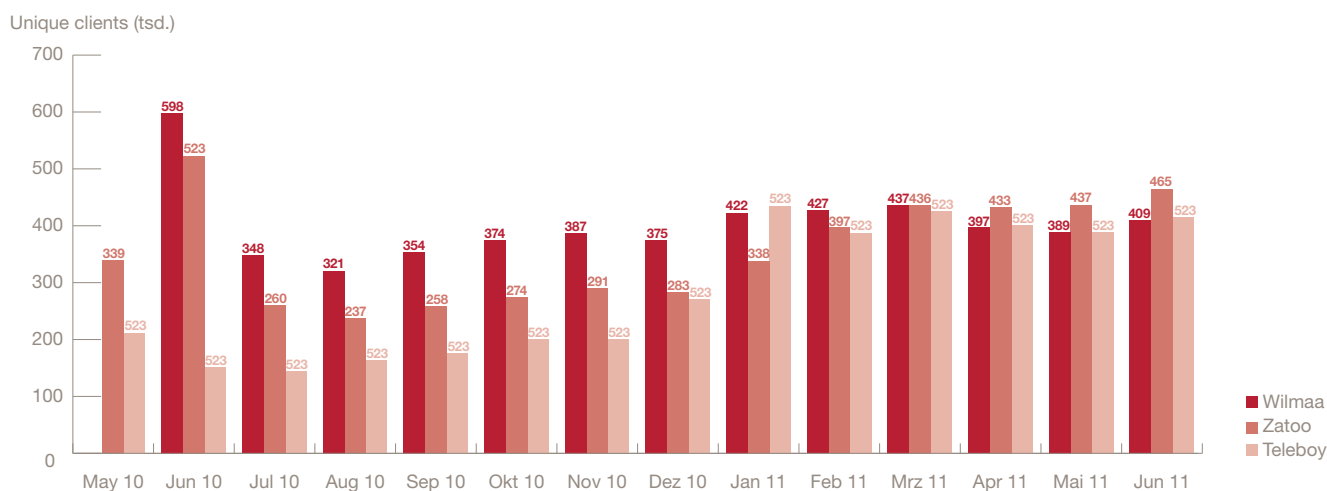
Sources: PricewaterhouseCoopers AG, Stiftung Werbestatistik Schweiz, Publisuisse

Online Television Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	4.1	8.3	15.6	19.8	24.0	29.1	34.4	40.7	49.0	57.4	19.1
Growth (%)	100.0	102.4	88.0	26.9	21.1	21.4	18.1	18.2	20.5	17.0	19.1

Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Unique Clients (tsd.) per month for Zattoo.com and, as per June 2010, Wilmaa.com



Source: NET-Metrix August 2010

- In terms of unique Web TV clients, June 2010 represented an all-time high, due to the FIFA World Cup™ in South Africa, with over 500,000 unique clients. In general, however, all platforms have shown consistent growth in unique clients since July 2010 and reached over 400,000 unique clients in June 2011. We expect that this growth will continue, also based on optical fibre and next-generation cable infrastructure projects in Switzerland. Increased bandwidth capacity will further contribute to increased customer satisfaction, reducing the risk of unstable or interrupted data streams at times of high network load (e.g., UEFA Champions League final 2011).
- We therefore expect online television advertising to increase from CHF 24.0 million in 2010 to CHF 57.4 million in 2015.

Mobile Television Advertising

- We still see high growth in the mobile TV advertising market. More than 50 percent of mobile phones sold are smartphones, growing the potential customer base significantly. In addition, long-term evolution (LTE) technology will provide further bandwidth for mobile data exchange, improving the customer experience with data transmission-intensive services, such as mobile TV. We believe that mobile television advertising will grow at a high rate, from CHF 1.0 million in 2010 to CHF 15.6 million in 2015.

Mobile Television Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Mobile TV Users (millions)	0.00	0.00	0.06	0.08	0.12	0.21	0.41	0.83	1.70	2.23	79.4
Growth (%)	0.0	0.0	100.0	50.0	50.0	75.0	95.2	102.4	104.8	31.2	79.4
Spending (CHF millions)	0.0	0.0	0.5	0.9	1.0	1.5	2.2	4.4	10.4	15.6	71.9
Growth (%)	0.0	0.0	100.0	80.0	15.6	44.2	46.7	100.0	136.4	50.0	71.9

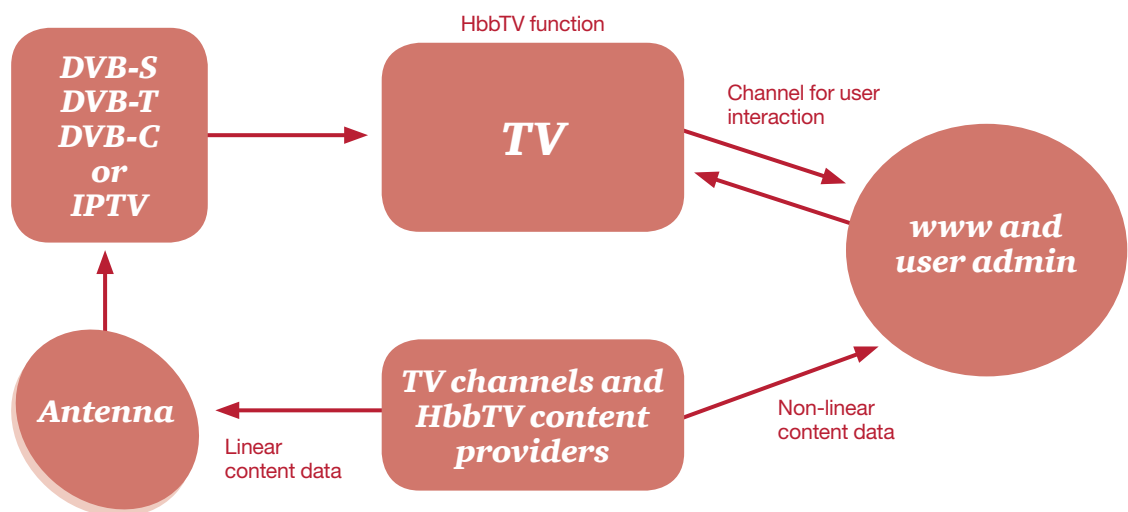
Sources: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Technology Overview

- Developments in technology move very fast. New technological developments, such as Hbb TV and 3D TV, have entered the Swiss market. Hbb TV has the potential to become the new standard technology for the next decade.
- The first 3D-TV devices entered the market several years ago but experts do not agree whether and when this technology will achieve its breakthrough in the market. Two developments loom: the first is 4K-HD, a technology with such a high resolution that it is said to almost produce a 3D effect. The second is that the real breakthrough will only occur when special 3D-glasses are no longer needed. Below we give a short overview of these new developments.
- **Hybrid Broadcast Broadband TV (HbbTV)**, also known as smart tv, is a major new pan-European initiative aimed at harmonising the broadcast and broadband delivery of entertainment to the end user through Internet-connected TVs and set-top boxes.

The new concept is that there is no longer a media break between TV and Internet, both “worlds” are accessible on the same device. Through the adoption of HbbTV, consumers are able to access new services from entertainment providers, such as broadcasters, online providers and customer electronics manufacturers – including catch-up TV, web TV, Video on Demand (VoD), interactive advertising, personalisation, voting, games and social networking as well as programme-related services, such as digital text and electronic programme guides (EPG). The founding members of the HbbTV consortium consist of both television broadcasters and companies, with the common goal of creating services that broadcasters wish to offer, while meeting the capabilities of today’s customer electronic devices. The HbbTV steering group members are: ANT Software Limited, EBU (European Broadcasting Union), France Televisions, Institut für Rundfunktechnik GmbH, OpenTV Inc, Koninklijke Philips Electronics N.V., Samsung, SES ASTRA S.A, Sony Corporation, and Television Française 1-TF1.

HbbTV/Smart TV



Source: PricewaterhouseCoopers AG, HbbTV-Infos.de

“Linear television will be subject to a revolution, caused by the trend-setting hybrid technology. This new technology not only offers great potential in combining services of a linear and non-linear world, it also opens new advertising and commercialisation opportunities.”

Adrian Zaugg, Head of Strategy, SRG SSR

- 3D TV sets are those that can operate in 3D mode in addition to regular 2D mode. All major TV manufacturers, such as Panasonic, Sony, Samsung, LG and Philips have 3D models available. 3D Blu-ray players went on sale in 2010, and Sky began 3D broadcasts in the UK on 3 April 2010. DirecTV, a US provider of satellite television, began 3D broadcasts in June, 2010 with the 2010 FIFA World Cup. Worldwide consumer electronic manufacturers and content providers, such as Disney, are exploring ways to display 3D images that do not require the use of glasses.
- Overall, today's 3D TV market is hardly booming. Sets are not selling as well as TV makers had expected, for a number of reasons. First, there is a lack of 3D content. Second, there is no established technology standard and, as a result, a different type of content is necessary for each technology. Third, in recent years many customers have replaced their old TV with an LCD or LED flat screen, thus their willingness to invest again is low. Fourth, and probably most important, we believe that a 3D TV breakthrough is dependent on a technology that does not require glasses. In the meantime, to lower the barrier for consumers to buy 3D TV sets and consume 3D content at home, TV manufacturers have started to significantly reduce the prices of 3D glasses, this in addition to fast price erosion on TV sets, due to the high pace of innovation.

The Swiss Television Advertising Market Compared to Western Europe

- We expect above-average growth in the Swiss television advertising market compared to Western Europe. One of the reasons is that from 2009 to 2010, the Swiss television advertising market was able to recover much faster than anticipated.
- Television advertising in Western Europe rose 7.7 percent in 2010, led by double-digit gains in the United Kingdom, Belgium, Germany, and Finland, as well as increases in excess of 9 percent in Norway, Sweden, and Switzerland. By contrast, television advertising in Greece and Ireland continued to decline in 2010, reflecting ongoing economic weakness in those countries. Although we expect television advertising to continue to thrive as the market recovers and the advertising base expands, growth rates will moderate. We expect spending to increase at a 4.5 percent compound annual rate during the next five years, to an estimated CHF 38 billion.
- Television is benefiting from higher viewing levels, one of the few media, along with the Internet, where audiences are growing. New services and an improved viewing experience are contributing to audience growth. Specifically, HD rollouts are gaining momentum throughout Europe. In France, for example, more than 55 percent of TV households had HD sets in 2010, up from 37 percent in 2009.

Total Television Advertising Market (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe											
Austria	450	491	512	522	552	582	621	656	703	738	6.0
Belgium	872	943	978	1,018	1,140	1,205	1,298	1,364	1,474	1,548	6.3
France	3,981	4,136	3,955	3,540	3,769	3,915	4,136	4,369	4,695	4,910	5.4
Germany	5,695	5,759	5,598	5,079	5,662	5,874	6,149	6,452	6,823	7,101	4.6
Italy	5,443	5,490	5,415	4,878	5,186	5,310	5,618	5,798	6,159	6,321	4.0
Spain	3,989	4,341	3,886	3,034	3,095	3,164	3,301	3,399	3,601	3,736	3.8
Switzerland	618.1	645.3	644.1	616.7	693.0	734.4	783.6	824.0	871.9	927.9	6.0
United Kingdom	5,586	5,777	5,612	5,101	5,778	6,002	6,220	6,509	6,743	7,011	3.9
Western Europe Total*	31,323	32,634	31,651	28,246	30,418	31,407	33,011	34,469	36,544	37,968	4.5
Growth (%)	3.6	4.2	-3.0	-10.8	7.7	3.3	5.1	4.4	6.0	3.9	4.5

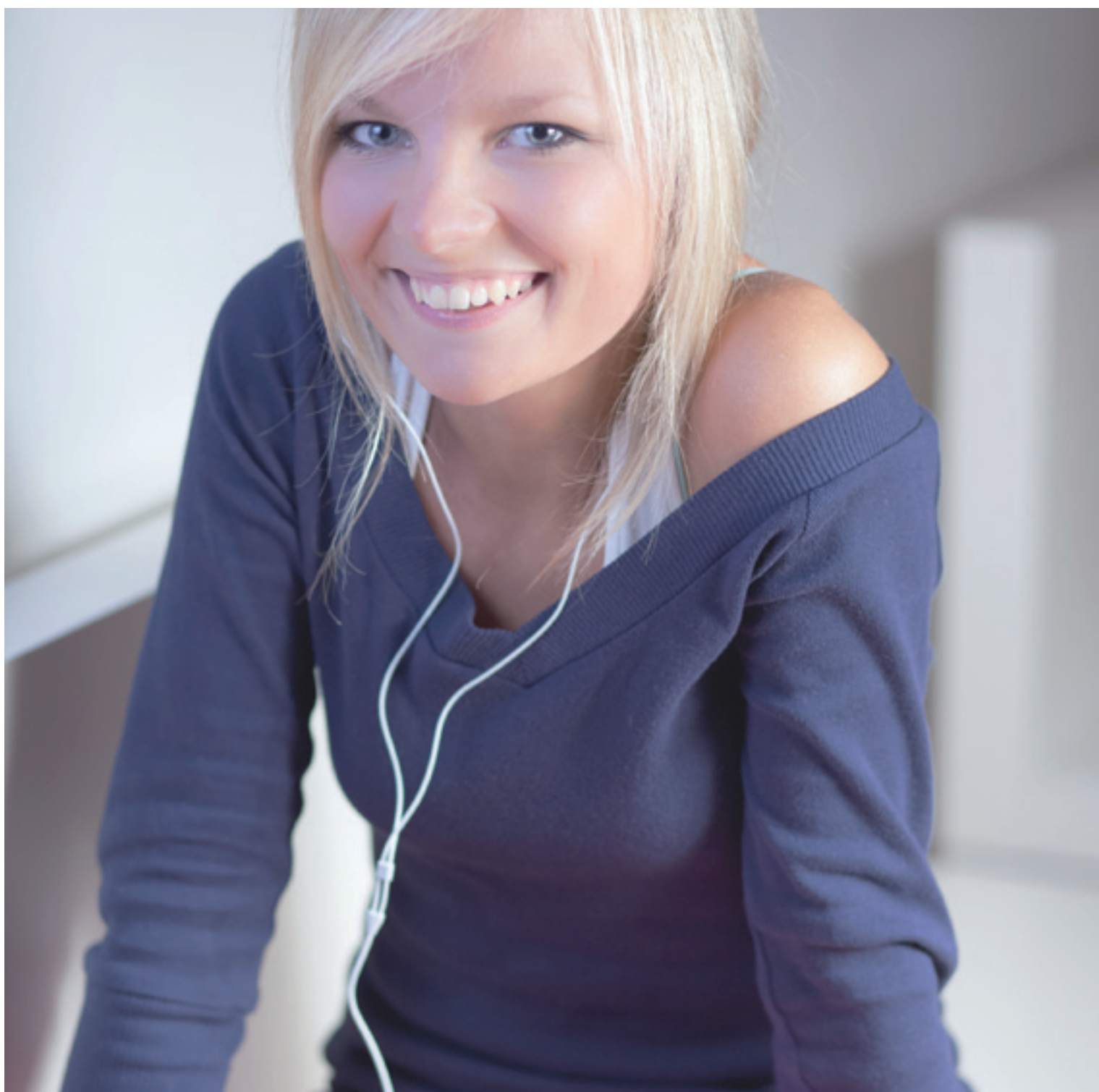
* Figures take into account all countries in Western Europe covered by the Outlook, not only those listed above

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz, Media Focus, Publisuisse, Goldbach Media

- In Germany, HDTV is finally starting to gain ground, with an estimated 7.5 million flat-screen TVs sold in 2010. Public broadcasters ARD and ZDF broadcast the 2010 Winter Olympics in HD. Cable operators have upgraded their systems to enable them to carry more HD channels, and private programmes offer HD via satellite. 3D TV is starting to take hold in Germany, with 8 million 3D TV sets expected to be sold through 2015.
- In Italy, SES-Astra and RAI launched a free-to-air HD channel, and RAI broadcast the FIFA World Cup in HD. Europe 7 launched HD on DTT in 2010; Mediaset introduced HD on its DTT premium service, and Sky Italia is offering and heavily promoting HD on its satellite service.
- HD households tend to watch more TV than standard definition homes. These higher viewing levels will translate into higher advertising levels.
- Growth in the number of TV channels, too, is expanding the potential market for television advertising. In France, five local DTT channels were licenced in 2010, and regulatory body Conseil supérieur de l'audiovisuel authorised 55 new local DTT zones.
- Not all TV stations can profit equally from this interesting growth opportunity for advertising revenues. SRG SSR, the incumbent Swiss TV station, has continuously lost customers (especially younger ones) to the private (mainly German, but also French) TV stations. While the loss of reach could be compensated by additional advertising slots, further improvement will become difficult since saturation has been reached. Therefore, if the advertising rates sink further, there will be a drop in advertisement revenues for SRG SSR.

5 Recorded Music

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Executive Summary

Definition

- The recorded music market comprises consumer spending on physical formats – albums, singles, and music videos – plus digital distribution. Digital distribution consists of music distributed to mobile phones and music downloaded from the Internet through licenced services or app stores. Revenues from streaming services financed by subscriptions or advertising are also included.
- The recorded music market does not include subscription fees paid to satellite radio providers, music publishing, live performance or merchandising revenues, which have become significant components of the market.
- Spending is measured at retail, which can be substantially higher than the wholesale or trade value revenues that are often reported.

Market size and growth in Switzerland

- We expect the Swiss recorded music industry to increase by an average of 1.7 percent a year between 2010 and 2015, going from CHF 289 million to CHF 314 million.
- Despite the low average growth in the next 5 years, in 2015 the Swiss market will still be around 6 percent lower than it was in 2006.
- In comparison, the Western European market will decrease slightly by 0.3 percent, compounded annually. Western European revenues will decrease from CHF 7.9 billion in 2010 to CHF 7.8 billion in 2015.

Market size and growth by component

- We expect digital distribution to grow at an average of 12.7 percent a year between 2010 and 2015, effectively increasing by CHF 15–20 million every year to reach almost CHF 200 million in 2015. Even though yearly growth will slow down in that period compared to 2006–2010, there will be double-digit yearly growth.
- By 2015, spending on physical formats will have fallen by more than 60 percent compared to 2006, reaching CHF 115 million.
- However, the decline will slow down to around 7 percent in 2015 compared to an over 10 percent decline between 2006 and 2010. This is because the physical distribution market will begin to approach its base level.

Principal drivers

The key drivers for the evolution of the Swiss recorded music market are influenced by

- Piracy, which remains an issue
- Changes in business models and related technical innovations in general, e.g., penetration of streaming music services rather than purchase of units (songs) for personal storage; continuous improvement in the convenience of digital stores and volume changes rather than price changes
- Market building companies like Apple with its cloud services in the new iOS5 and Google with its music service
- Moderate declines in the physical market as many people – principally in the expanding over 45 demographic – still prefer music in physical formats.

Market Overview

- The outlook for recorded music in Switzerland can be split into two trends. Up until 2012, the decline experienced during the past years will continue, albeit at a slower pace. From 2012, the overall market will recover and grow again. This growth will mainly be driven by digital music sales offsetting the continuous decline in physical distribution. By 2013 we expect digital music sales will have overtaken physical distribution too.
- With regard to downloads, the Swiss legal framework is not as strong as in other European countries (e.g., downloading copyrighted content for personal purpose is not illegal per se, whereas France and the UK have enacted new regulations to fight piracy). This framework is not expected to change significantly in the next few years. In that context, the collaboration with Internet service providers (ISPs) appears key but has yet to be proven as a sustainable mechanism to deter piracy. In September 2010, the Swiss Federal Court ruled that it was illegal for private companies, mandated by copyright associations, to monitor and identify fraudulent peer-to-peer downloads of copyrighted content.
- Piracy impacts repertoires in different ways. World music, Swiss folk music or classical music have been less affected to date. The audience for these genres is typically more senior. These customers prefer to buy physical units. This will, however, change over time as younger generations enter this segment.

- The evolution of competition in digital distribution continues. The success of the Apple iTunes store has been tremendous. With their new products, iCloud and iOS5, Apple adds complementary products to their ecosystem. However, with Google entering the music market, another company with a strong financial

background wants to participate. For other, smaller companies it will be difficult to take root in a market where margins are tight and critical mass is a key success factor. The ability of Apple and possibly Google to build-up, maintain, or strengthen their positions will have an impact on the entire market globally.

Recorded Music Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Physical Distribution	294	261	229	204	179	160	145	133	124	115	–8.6
Digital Distribution	39	57	77	96	109	125	140	160	179	199	12.7
Total Recorded Music	333	318	307	300	289	285	285	293	303	314	1.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Recorded Music Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Physical Distribution	–10.1	–11.3	–12.0	–10.9	–12.2	–11.0	–9.2	–7.9	–7.0	–7.6	–8.6
Digital Distribution	56.0	48.6	34.5	24.3	14.1	14.3	11.7	14.2	12.4	11.0	12.7
Total Recorded Music	–5.4	–4.4	–3.6	–2.0	–3.8	–1.4	0.0	2.9	3.6	3.4	1.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Digital Distribution

- Digital distribution comprises music distributed to mobile phones and music downloaded or streamed from the Internet. With the growing ability to connect to the Internet via mobile devices, with new cloud offerings from companies like Apple, Google or Amazon, the distinction between these segments is disappearing.
- Even though the yearly growth will slow down compared to 2006–2010, there will be double-digit yearly growth. We expect digital distribution to grow at an average of 12.7 percent a year between 2010 and 2015, effectively increasing by CHF 15–20 million every year.
- By 2013, digital sales will have overtaken physical sales. Digital sales will almost have doubled compared to 2010, reaching CHF 199 million by 2015.
- Streaming services are beginning to gain traction with a 12 percent share of the digital distribution market. They are not yet dominant compared to downloaded albums and downloaded single tracks, both of which combined have more than a 40 percent share. After a good start in 2008 and 2009 streaming services stagnated in terms of market share in 2010 and sales only increased from CHF 12 to CHF 13 million, but they are expected to grow again.
- There are only a few streaming platforms available in Switzerland. The German company Simfy, for instance, offers a free, ad-supported package and an ad-free premium streaming package at around 15 CHF per month. According to Simfy, customers have access to more than 11 million songs from all the big music studios. Soundshak, offered by 20minuten.ch or musicload.ch are other platforms that offer streaming packages at similar prices.
- In the long run, streaming, together with other cloud solutions will become more important. People aged 35 and over are used to buying CDs in stores and “owning the music”. Younger generations have developed, or will develop, a different attitude towards owning the music. They are less used to physically owning content and will more easily accept storing content in the cloud or even not owning it at all, i.e., streaming only.
- While streaming services are expected to expand, some operators are cutting back on their music services. European companies such as O2 or Sky Songs from BSkyB closed their services in 2010 and early 2011. Swisscom cancelled its offering with Napster mobile in 2009. Sunrise, with Joylife, and Orange, with its music store, have been keeping their music services active.

- According to IFPI, there are 16 legal downloading and/or streaming platforms in Switzerland, compared to 13 in 2009. The number of legal actors in the market is unlikely to increase significantly. Margins on digital titles are small and therefore require large volume to be profitable, making it difficult for new platforms to

emerge if not done on a large scale. Most of the current legal downloading platforms in Switzerland were active in other countries before they entered the Swiss market, or they are companies with the ability to fund and promote such platforms or back them, e.g., retailers such as Migros with Ex Libris.

Digital Distribution

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	39	57	77	96	109	125	140	160	179	199	12.7
Growth (%)	56.0	48.6	34.5	24.3	14.1	14.3	11.7	14.2	12.4	11.0	12.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Digital Sales in CHF millions by Format

Switzerland	2008	2009	2010	2008–10 CAGR
Online single track	30	35	46	24
Online album	29	37	45	24
Subscriptions	5	12	13	68
Other (e.g., ad-supported revenues)	13	12	5	–35

Source: IFPI Recording Industry in Numbers 2019–2011; PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Physical Distribution

- The physical distribution segment includes distribution via physical formats such as CD, music video DVD and VHS, tape and vinyl, the latter formats having almost disappeared from the Swiss market.
- Physical distribution will continue its decline due to competition from legitimate digital distribution and from piracy.
- By 2013, the physical distribution market will have been overtaken by digital distribution, a trend that will also be observed globally.
- By 2015, spending on physical formats will have fallen by around 60 percent compared to 2005.
- However, the decline will slow down to minus 7.6 percent in 2015 compared to minus 12.2 percent in 2010 as the market begins to approach a base level. Many people in the expanding over 45 demographic still prefer music in a physical format.

- A key driver for the physical distribution market will be the attitude of retailers. The major physical retailers are MediaMarkt, Ex Libris, FNAC, Manor and Citidisc. A number of these key players have online download shops (e.g., Ex Libris/Migros, Orange/Citydisc, FNAC). Some smaller retailers offer a broad range of music products and services, where physical music formats are just one part of the product portfolio (e.g., Jecklin & Co or Musik Hug in Zurich). The expectation is that the number of retailers will not further decrease.
- The physical market has largely abandoned singles, the most popular digital format. Singles, vinyl, cassettes and others formats altogether amount to only 300,000 units sold in 2010. In 2006, 1.4 million units were sold, a decrease by a factor of 4.7 in only 4 years. In the same time period the number of album CDs sold decreased by around a third, from 12.7 million units in 2006 to 8.4 million units in 2010. Physical distribution is much more expensive than digital distribution, which puts the physical market at a long-term disadvantage and is reflected in the higher unit prices.

Physical Distribution

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	294	261	229	204	179	160	145	133	124	115	–8.6
Growth (%)	–10.1	–11.3	–12.0	–10.9	–12.2	–11.0	–9.2	–7.9	–7.0	–7.6	–8.6

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Physical Sales Volume, million units

	2006	2007	2008	2009	2010
CD	12.7	11.6	11.4	9.8	8.4
Physical Music Video	0.4	0.3	0.3	0.3	0.2
Other Physical	1.4	1.1	0.9	0.5	0.3

Source: IFPI Recording Industry in Numbers 2011

The Swiss Recorded Music Market Compared to Western Europe

- In 2010, Switzerland represented 3.7 percent of the overall Western European recorded music market. This share is expected to increase slightly to 4 percent by 2015.
- Recorded music sales have better resilience in Switzerland than in the rest of Western Europe. Between 2006 and 2010, the Swiss market fell between 2 and 5.5 percent per year, whereas the Western European market shrank strongly with a maximum decrease in 2007 of 11.9 percent and 10.1 percent in 2008.
- Moving forward, the Western European market will still decrease slightly, with an average annual growth of minus 0.3 percent, whereas the Swiss market is expected to find its way back to growth at an average of 1.7 percent annually.
- The cutover between physical and digital music will happen sooner in Switzerland than in the rest of Western Europe (2013 in Switzerland as opposed to some time after 2015 for Western Europe). This is mainly because Switzerland has a very high broadband household penetration rate, a high number of households with computers, strong nationwide 3G mobile network coverage and an exceptionally high smartphone penetration.
- However, the digital music market is expected to grow more slowly in Switzerland than in the rest of Europe.
- Two key factors explain this. The first relates to the legal framework, mentioned earlier, which is not as strong a deterrent in Switzerland as it is in other countries. The adoption of graduated-response systems in the UK or in France – e.g., Internet services providers issuing warnings to file sharers that escalate in severity, with the ultimate threat of disconnecting a person's Internet access – is proving to be a significant deterrent to piracy in the countries in which such measures have been implemented. In the absence of such systems, piracy is expected to erode Swiss digital sales growth compared to other countries.
- The second factor is market size. Switzerland is a small market and ranks 21st in the world for digitally distributed music. It has even dropped 4 positions compared to last year. As in digital video distribution, large international platforms first enter other, bigger markets. Spotify, for instance, with more than 10 million users and 750,000 subscribers at year-end 2010 or Deezer with 25,000 subscribers and 7 million users are not available in Switzerland. Despite the excellent Internet connectivity and household penetration, the relatively small size of the Swiss market deters innovators from introducing new digital business models.
- Prices for recorded music in Switzerland are similar to European prices. For example, the Lady Gaga album "Born this way" retails at around CHF 21.90 in Switzerland as opposed to EUR 16.99 at a branch of the same retailer in France. This price difference can also be noticed at other Swiss retailers. We therefore do not expect prices will go any lower moving forward.
- Swiss music production is small and segmented by language, although artists from one linguistic area can be popular in another area (e.g., rap artist Stress sings in French but is also popular in the German-speaking part of Switzerland).

- The dominant markets in Europe are the United Kingdom, Germany and France. Together, these countries comprised two thirds of the overall CHF 7.9 billion recorded music spending in Western Europe in 2010.
- Swiss artists singing in English, German or French can also gain access to a wider audience. Swiss German

singer Baschi, for example – under contract to Universal Music – is now trying to conquer the German market with a German album. Baschi sang the song “Unsterblich” for the German film “Zweiohrküken”, the sequel to the successful “Keinohrhasen” movie with Til Schweiger.

Recorded Music

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe (CHF millions)	10,740	9,464	8,511	8,238	7,894	7,641	7,497	7,511	7,613	7,766	–0.3
Western Europe Growth (%)	–7.1	–11.9	–10.1	–3.2	–4.2	–3.2	–1.9	0.2	1.4	2.0	
Switzerland (CHF millions)	333	318	307	300	289	285	285	293	303	314	1.7
Switzerland Growth (%)	–5.4	–4.4	–3.6	–2.0	–3.8	–1.4	0.0	2.9	3.6	3.4	
Switzerland as a % of Western Europe	3.1	3.4	3.6	3.6	3.7	3.7	3.8	3.9	4.0	4.0	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Digital Distribution

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe (CHF millions)	548	758	1,046	1,354	1,627	1,945	2,323	2,753	3,214	3,688	17.8
Western Europe Growth (%)	75.2	38.2	38.0	29.5	20.1	19.6	19.5	18.5	16.7	14.8	
Switzerland (CHF millions)	39	57	77	96	109	125	140	160	179	199	12.7
Switzerland Growth (%)	56.0	48.6	34.5	24.3	14.1	14.3	11.7	14.2	12.4	11.0	
Switzerland as a % of Western Europe	7.0	7.6	7.4	7.1	6.7	6.4	6.0	5.8	5.6	5.4	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Physical Distribution

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe (CHF millions)	10,191	8,706	7,465	6,884	6,268	5,696	5,174	4,758	4,399	4,078	–8.2
Western Europe Growth (%)	–9.5	–14.6	–14.3	–7.8	–9.0	–9.1	–9.2	–8.0	–7.5	–7.3	
Switzerland (CHF millions)	294	261	229	204	179	160	145	133	124	115	–8.6
Switzerland Growth (%)	–10.1	–11.3	–12.0	–10.9	–12.2	–11.0	–9.2	–7.9	–7.0	–7.6	
Switzerland as a % of Western Europe	2.9	3.0	3.1	3.0	2.9	2.8	2.8	2.8	2.8	2.8	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

6 *Filmed Entertainment*

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Executive Summary

Definition

- The filmed entertainment market comprises consumer spending at the box office for theatrical motion pictures plus spending on rentals of videos at stores and other retail outlets (the in-store rental market) and the purchase of home video products in retail outlets and via online stores (the sell-through market). It also includes online film rental subscription services, such as those whereby physical BDs/DVDs are delivered via post, and streaming services whereby films are downloaded via a broadband Internet connection.
- The figures do not include music videos (which are counted in the “Recorded Music” chapter) or Video on Demand, Pay per View, or movie distribution by cable, satellite or telecommunications providers (which are covered in the “Television Subscription and Licence Fee” chapter). Also excluded are ancillary revenues earned by cinemas, such as cinema advertising and sales of beverages and refreshments, as well as accessory sales (such as 3D glasses).

Market size and growth in Switzerland

- The total sum for the filmed entertainment market in Switzerland amounted to CHF 557.1 million in 2010. It is expected that the market will reach CHF 679.3 million in 2015, averaging 4.5 percent compounded annual growth between 2011 and 2015.
- In comparison, the Western European market will grow by the same compounded annual growth rate of 4.5 percent. Western European revenues will increase from CHF 19.9 billion in 2010 to CHF 24.5 billion in 2015.

Market size and growth by component

- The physical sell-through and box office market are the principal drivers of the Swiss filmed entertainment industry. Home video physical sell-through will grow by 3.4 percent compounded annually from CHF 309.6 million in 2010 to CHF 365.9 million in 2015. The box office market will expand from CHF 228.7 million to CHF 295.4 million in 2015, a 5.5 percent increase compounded annually.

- Home video in-store rentals will fall by 7.1 percent compounded annually to CHF 9.4 million in 2015 from CHF 14.0 million in 2010.
- Fastest growth is expected from electronic distribution spending, up from CHF 4.8 million in 2010 to CHF 8.6 million in 2015, a compounded annual growth rate of 15.8 percent, partially substituting both physical sell-through and in-store rental spending.
- Overall home video spending will reach CHF 383.9 million in 2015, a compounded annual growth rate of 3.8 percent.

Principal drivers

- Box office spending will be enhanced by growth in 3D screens and 3D releases, which will raise average prices while dampening admissions growth.
- The proliferation of new electronic distribution services, the availability of content on tablets and other devices, and growing broadband penetration will drive electronic spending. Increased competition from electronic distribution services will cut into the physical rental market.
- The growth in Blu-ray will offset DVD declines and will expand the physical sell-through market as of 2011.
- Increasing broadband penetration, faster speeds and availability of content storage solutions will support online streaming and online video subscriptions in Switzerland.
- Key factors affecting the market in any given year are the quality and attractiveness of individual releases, a development we cannot predict.

Market Overview

- The digitisation of films has an influence on the entire filmed entertainment industry and value chain. Previously separate sectors of the video ecosystem started to grow together. This convergence is threatening established, traditional players. The various participants are trying to find their role in the value chain. This development opens up different opportunity for start-up companies and non-traditional competitors (e.g., Google).

- In general, 3D films have proved to be popular among Swiss moviegoers. Avatar as the number one hit was mainly screened in 3D and had a positive impact on the digitalisation of cinemas. 142 of 558 screens are now equipped for digital films. The number of digital screens nearly tripled in 2010. We expect that as more 3D screens become available and more 3D films are released, it will have a positive impact on the cinema admissions. High quality in 3D films is, however, crucial for the further development of box office spending.
 - Due to digital distribution channels, the time between home entertainment release windows, theatre releases and in-home viewing are expected to become shorter. Some Hollywood studios have communicated they are in favour of collapsing certain windows to maximise profitability, and various kinds of testing are in place. Disney is planning to launch a video-on-demand (VoD) service that would shorten the current four-to-six-month window to 90 days. This service would come at a premium. Most trials thus far have focused on pricing that ranges from USD 30 to USD 60. Shorter release windows will benefit VoD, covered in the chapter "Television Subscriptions and Licence Fees", and the home video market, but will negatively impact box office spending.
- The shorter release windows will lead to marketing synergies between box office and home video releases and help to reduce illegal downloading of films. PwC research in the USA also indicated consumers are willing to pay a premium to receive content shortly after release. Furthermore, making such content available early after the release helps fight piracy, which, on a global level, is still one of the major threats to filmed entertainment.
- The physical sell-through market declined by 1.9 percent in 2010 from CHF 315.5 million to CHF 309.6 million. We expect that the growth in Blu-ray will offset the declines in DVDs and propel the sell-through market as of 2011. In 2010, the Blu-ray market increased by 76 percent. Consumers bought 1.3 million more discs compared to 2010.
 - The proliferation of new streaming services and content storage solutions, the availability of content on tablets and other devices, and growing broadband penetration will drive electronic spending. Increased competition from electronic distribution services will cut into the physical rental market. We expect that in-store rental spending will continue to decline from CHF 14 million to CHF 9.4 million in 2015.

Filmed Entertainment Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Box Office (Cinema)	238.0	201.1	208.4	229.5	228.7	238.8	254.1	269.5	282.9	295.4	5.5
Home Video											
Physical Sell-Through	360.0	323.9	307.2	315.5	309.6	313.6	320.5	331.7	351.0	365.9	3.4
In-store Rental	19.5	17.4	16.3	15.2	14.0	12.9	11.9	11.9	10.8	9.4	-7.1
Electronic Markets	1.5	2.2	3.3	4.2	4.8	4.8	5.7	6.7	7.6	8.6	15.8
Total Home Video	381.0	343.5	326.8	334.9	328.4	331.3	338.1	350.3	369.4	383.9	3.8
Total	619.0	544.6	535.2	564.4	557.1	570.1	592.3	619.8	652.4	679.3	4.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Office of Statistics, Swiss Videogram Association

Filmed Entertainment Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Box Office (Cinema)	11.1	-15.5	3.6	10.1	-0.4	8.9	6.4	6.0	5.0	4.4	5.5
Home Video											
Physical Sell-Through	0.0	-10.0	-5.2	2.7	-1.9	1.3	2.2	3.5	5.8	4.2	3.4
In-store Rental	0.0	-11.1	-6.3	-6.7	-7.7	-7.7	-8.4	0.0	-9.1	-13.1	-7.1
Electronic Markets	0.0	46.7	50.0	27.3	13.7	0.0	20.0	0.0	14.3	12.5	15.8
Total Home Video	0.0	25.6	38.6	23.3	4.1	-6.4	13.8	3.5	11.0	3.6	3.8
Total	11.1	10.1	42.2	33.4	3.7	2.5	20.2	9.5	16.0	8.0	4.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Office of Statistics, Swiss Videogram Association

Box Office/Cinema

- Box office spending decreased by 0.4 percent from CHF 229.5 million in 2009 to CHF 228.7 million in 2010. We expect that spending will grow by 5.5 percent compounded annually to reach CHF 295.4 million in 2015. The growth in box office spending will mainly be driven by 3D films. 3D films command premium prices and are taking a large enough share of market to affect overall pricing and therefore also box office spending.
- The 3D technology and the digitalisation of cinemas will lead to a centralisation of cinemas and a consolidation in multiplex. In 2010, the number of cinemas decreased from 302 to 299. All cinemas closed exhibited on single screens. They could not afford to adapt their equipment to digital and 3D technology. The Federal

Office for Culture (BAK) has established a support fund of around CHF 2.5 million for small cinema operators aiming to upgrade their theatres with digital equipment and to counter the consolidation of the box office market. This fund is not sufficient to cover all small cinemas with financial problems. In 2010, approximately 142 of 558 screens were equipped with digital projectors. The number of digital screens has nearly tripled within one year.

- Apart from the decrease in the number of cinemas, box office infrastructure did not change significantly. The majority of cinemas (211) still have one screen. In Switzerland only 30 cinemas have four or more screens. Eight of the 30 cinemas are multiplexes. In 2010, the number of screens decreased slightly from 559 to 558 and the number of seats from 110,911 to 110,420.

Box Office (Cinema)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	238.0	201.1	208.4	229.5	228.7	238.8	254.1	269.5	282.9	295.4	5.5
Growth (%)	11.1	-15.5	3.6	10.1	-0.4	8.9	6.4	6.0	5.0	4.4	5.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Office of Statistics, Swiss Videogram Association

Admissions

- Admissions decreased 3.2 percent from 15.3 million in 2009 to 14.8 million in 2010. 9.8 million admissions were counted in the German part of Switzerland, which represents 66.3 percent of the overall admissions in 2010. The French part accounted for 4.5 million and the Italian part for 0.5 million admissions. Our projections for the next five years indicate slow growth in admissions to a compound annual rate of 0.7 percent until 2015.
- In 2010, the ten most successful movies in Switzerland came from the USA. The number one movie was "Avatar", which attracted about 827,553 admissions; second was "Inception" with 443,531 admissions; third was "Harry Potter 6: The Deathly Hallows" with 426,591 admissions. Top ranked movie "Avatar" was mainly screened in 3D. The success of this 3D movie shows the importance of the 3D technology for the development of the box office market.
- No Swiss movie ranked in the top 10 in 2010. The most successful Swiss films in 2010 were "Sennentuntschi" with 116,220, "Der grosse Kater" with 54,096 and "Gulias Verschwinden" with 49,821 admissions.

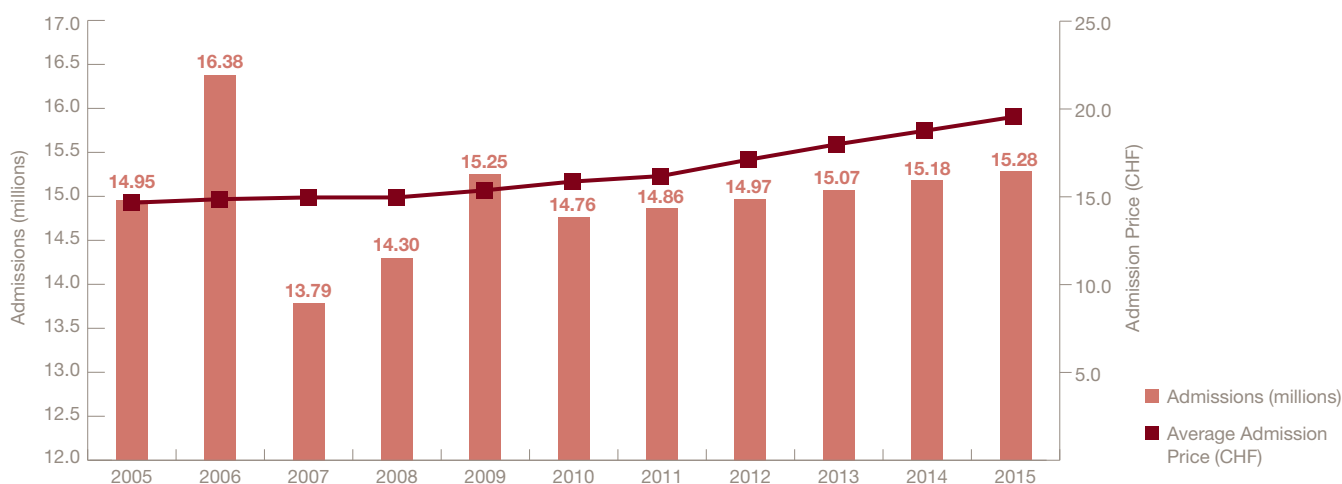
Admission Prices

- Admission prices in 2010 averaged CHF 15.50 in Switzerland compared to CHF 8.80 in Western Europe and CHF 7.95 in the EMEA countries. The large difference can be mainly attributed to exchange rate developments and the higher price levels in Switzerland.
- In 2010, average admission prices increased by 3.3 percent, after having increased by 2.7 percent in 2009. The additional increase in price reflects the further proliferation of 3D screens and 3D releases, which has raised the share of 3D in the overall box office mix. The result has been a sharp increase in average ticket prices as 3D films charge substantially higher prices than 2D films.
- By 2015, we expect average prices to grow by 4.9 percent compounded annually to CHF 19.10.

Swiss Films

- The Swiss Federal Office for Culture (BAK) has a priority focus on Swiss films and strongly promotes Switzerland as a film producing country and a cultural centre. In 2010, BAK had a budget of about CHF 24.5 million to support Swiss film producers. Over the next 4 years, BAK will continuously increase the budget for film funding.

Development of Admissions and Admission Prices in Switzerland



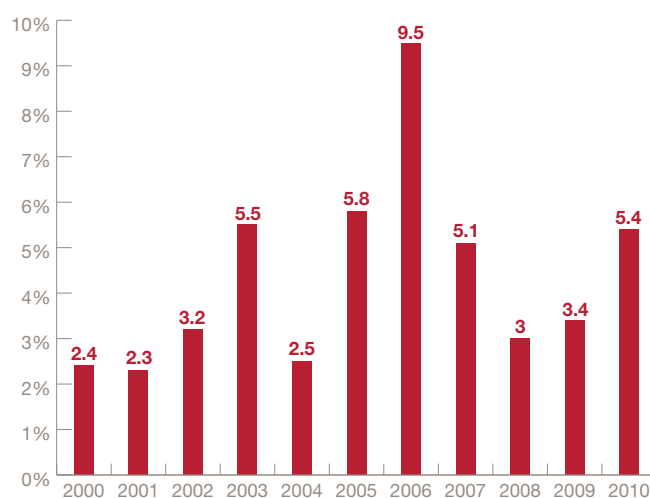
Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Office of Statistics

- The larger part of this budget was allocated to Swiss producers by the selective support process. To receive support, a film producer has to submit a request for support, which is evaluated by BAK. If the evaluation is positive, support in the form of a percentage of total production costs is granted.
- The remainder of the budget was mainly used for success-based film funding. The main objective of success-based film support is to increase the presence of Swiss films in the cinema and to broaden the variety of films.
- In addition to BAK, in 2010 the Swiss film business was also supported by SRG SSR with CHF 21.8 million, Zürcher Filmstiftung with 8.4 million, Fonds Regio Film with CHF 4.6 million and Berner Filmförderung with CHF 2.2 million.
- Despite the investments in Swiss films, the market share of Swiss films – measured by admissions – could not be increased over the last years. The market share ranged from 2.4 percent to 9.5 percent between 2000 and 2010 and was highly dependent on the success of individual Swiss films. The highest market share was achieved in 2006 due to the successful release of five different Swiss films (“Die Herbstzeitlosen” with 374,749 admissions, “Grounding” with 370,957 admissions, “Handyman” with 196,037 admissions, “Vitus” with 179,325 admissions and “Jeune Homme” with 92,609 admissions).
- Even though the market share of Swiss films, based on admission fees, could not be increased, the market share of Swiss films released was raised from 3.0 percent in 2008 to 5.4 percent (684,759 visitors) in 2010.

Compared to 2009, 150,000 more people watched a Swiss movie in the cinema. The top-five Swiss films were fiction movies. A total of 25 Swiss fiction films was produced in 2010, of which six were co-productions with neighbouring countries.

- The production of documentaries also recorded an extraordinary good year. 39 documentaries were produced and released in the cinemas. Ten of these films generated more than 10,000 admissions, and the share of the total number of admissions for Swiss film productions amounted to 39 percent. Top ranked documentaries were “Cleveland Versus Wall Street” and “Die Frau mit den 5 Elefanten”.

Market Share of Swiss Films (%)



Source: Swiss Federal Office of Statistics

Physical Sell-through

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	360.0	323.9	307.2	315.5	309.6	313.6	320.5	331.7	351.0	365.9	3.4
Growth	–5.2	–10.0	–5.2	2.7	–1.9	1.3	2.2	3.5	5.8	4.2	3.4

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Videogram Association

Physical Sell-through

- The combined sales of DVD and Blu-ray discs declined in 2010 by 1.9 percent and reached a level of CHF 309.6 million. The drop in average prices for DVD and Blu-ray discs mainly led to slightly lower sales than in 2009. The average DVD price in 2010 was CHF 21.20 (–2.7 percent from 2009) and the average price for a Blu-ray disc was CHF 29.20 (–12.9 percent from 2009). We expect that the price for Blu-ray discs will further decrease in the coming years, which will have a positive impact on the sales volume of Blu-ray discs.
- The Blu-ray market grew significantly, by 76 percent, in 2010 and reached a turnover of CHF 38.3 million. Consumers bought 1.3 million more discs compared to the previous year. The growth rate of the Blu-ray market was not as high as last year, at 242 percent. We expect the Blu-ray market to expand further with a more moderate growth rate in the coming years and offset the declining sales in the DVD market.
- The market has shown very different developments in the three linguistic regions. The German-speaking area spent CHF 201.5 m (–0.5 percent), the French-speaking area CHF 100.7 (–4.2 percent) and the Italian-speaking area CHF 7.4 m (–5.3 percent). One out of every 5 discs was sold in November and December. The winter months and Christmas time are the most important business periods for the market.
- The most popular DVD was “Avatar”, followed by “Inglourious Bastards” and “Hangover”. A Swiss film was not listed in the top 10 DVDs of 2010.
- The sell-through market will benefit from growing penetration by HDTV. As people become accustomed to watching content in high definition, they will want to watch videos in HD.
- Shorter windows between a film’s box office release and home video release should also have a positive impact on sell-through because the marketing effort associated with the box office release will help promote the same title when it reaches home video.
- At the same time, growing interest in electronic delivery of content will cut into the physical market

and dampen growth. We expect that the physical sell-through market will reach an average 3.4 percent compound annual growth from CHF 309.6 million in 2010 to CHF 365.9 million in 2015.

- In comparison, the Western European market will grow by the same compounded annual growth rate of 3.3 percent. Western European revenues will increase from CHF 12.5 billion in 2010 to CHF 14.8 billion in 2015.
- The highest average rate of physical sell-through spending per equipped household was the Nordic region: 6.6 DVDs per Nordic household vs. 3.7 DVDs per European household. It is one of the world’s key video markets. One of the success factors in the Nordic region is its key role in the fight against piracy. The introduction in 2009 of Swedish anti-piracy law IPRED proved a legal watershed that had a demonstrable effect on consumer behaviour, while other Nordic countries have blocked notorious file-sharing websites. Even though piracy is not a main issue for Switzerland, a reduction in piracy could boost turnover in the physical-sell through market.

In-Store Rental

- The in-store rental market in Switzerland has been declining since 2006 and continued to fall in 2010. Spending has declined by 31.8 percent since 2006, including a 7.7 percent decrease in 2010.
- As of July 2011, Switzerland counted approximately 120 video rental companies, a decline of 26 stores, or 17.8 percent, compared to 2010. These stores mainly offer DVDs in weekly rental (e.g. dvdone). The rental fee is between CHF 0.9 and CHF 9.50 per DVD depending on provider, content type and release date.
- Swiss DVD households rented just 0.7 DVDs on average in 2010, compared with 2.3 DVDs on average per European DVD household. In addition to the DVD rentals, Swiss Blu-ray households rented 0.2 Blu-ray disks on average in 2010. The Blu-ray contribution was not enough to reverse the downward trend in spending.

In-store Rental

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	19.5	17.4	16.3	15.2	14.0	12.9	11.9	11.9	10.8	9.4	–7.1
Growth	0.0	–11.1	–6.3	–6.7	–7.7	–7.7	–8.4	0.0	–9.1	–13.1	–7.1

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Videogram Association

- In general, the appetite for physical rentals has declined, and we expect the growing availability of electronic streaming services (e.g., Acetrax) to make it difficult for the rental market to turn around. We expect the Swiss in-store rental market to continue to decline by 7.7 percent compounded annually to CHF 9.4 million in 2015, accompanied by a substantial drop in the number of rental stores in Switzerland.

Electronic Distribution

- Videos can also be obtained directly over the Internet through digital downloads, streaming services and through online rental subscriptions.
- The ability to stream or download content to any device, including tablets such as the iPad, makes electronic delivery an attractive option. The electronic distribution market will also benefit from growing broadband penetration, which will expand the potential market for streaming. The availability of Web-enabled TV sets will further expand this market by making it easier to download a movie from the Internet and watch it on television.
- A number of services have entered the market during the past few years. Apple launched the movie download via iTunes in 2010. The ability to stream videos onto the iPad makes electronic distribution even more attractive for consumers. In the first five months after the launch of iPad 1, 60,000 iPad units were sold in Switzerland.
- The availability of video content on the iCloud services in Switzerland will probably further reinforce the trend to electronic distribution of videos. iCloud provides its users with access to up to date information and content across all Apple devices. iCloud beta, however, is only available in the US and will be launched in Europe in 2012. So far, Apple has not announced that video services will be available via iCloud.
- Netflix plans to enter the European market in the next few years with a streaming service. The announcement that Netflix's CEO will join Facebook's board of directors led to speculation that Netflix will launch a streaming service via Facebook. With more than 2.5 million Facebook users in Switzerland, the launch of video streaming services could have an impact on how Swiss users find, share and watch movies in the future.
- A Swiss start-up company, Acetrax, also competes in this global market. Acetrax offers its video services through its Web shop, Web-connected TVs, Blu-ray players, smartphones and tablets. The user can choose between renting a movie (CHF 1.95 – 6.95 per film) or downloading to own (CHF 10–20). Acetrax leaves the pricing to the content owners, as is the case in traditional retail. The content owners are therefore free to decide to offer discounts or package deals. Acetrax has established co-operations with major TV set makers over the last two years. TV set makers are very interested in these types of services as the revenue sharing model behind it allows them to tap directly into consumer spending.
- Spending on electronic distribution increased by 13.2 percent and reached CHF 4.8 million in 2010. We expect spending to increase by a compound annual growth rate of 15.8 percent until 2015. A higher growth rate is not expected due to the strong competition from Video-on-Demand or Pay-per-View providers (e.g., Swisscom, Cablecom).

Electronic Distribution

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	1.5	2.2	3.3	4.2	4.8	4.8	5.7	6.7	7.6	8.6	15.8
Growth		46.7	50.0	27.3	13.7	0.0	20.0	0.0	14.3	12.5	15.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Videogram Association

“The European market for streaming or downloading video is growing rapidly. In addition to being able to offer attractive content and great usability, a sound understanding of this complex market and a close tie-in with a broad range of consumer electronics manufacturers are of key importance”

Uwe Placzek, CEO Acetrax

The Swiss Filmed Entertainment Market Compared to Western Europe

- Switzerland represented 2.5 percent of the overall Western European filmed entertainment market in 2010. This share is expected to remain constant until 2015. With 4.5 percent annual growth up until 2015 it surpasses the average Western European annual growth of 4.3 percent.

- Spain has the highest growth, 7.2 percent compounded annually until 2015, attributable to a significant increase in box office and electronic distribution spending. Further strong filmed entertainment markets are United Kingdom, France, Germany and Italy. The UK is the dominant market in Western Europe, especially in the physical-sell through and electronic distribution market.
- Box office spending in Switzerland declined by 0.4 percent in 2010 compared to 2009. Even though box office growth also slowed down in Western Europe, it still reached a moderate growth rate of 1.4 percent. In general, a weaker slate of local films compared with 2009 and the Football World Cup in South Africa accounted for the slowdown in Western Europe. In Germany, for example, local films were down 51 percent in 2010 and overall box office spending fell 5.7 percent. In Switzerland, on the other hand, the market share of Swiss films increased in 2010. Approximately, 880,298 tickets for Swiss film productions and co-productions were sold. As the market share of Swiss films is low compared to Germany or the UK, the increase in Swiss films could not boost growth in the box office market.

Filmed Entertainment Market by Country (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe											
Austria	320	310	313	318	322	335	350	365	383	405	4.7
Belgium	681	667	622	613	587	585	600	620	645	674	2.8
Denmark	447	409	422	428	438	460	483	507	531	555	4.9
Finland	192	199	213	197	205	212	225	238	253	268	5.5
France	4,171	3,813	3,709	3,822	3,980	4,186	4,388	4,573	4,747	4,898	4.2
Germany	3,499	3,427	3,371	3,744	3,690	3,922	4,049	4,190	4,327	4,436	3.7
Greece	192	206	212	255	224	221	227	236	249	258	2.9
Ireland	532	553	556	516	471	440	448	459	471	492	0.9
Italy	2,382	2,429	2,145	2,062	2,152	2,221	2,330	2,453	2,576	2,669	4.4
Netherlands	810	818	795	803	797	815	839	870	901	933	3.2
Norway	644	634	618	595	560	565	576	592	612	633	2.5
Portugal	264	274	288	273	283	290	302	317	334	354	4.5
Spain	1,332	1,332	1,233	1,255	1,211	1,282	1,408	1,511	1,616	1,713	7.2
Sweden	724	790	735	772	777	800	829	865	903	943	4.0
Switzerland	619	545	535	564	557	570	592	620	652	679	4.5
United Kingdom	5,718	5,963	5,989	5,955	6,076	6,325	6,655	7,020	7,394	7,703	4.9
Western Europe Total	22,527	22,369	21,756	22,172	22,330	23,229	24,301	25,436	26,594	27,613	4.3

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Swiss Federal Office of Statistics, Swiss Videogram Association

7 Video Games

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Executive Summary

Definition

- The video games market comprises consumer spending on console games (including hand-held games), personal computer ('PC') games, online games, wireless games as well as video game advertising.
- The category excludes spending on the hardware and accessories used to play the games. Retail purchases of a game are included in either the PC or console game categories. If these games are played online for a subscription fee, the subscription fee is counted in the online game category.

Market size and growth in Switzerland

- We expect the Swiss video game industry to increase by an average of 7.7 percent a year between 2011 and 2015, growing from CHF 430 million to CHF 580 million. This makes video games one of the most dynamic segments in the Swiss entertainment and media industry.
- In comparison, the Western European market will grow by a projected 5.7 percent compounded annually. Western European revenues will increase from CHF 16 billion in 2011 to CHF 21 billion in 2015.

Market size and growth by component

- Console/handheld games will continue to be the largest segment of the market, increasing by 6.9 percent compounded annually from CHF 200 million in 2011 to CHF 265 million in 2015.
- We expect the second largest segment – online games – to be the fastest growing segment and it is expected to grow at an average yearly rate of 10.8 percent from CHF 137 million in 2011 to CHF 205 million in 2015.
- Video game advertising will grow at an average yearly growth of 10.1 percent. Videogame advertising spending will grow from CHF 24 million in 2011 to CHF 34 million in 2015.
- Wireless games will increase at 7.8 percent compounded annually from CHF 36 million in 2011 to CHF 48 million by 2015.
- PC games sales will continue their sharp fall from previous years and decrease from CHF 33 million to CHF 28 million, at –4 percent compound annual rate.

Principal drivers

- Over the next few years the console game market will continue to be driven by new games being marketed and continued interest in the current generation of consoles: the Wii, Xbox 360, and PlayStation 3 (PS3). The latest handheld devices, the Nintendo 3DS, the PlayStation Portable (PSP), and the PSP Go, will also continue to support the market. We expect that, by 2015, the next generation of consoles will begin to be introduced, which will spur renewed growth in console games.
- The online market will benefit from an increase in penetration of broadband households combined with growing digital distribution of content. The increasing popularity of massively multiplayer online games (MMOGs), with their subscription fees and microtransactions, is also aiding the growth of the market. Casual games and social network games are further important components of the online market, helping to expand the demographic base and stimulate spending. Some developers are shifting their attention from console games to concentrate more on online games.
- The growth of smartphones and tablets, such as the iPad/iPad 2, with improved graphic capabilities, will raise the bar for the quality of wireless games and will drive demand for them. At the same time, new application stores that make the purchase of games more user-friendly will increase the number of gamers willing to purchase games. The growth of third-generation/fourth-generation (3G/4G) networks, with their faster speeds, will provide an environment enabling wireless games to approach the quality of console games.
- The market for PC games will continue deteriorating as consumers turn their attention to newer technologies. Piracy of PC games, which is prevalent in certain markets, has also hindered the growth of the segment. The growth of MMOGs, which usually require retail purchase of a PC game, will partially offset the continuing decline of the retail PC game market.
- Video game advertising is emerging as an additional revenue stream. The dynamic in-game advertising segment is increasing in importance and is being fuelled by the growth of the online game market.

Market Overview

- Video games are one of the most dynamic segments in the Swiss entertainment and media industry. We expect the Swiss video game industry to increase by an average of 7.7 percent a year between 2011 and 2015, growing from CHF 430 million to CHF 580 million.

Video Games Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Console/handheld games	148	172	209	204	190	200	210	220	230	265	6.9
Online games	59.0	77.0	100.0	114.0	123.0	137.0	154.0	174.0	189.0	205.0	10.8
Wireless games	15.0	22.0	29.0	31.0	33.0	36.0	39.0	42.0	45.0	48.0	7.8
PC games	42.0	40.0	37.0	34.0	34.3	33.0	32.0	30.0	29.0	28.0	–4.0
Video games advertising	8.0	11.0	15.0	17.0	21.0	24.0	27.0	30.0	32.0	34.0	10.1
Total Video Games Market Growth by Component	234	271	321	391	401	430	462	496	525	580	7.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, SIEA

Video Games Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Console/handheld games	8.8	16.2	21.5	–2.4	–6.9	5.2	5.1	4.9	4.7	15.2	6.9
Online games	28.3	30.5	29.9	14	7.9	11.6	12.5	13	8.7	8.7	10.8
Wireless games	25	46.7	31.8	6.9	6.5	7.9	7.6	7.3	6.9	6.9	7.8
PC games	7.7	–4.8	–7.5	–8.1	1	–2.8	–2.9	–5.9	–3.1	–3.1	–4.0
Video games advertising	37.5	36.4	13.3	29.4	23.5	16.1	13	10.7	8.2	7.2	10.1
Total Video Games Market Growth by Component	15.8	18.5	21.8	2.6	0.1	7.1	7.4	7.4	5.8	10.5	7.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, SIEA

Console/handheld market

- 2010 has been a challenging year for the console/handheld game market.
- On the one hand, the global decrease in sales is mostly due to the handheld game market (26 percent decrease in handheld game sales). This decrease is mostly due to the fact that users have migrated to smartphones/iPhone-based games. However, we expect innovation (e.g., Nintendo 3DS) in the handheld gaming market to occur in 2011. This could potentially boost sales of handheld games.
- On the other hand, hardware sales figures of the 2010 innovators (e.g., Microsoft with Kinect for its Xbox 360, and Sony with Move for its PS3) have managed to remain stable in this difficult economic environment. This shows that these innovations were well received and, as new games are developed, we can expect growth in the sale of console games in 2011.

Console/Handheld Games

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	148	172	209	204	190	200	210	220	230	265	6.9
Growth (%)	8.8	16.2	21.5	–2.4	–6.9	5.2	5.1	4.9	4.7	15.2	6.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, SIEA

Console hardware

- In June 2010, Microsoft redesigned its Xbox 360 and in November the company launched its Kinect add-on, greatly expanding capabilities by enabling game activity without a controller. As a result, in the last quarter of 2010, the Xbox 360 had its strongest month ever, selling 42 percent more units in Switzerland compared to the last quarter of 2009. This is quite remarkable considering that the console is over five years old. It was launched in November 2005. The Xbox 360 currently retails as a bundle with Kinect for CHF 360 for the 250 Go version, mid-2011.
- Sony introduced the Move, its new wand-like controller, which is similar in nature to that used by the Wii. Of the major consoles, the PS3 sold the most, selling 112,000 units in Switzerland, leading to a market share of 43 percent of the console market. It currently retails as a bundle with the Move controller for CHF 390 for the 320 Go version, mid-2011. In addition, Sony continues to bet on 3-dimensional games, a focus consistent with its 3D TV Strategy. Playstation 3 is already 3D-enabled.
- Nintendo sold approximately 90,000 Wiis in 2010 in Switzerland, the sales figure was significantly below that of the prior year. It currently retails as a bundle with a Wii controller, a Wiimote, Wii Motion Plus and the game Wii sports resort for CHF 180, mid-2011.
- We anticipate price reductions on all three of the major consoles in 2011 to help spur sales. Additionally, we expect Nintendo to introduce Wii's successor, the Wii U. It was announced at the E3 and is expected to be released during 2012. This home console will keep the operating mode of the former Wii and will add a new controller with a touch screen display and movement detection sensors as well as the HD capability that the Wii was lacking.

Handheld devices

- The Nintendo DS (dual screen) was originally introduced in Switzerland in November 2004. Since then a number of different models have entered the market including the DSi XL, which contains larger screens and a built-in camera. The various DS models were the most popular gaming devices in the U.S. in 2010.
- Although, Nintendo's DS was the most popular handheld device across Switzerland in 2010, sales dropped by 32 percent compared to 2009. In March 2011, Nintendo released the most anticipated new gaming device of the year, the 3DS. The device is revolutionary in that it enables users to play games in stereoscopic 3D without the need for special glasses. Capcom, Konami, Namko, and Bandai have already developed games specifically for this new platform. Additionally, the device is backward compatible with all games on prior DS models. The Nintendo DS currently retails for CHF 250, mid-2011.
- The device supports 3D playback of videos and augmented reality, which combines computer-generated information and the real world on the screen, enabling the user to incorporate any real world location into a game. Additionally, the 3DS allows the user to take 3D pictures with the pair of cameras on the front of the device.
- The other significant competitor in the market is Sony's Playstation Portable (PSP), introduced by Sony in Europe in 2005. This model used a proprietary optical "Universal Media Disc" (UMD). In 2009, Sony introduced the PSP Go, the first device to use digital distribution as the exclusive source for content. As compatibility between the two iterations of this device was not ensured, owners of prior PSP models with games on UMDs cannot use them on the new device. The Sony PSP currently retails for CHF 150, mid-2011.
- Sony announced its plans for PSP2, code-named Next Generation Playstation (NGP), at the end of January 2011. The NGP is expected to arrive by the end of the year and will sport HD capabilities and improved graphics, providing a gaming experience approaching that of the PSP3.

Console/handheld games

- The games software market was highly affected by the financial crisis. It decreased by approximately 6.9 percent in 2010 after a decrease of 2.4 percent in 2009.
- 2011 started with a similar negative trend. The introduction of Kinect, Move and the release of sequels of blockbuster games expected for the last part of 2011 – “Mass Effect 3”, “Uncharted 3” (Playstation excluded), “Gears of War 3” or “Batman: Arkham City” – have helped to maintain the trend. In addition, Activision is anticipated to continue its pattern of launching major titles at the end of the year, with the introduction of Call of Duty: Modern Warfare 3, which will probably be the biggest game of the year, if its sales follow the pattern of the last two years.
- Although Kinect represents a clear breakthrough in terms of enhancing user experience, we expected the uptake to be moderate and still believe Kinect-enabled game sales will only start to become substantial in late 2011 and into 2012. Indeed, in 2011, Microsoft will add more functionality to the device, such as being able to track the expression of users’ faces. Kinect users will be able to use their cameras to control their Xbox Live Avatars in the newly announced Avatar Kinect chat service.
- Overall, we expect a slight upturn in 2011 with a 5.2 percent increase in sales. However, we anticipate slow growth up until the end of the forecast period, when a new generation of consoles should be introduced, and with them new games to take advantage of the enhanced capabilities.
- Console game sales far outweigh handheld game sales: in Switzerland in 2008, almost 2 console games were sold for each handheld game sold. In the first quarter of 2010, this had moved to a factor of 3 to 1. We anticipate this trend to accelerate for two main reasons: first, as mobile devices become more and more user friendly, i.e., with bigger screens, we expect wireless gaming to substitute a share of the handheld console segment. Second, and most important, Nintendo DS, the main handheld device, is threatened by widespread piracy. The R4 cartridge and other similar flash card devices allow DS owners to run third-party software and cop-

ied games. Nintendo has blamed these for a 50 percent drop in sales in Europe. Following Spain, Italy and France, Switzerland has also been affected.

- In terms of content we expect the trend towards casual gaming to continue to grow in step with improved usability and user experience brought on by new accessories. Hard-core gamers are increasingly turning to massively multiplayer online (role-playing) games (MMO (RP)Gs).

Online Games

- With an average yearly growth of 10.8 percent, we expect the online game segment to be the biggest contributor to video games market growth. The segment is expected to move from CHF 137 million in 2011 to CHF 205 million by 2015.
- In 2002, Sony and Microsoft introduced online capabilities for their consoles. Each of the consoles in the current generation has an online environment from which to download content to enable competitive play over the Internet.
- Digital distribution of content is emerging as an important segment of the market. The most dramatic impact is seen in the collapse of the retail market for PC games in favour of digital distribution, which is shifting sales from the PC category to the online category.
- Although these online distribution platforms are promising, Sony’s “Playstation Network” was hacked in April 2011. On April 26, 2011, Sony reported that user data had been obtained, including names, addresses, e-mail addresses, birthdays, Playstation Network passwords and logins. It is also possible that profile data, including purchase histories, billing addresses and Playstation Network password security answers may have been obtained. The service was restored in June 2011 with the launch of a “welcome back” programme allowing all PSN subscribers who joined prior to April 20 to download two free Playstation portable games. This reveals the vulnerability of user data protection on these platforms and could potentially slow down the sales of online games.

Online Games

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Switzerland											
Spending (CHF millions)	59.0	77.0	100.0	114.0	123.0	137.0	154.0	174.0	189.0	205.0	10.8
Growth (%)	28.3	30.5	29.9	14	7.9	11.6	12.5	13	8.7	8.7	10.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

- The online game market is composed of several segments. Massively multiplayer online (role-playing) games (MMO[RP]Gs) are usually role-playing games that take place in fantasy worlds or medieval worlds and can be played over long periods of time. After purchasing copies of the game at retail stores or downloading the PC client from the Internet, players pay monthly fees to participate and can make additional purchases of online equipment and accessories. Micro-transactions associated with MMO(RP)Gs are major drivers of online gaming revenue growth. Currently, these games are played primarily from a PC. “World of Warcraft” is the leading MMOG in Switzerland, with its latest expansion pack, “Cataclysm”, maintaining players’ interest in the game. “Battle.net”, Blizzard Entertainment’s gaming service has also been redesigned with several enhancements and new features, such as voice communication, cloud file storage, player matching functionality and integration with Facebook, linking the online gaming platform with the popular social network.
- Blizzard Entertainment is not the only one to bet on social networks as channels for growth. The biggest evolution in the online game segment relates to social media gaming. In Switzerland, 38 percent of people who have Internet access also have a Facebook account, Online game editors are naturally turning to this new, large audience. Social games are viral, monetisable with virtual currency and have the potential to scale. As the business model of social gaming is based on a free platform with revenue generated through sales of virtual accessories, traditional game editors are taking time to adapt. The market is there, however: Zynga, the leading company in this segment, with 60 million daily users, generated revenue of USD 597 million in 2010 and is expected to be IPOd this year with a value ranging from USD 15–20 billion. Electronic Arts bought its main competitor, Playfish, in late 2009 for USD 400 million. Playdom, the third biggest actor in this market, (“Social City”, “Mobsters”), attracts 39 million players every month.
- Driven by the increased mobility of users and by the fight against piracy, editors are moving to rental business or pay-per-use models for online versions of their games. Ubisoft with Uplay will be offering an online extension of its best-seller, “Splinter Cell”. Similarly, Electronic Arts has developed an Online Pass. Every console or PC game will come with a game-specific, one-time use registration code with each unit sold new at retail. With the Online Pass, the user has access to multiplayer online play, user-created content, and downloadable bonus content. If the original access code has been redeemed and fans wish to get access to the online content they can access a free 7-day trial or purchase additional Online Passes at CHF 10.
- Cloud gaming – or gaming on demand – goes even further. Companies such as OnLive, StreamMyGame, Gaikai and Steam Cloud stream console-quality games to users over the Internet, much like YouTube streams videos, without the need to install the games on a PC, Macintosh or game console. Nearly all of the processing power is handled by powerful computers in Internet-connected data centres. This also allows the latest games to be played in high definition on devices such as netbooks, smartphones and tablets such as Apple’s iPad, which have less computing power than gaming PCs or consoles. Subscriptions for unlimited play range from USD 5 to USD 60 a month.
- We expect cloud gaming to boost online game revenues. However, excellent broadband connectivity is required. In this respect, the uptake in Switzerland will be driven by broadband penetration. With 3 million broadband subscribers in 2010, Switzerland is well placed; however, prices for broadband remain high compared to neighbouring countries. The speed of deployment of broadband Internet infrastructures throughout Switzerland, such as Fibre to the Home (FTTH) by the providers of telecommunications services and utility companies, and EuroDOCSIS 3.0 by cable operators will be a key driver for cloud gaming.

Wireless Games

- We expect sales of wireless games to grow at an average yearly rate of 7.8 percent in the period, with a strong start in 2011 and then a softening as the market matures. Overall, we expect the wireless game segment to move from 36 million in 2011 to CHF 48 million by 2015.

Wireless Games

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	15.0	22.0	29.0	31.0	33.0	36.0	39.0	42.0	45.0	48.0	7.8
Growth (%)	25	46.7	31.8	6.9	6.5	7.9	7.6	7.3	6.9	6.9	7.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

- With a strong wireless telephone subscriber base, the availability of high-speed wireless data technology in most parts of the country, and one of the highest per capita rates of iPhone users in the world, we expect strong take-up of wireless games in Switzerland.
- The roll-out of high-speed wireless networks and the introduction of new wireless handsets that are designed to facilitate video games will allow more sophisticated wireless games to be downloaded, which should continue to fuel growth. As wireless subscribers become more familiar with the downloading process, there will be an increase in the number of users.
- Although more advanced games are being developed for wireless, casual games still dominate the market. Tetris continues to be the most popular game in many countries. Wireless games in Switzerland are distributed by carrier, such as Orange and Swisscom, as well as the new application stores from major handset manufacturers, such as Apple and Research in Motion (Blackberry). For instance, Orange sells downloadable games for CHF 8 each.
- A recent development, directly linked to the awareness of the public regarding personal data collection by the various stakeholders in the wireless market, could potentially slow down the development of wireless games. Indeed, Apple and a number of app developers are facing a class action lawsuit in the Northern District of California that was filed at the end of 2010. This lawsuit claims that some apps were collecting so much user information that people could potentially be personally identified and that Apple were complacent in allowing this collection to take place. Games are being developed to take advantage of the unique benefits of cell phones, such as location awareness and social interaction.
- Other revenue streams have emerged, including subscription fees to continue playing games or micro-transactions to purchase virtual goods and services, to enhance the gaming experience. For example, in late 2009 Apple relaxed some of its restrictions that had previously prohibited micro-transactions. Game developers can now sell virtual goods. This allows free social games that rely on micro-transactions for revenues to be distributed on the iPhone and iPod Touch, a development that we expect will drive supply of wireless games.
- Apple Inc. will drive a significant portion of the growth. The App Store, for example, has more than 20,000 games available for download.
- iPad, Apple's tablet computer released in 2010, can run all iPhone applications, including games. With its enhanced graphic capabilities and its large touch screen, we expect the iPad to drive the growth of wireless gaming from 2011 onwards. iPad 2, with improved processing power and therefore gaming capabilities, was released at the beginning of 2011.
- Augmented reality combines computer-generated graphics with real video, and is a promising wireless game technology. Real video makes a game more realistic, while the augmented-reality component allows any scenario to be played out in a game situation. The technology is available on the Apple iPhone, Google Android and Nokia Symbian smartphone operating systems and has the potential to expand the wireless game market.
- A newer generation of wireless games is being developed to take advantage of the unique benefits of cell phones, such as location awareness and social interaction. MMO(RP)Gs are being developed for the wireless market to take advantage of the speed of advanced wireless networks.
- As Switzerland is close to saturation in wireless penetration, future growth is expected to come from a higher percentage of subscribers who play games and pay to play games rather than from wireless subscribers. We expect the newer phones and more advanced networks to facilitate the growth.

PC Games

- PC game revenues reflect the retail sales of packaged PC games and do not include online distribution of game content or subscription fees to play PC games online, both of which are covered in online games.
- Revenues for PC games increased in 2010 by 1 percent to CHF 34 million. This was the first time in four years that the retail market for PC games did not decline. In general, the boxed market for PC games has been declining as more attention has been focused on the console market. Additionally, the digital distribution of PC games through online services has been chipping away at retail sales of the games. Piracy has also been cited as a cause for the decline in retail sales of PC games. Revenues are expected to continue their long-term decline, decreasing to CHF 28 million in 2015, a 4 percent compound annual decrease.

PC Games

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	42.0	40.0	37.0	34.0	34.3	33.0	32.0	30.0	29.0	28.0	–4.0
Growth (%)	7.7	–4.8	–7.5	–8.1	1	–2.8	–2.9	–5.9	–3.1	–3.1	–4.0

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, SIEA

- Partially offsetting the movement to console games is the growth in the popularity of MMOGs, many of which are PC games titles. The most popular PC games in 2010 included “Starcraft 2: Wings of Liberty” and “World of Warcraft (WoW) Cataclysm”, the third extension pack of the original WoW. In order to play many of the MMOGs, gamers must first buy a retail copy of the game.
- By 2015, PC games will only represent 5.5 percent of overall video game sales in Switzerland.
- PC game sales are a prime target for piracy. This has led a number of game developers specialised in this segment (e.g., Epic, Id Software, Rockstar, Infinity Wards) to move away from PC games and focus on consoles. PC game offerings are, therefore, becoming less attractive.
- PC gaming also retains some of its hard-core gamer audience. PCs represent a better platform for hard-core gamers to play complicated games because the mouse and keyboard provide a more usable interface for complex commands than console controllers do. Furthermore, a series of accessories can be easily connected through USB.
- The buzz created by US President Barack Obama running electoral campaigns in the game “Burnout Paradise” during his presidential campaign in 2008, is a good example of the effectiveness of advertising within a game to raise awareness of a service or product.
- There are two kinds of advertising within a game: in-game advertising (brand placement in the game) and advergaming (a game designed for/around a brand). In-game ads have become increasingly popular in the last decade. Advertisers have rushed to book a space for themselves in PC games or consoles not just because of the reach but also because of the strong brand engagement video games offer.
- With the advent of the Internet and online gaming, it is now possible to insert ads in games and have them updated dynamically as the situation warrants. For example, a billboard advertising a movie can be updated every few weeks when new titles hit the box office. A number of companies – including Massive, which was acquired by Microsoft, IGA International and Double Fusion – have all developed the technology to dynamically place ads in video games. IGA signed exclusive deals with game producers. Electronic Arts has decided to deliver in-game advertising in-house. The placement of these ads occurs while the games are developed, but the specific ads can be changed as the situation demands via the Internet.

Video Game Advertising

- We expect revenue from game advertising to grow steadily at an average of 10.1 percent compounded annually. In 2015, revenues will have doubled compared to 2009, reaching CHF 34 million. By 2015, more revenue will be generated through game advertising than through PC game sales.
- Advertisers who can make their products integral parts of games reap additional benefits. For example, a character in the game may drive a certain type of car, drink a certain brand of soda, or talk on a certain type of phone.

Video Game Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	8.0	11.0	15.0	17.0	21.0	24.0	27.0	30.0	32.0	34.0	10.1
Growth (%)	37.5	36.4	13.3	29.4	23.5	16.1	13	10.7	8.2	7.2	10.1

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

“Games are not just for fun, if well designed and executed, they are powerful instruments to enhance an organisation’s brand experience.”

Matthias Sala, CEO Gbanga

- Studies have found that gamers like advertising because it gives games a more realistic feel. In fact, gamers generally develop more favourable attitudes towards products in games. The positive feelings are associated with products integrated into the game play, while negative feelings are often associated with ads that interfere with the gaming experience.
- We expect in-game advertising and, more specifically, dynamic in-game advertising, to gain in importance over time as more games are played online. It represents a revenue stream for free or cheap games.
- Regarding other media, in-game advertising is limited by how disruptive it can be for players. Hard-core gamers tend to react quite strongly if an ad does not enhance the gaming experience. As a consequence, companies such as Ubisoft have adopted a policy that all revenue generated by in-game advertising is directly reinvested into game research and development.
- In addition to in-game advertising, marketers are developing advergames, or games used to promote a specific brand. For example, Peugeot engaged Serious Factory, a game editor specialised in interactive 3D games, for the launch of its new 308 GTI. The resulting game offers a 3D racing game that integrates with Facebook, allowing players to challenge their friends.

The Swiss Video Game Market Compared to Western Europe

- Switzerland represents 2.6 percent of the overall Western European video game market. This share is expected to remain stable until 2015.
- The Swiss market will grow at a faster pace, 7.7 percent average annual growth, than the rest of the Western European market, which will grow at 5.7 percent.
- On a global level, Asia Pacific, with three of the top four countries in the world, is the largest region and is projected to be the fastest-growing region during the next five years, increasing at a 12.3 percent compound annual rate.
- In Europe, Switzerland, due to high purchasing power per capita, is still one of the countries where the number of games per console is high.
- This purchasing power also shows in editors’ pricing strategy. Games are more expensive in Switzerland than in other European countries.
- Another characteristic specific to the Swiss market relates to linguistic and cultural differences across the German, French and Italian-speaking areas. These differences can result in different sales patterns. What works in the Romandie might not work in Zurich and vice versa. For example, Ubisoft’s game, “Just Dance”, was as great a success in the French and Italian parts of Switzerland as it was in France. However, it has not performed well in the German-speaking part of Switzerland. It also did not do well in Germany. This shows consumers’ tastes are not homogenous across the country.
- Orange has launched a pilot project, “World of Entertainment”, where all distribution channels are offered (in-store sales as well as an online portal and wireless downloads). Other European telecommunications providers are watching this experiment closely. The experiment might result in the Swiss market being reshaped faster than other territories with respect to distribution of video games by providers of telecommunications services.

Video Games

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe (CHF millions)	11,077	13,659	16,137	15,563	15,694	16,378	17,275	18,304	19,412	20,667	5.7
Western Europe growth (%)	11.0	23.3	18.1	-3.6	0.8	4.4	5.5	6.0	6.1	6.5	5.7
Switzerland (CHF millions)	234	271	321	391	401	430	462	496	525	580	7.7
Switzerland growth (%)	15.8	18.5	21.8	2.6	0.1	7.1	7.4	7.4	5.8	10.5	7.7
Switzerland as a % of Western Europe											
Console/Handheld Games											
Western Europe (CHF millions)	6,777	8,752	10,581	9,766	9,441	9,695	10,053	10,471	11,008	11,678	4.3
Western Europe growth (%)	7.0	29.2	20.9	-7.7	-3.3	2.7	3.7	4.2	5.1	6.1	4.3
Switzerland (CHF millions)	148	172	209	204	190	200	210	220	230	265	6.9
Switzerland growth (%)	8.8	16.2	21.5	-2.4	-6.9	5.2	5.1	4.9	4.7	15.2	6.9
Online Games											
Western Europe (CHF millions)	1,424	1,827	2,314	2,579	2,834	3,094	3,468	3,903	4,299	4,720	10.7
Western Europe growth (%)	34	28.3	26.7	11.4	9.9	9.2	12.1	12.5	10.2	9.8	10.7
Switzerland (CHF millions)	59	77	100	114	123	137	154	174	189	205	10.8
Switzerland growth (%)	28.3	30.5	29.9	14.0	7.9	11.6	12.5	13.0	8.7	8.7	10.8
Wireless Games											
Western Europe (CHF millions)	641	813	1,017	1,127	1,247	1,377	1,507	1,653	1,798	1,938	9.2
Western Europe Growth (%)	38.0	26.8	25.0	10.9	10.6	10.5	9.4	9.7	8.8	7.8	9.2
Switzerland (CHF millions)	15	22	29	31	33	36	39	42	45	48	7.8
Switzerland growth (%)	25.0	46.7	31.8	6.9	6.5	7.9	7.6	7.3	6.9	6.9	7.8
PC Games											
Western Europe (CHF millions)	2,051	1,996	1,869	1,688	1,693	1,655	1,618	1,582	1,543	1,503	-2.4
Western Europe growth (%)	0.0	-2.7	-6.4	-9.7	0.3	-2.3	-2.2	-2.3	-2.4	-2.6	-2.4
Switzerland (CHF millions)	42	40	37	34	34	33	32	30	29	28	-4.0
Switzerland growth (%)	7.7	-4.8	-7.5	-8.1	1.0	-2.8	-2.9	-5.9	-3.1	-3.1	-4.0
Video Game Advertising											
Western Europe (CHF millions)	184	271	357	404	479	557	630	695	764	828	11.6
Western Europe Growth (%)	414.0	47.7	31.5	13.2	18.6	16.3	13.1	10.4	9.9	8.3	11.6
Switzerland (CHF millions)	8	11	15	17	21	24	27	30	32	34	10.1
Switzerland growth (%)	37.5	36.4	13.3	29.4	23.5	16.1	13.0	10.7	8.2	7.2	10.1

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, SIEA

8 Radio

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Executive Summary

Definition

- The radio market consists of advertiser spending on radio stations, radio networks and public radio licence fees. Advertising spending is net of agency commissions.

Market Size and growth in Switzerland

- We expect the radio market to increase from CHF 590 million in 2010 to CHF 635 million in 2015. This means a rather moderate average annual growth rate of 1.8 percent. In 2010, the share of radio reception fees in the total radio market accounted for some 76.5 percent, while advertising spending and sponsoring revenue generated the balance of 23.5 percent.

Market size and growth by component

- Digital radio (DAB, DAB+, HD Radio) in Switzerland is gaining ground but its share is still marginal compared to analogue radio. However, we are observing a move by the majority of radio stations to strongly expand into digital technology.

Principal Drivers

- On June 18, 2010, the Swiss government announced a moratorium on radio and TV reception fees for the period 2011–2014. As a result, additional revenue from this source will be achieved by natural growth in the number of households and a stronger focus on fee collection, in particular from companies that are obliged to pay reception fees. Furthermore, the possible introduction of a device-independent collecting system (as of the beginning of 2015) as well as the political pressure on the fee structure could have a sustainable impact on reception fee revenues.
- The traditional driver in the radio advertising market is a mix of music, information and presentation able to attract a clearly defined target audience. A radio station with a clear mix of well-chosen components has considerable appeal for advertisers since it facilitates positioning of advertising messages geared toward the specific target groups.

- With respect to digital radio, the key drivers are availability and penetration of low-cost reception devices and the adoption of the technology by households and the automotive industry. Installation of digital radios as a standard feature in cars might provide a strong boost to DAB+ or HD radio. Nowadays, digital automobile radios are available at electronics shops in Switzerland, although they are not considered standard when manufacturing cars. Besides this, car companies are starting to offer HD Radio as optional equipment in their cars.

Market Overview

Market player's and market structure

- The Swiss radio market is based on a dual broadcasting system, marked by competition between a public-service broadcasting institution and private stations. SRG SSR, the public-service provider, operates fourteen general programme services and three themed stations (pop, jazz and classic) across all language regions plus an English language service called World Radio Switzerland. The private market consists of more than 50 radio stations with a local or regional focus. Most of them broadcast on the FM band, cable or the Internet. In addition, a limited number of national radio stations offer Web-based reception only. As of December 2010 the market share of the public-service providers amounted to 61.3 percent. This means that SRG SSR could hold its strong market position.
- Private radio stations include Energy Zürich, Radio 1, LoRa, Radio ZüriSee and Radio 24 (Zurich), Radio Basel, Radio X and Radio Basilisk (Basel), Radio BeO, Energy Bern, RaBe and Capital FM (Bern), Radio Fribourg (Fribourg), Radio Pilatus, Radio 3fach and Radio Sunshine (Lucerne), Radio Top (Eastern Switzerland), Toxic.fm (St. Gallen), Kanal K, Radio Argovia (Aargau), Radio 32 (Solothurn), Radio Emme (Emmental), Radio RaSa (Schaffhausen), Canal 3 (Biel), Radio BNJ FM (Jura), Rouge FM (Romandie), Radio Lausanne FM, Fiume Ticino, Radio Rottu (Valais), Radio Cité (Genf) as well as Radio Grischa (Grisons).
- Several of the above-mentioned radio stations (LoRa, Radio 3fach, RaBe, Kanal K, Radio X, RaSa, toxic.fm, cite) are non-commercial and offer a broad spectrum of cultural and music programmes, in contrast to the mostly commercial content provided by the other private radio stations. The members of this group are known by the name of UNIKOM (a German acronym for “Union of Non-commercially-driven Local Radio Stations”).

- In the German-speaking part of Switzerland, Radio 24 could keep its number-one position in the first half of 2011. From Monday through Sunday each week, the average number of listeners choosing Radio 24 amounted to 283,100, a 3.3 percent decline compared to the second half-year period of 2010. Daily consumption of Radio 24, however was 59.5 minutes, up from 57.7 minutes, and its market share increased from 3.1 to 3.2 percent. This put Radio 24 in the greater Zurich-area right before Energy Zürich (254,000 listeners) and Radio Zürisee (206,700). The first non-Zurich radio station is Radio Argovia with 209,400 listeners.
- In the French-speaking part of Switzerland, Radio BNJ FM still led the field in the first half of 2011. From Monday through Sunday each week, the average number of listeners choosing Radio BNJ FM amounted to 131,100. Daily consumption of Radio BNJ FM was 58.3 minutes and its market share corresponded to 5.1 percent. This put Radio BNJ FM in the French-speaking territory right before Radio Rouge FM (129,400 listeners) and Radio LFM (112,200 listeners).
- Across Europe, an ongoing trend towards convergence in the private radio market was observed. Often, leading publishing companies hold majority stakes in, or are in full control of, the private radio stations. In contrast, Tamedia announced in 2011 it would be willing to sell its radio stations (Radio 24 and Capital FM). According to Tamedia, the reasons for giving up the radio stations are unfavorable basic conditions, small synergies between business divisions and uncertain prospects concerning the reallocation of concessions.
- Concentration of ownership is also driven horizontally, with certain press publishers holding stakes in private radio stations in various regions. These stations join forces as combinations or advertising pools, which gives them a competitive edge over inter-regional radio stations for advertising contracts across the nation or in language regions.

Regulatory conditions

- The radio market is to a large extent governed by the Swiss Federal Radio and Television Act (hereinafter RTVA). Among other things, this act specifies that, in order to broadcast their programmes, radio stations must either be registered with the Federal Office of Communications (OFCOM) or hold a licence. These stations are subject to the requirements and service specifications laid down in the RTVA. Licenced radio stations are allocated funds from the pool of radio reception fees. They have guidelines with regard to

content, advertising and sponsoring, including regulations governing programme-interrupting commercials and advertisements for alcoholic products. Switzerland is divided into 34 licencing territories, with licences awarded by OFCOM.

Revenue streams

- In terms of funding, the Swiss radio market is fed primarily by contributions from licence fee revenue. The revenue from radio reception fees amounted to CHF 475 million in 2010, of which SRG SSR, the public service provider, received CHF 431 million (91 percent). Licenced private radio stations obtained a share of CHF 21 million (some 4.5 percent). Another CHF 21 million was paid to Billag AG as compensation for its fee-collection assignment, while OFCOM received CHF 2 million to cover the management and monitoring of frequencies as well as the tracking of fee dodgers. Further sources of revenue are divided into advertising and sponsoring and account for CHF 138.4 million in 2010.
- The relative market share of radio regarding advertising expenditure is rather small (around 3.6 percent) but it has turned out to be stable even in economically difficult periods compared to other advertising markets. By 2015, we expect moderate growth for the advertising (1.9 percent) and sponsoring market (1.7).
- At a projected annual growth rate of 1.9 percent, revenue from public and private fees will slightly increase in the years to come. The increase is predominantly linked to the number of households (which is predicted to increase from around 3.44 million to 3.61 million by 2015, a growth of approximately 173,535 households), enhanced coverage of companies obliged to pay fees, and a very slight increase in the number of private households exempt from fee payment. In addition, it has to be considered that the future of fee revenues is under political discussion. On the one hand, the Swiss parliament is discussing the introduction of a device-independent reception fee structure, which could become effective and, thus, have an impact on public fee revenues at the beginning of 2015 at the earliest (due to the existing contract with the Billag AG which expires at the end of 2014). On the other hand, a petition, which intends to limit the radio and TV fee to CHF 200 per household, was launched at the beginning of 2011. As per June 2011 around 140,000 Swiss citizens signed the petition – a clear sign of dissatisfaction with the current fee structure.

Radio Advertising Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Radio advertising	107.1	109.2	105.1	108.2	100.9	102.5	104.1	105.7	107.1	108.6	1.9
Radio sponsoring	34.4	30.4	29.4	30.4	37.5	37.9	38.5	39.0	39.6	40.1	1.7
Licence fees (Public radio)	413.0	404.0	406.0	415.0	431.0	436.6	442.7	449.8	457.0	463.9	1.9
Licence fees (Private radio)	8.0	17.0	21.0	21.0	21.0	21.3	21.6	21.9	22.3	22.6	1.9
Total radio market	562.6	560.6	561.4	574.5	590.4	598.2	606.8	616.3	626.0	635.2	1.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Billag, SRG SSR

Radio Advertising Market by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Radio advertising	–6.0	1.9	–3.8	2.9	–6.7	1.5	1.6	1.5	1.4	1.4	1.9
Radio sponsoring	23.0	–11.8	–3.3	3.4	23.3	1.1	1.5	1.3	1.7	1.3	1.7
Licence fees (Public radio)	0.0	–2.2	0.5	2.2	3.9	1.3	1.4	1.6	1.6	1.5	1.9
Licence fees (Private radio)	0.0	112.5	23.5	0.0	0.0	1.3	1.4	1.6	1.6	1.5	1.9
Total radio market	–0.1	–0.4	0.2	2.3	2.8	1.3	1.4	1.6	1.6	1.5	1.8

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Billag, SRG SSR

- As an additional revenue channel the private radio stations use their Internet platform to sell, e.g., music downloads, club memberships with access to privileged services (such as amenities, newsletters or even participation in programming) or to operate banner advertising and web shops.
- Men and women aged 15 or older differentiate insignificantly regarding the duration of daily radio usage. On average, the tendency is for men to listen a little more frequently to the radio per day. The same insignificant differences (regarding the difference between men and women and radio usage) are found in the French and Italian parts of Switzerland.
- 56 percent of Swiss adolescent consumers indicate they listen to the radio daily and several times a week. The frequency of listening increases with adolescence: 46 percent of the 12 and 13 year olds specify listening to the radio daily or several times a week, whereas the 18 and 19 year old listeners increase to 61 percent. Girls (55 percent daily or several times a week) listen more often to the radio than boys (49 percent daily or several times a week). Furthermore, the adolescents from the German-speaking part (64 percent daily or more often) listen to the radio more often than the same age group from the French (48 percent) and Italian-speaking regions of Switzerland (46 percent).
- In the German-speaking region, 89.2 percent of people aged 15 or older listen to the radio for an average of 130 minutes a day. Both reach and consumption of the medium are slightly lower in the other language regions: 86.6 percent of people in the French-speaking territory listen to the radio for about 121 minutes a day while 87.5 percent of those aged 15 or older consume some 120 minutes of radio per day in the Italian-speaking region.
- The duration of average daily usage of radio increases with age. In German-speaking Switzerland on average the over 60 age group listens to radio twice as long as the 15-29 year olds. The results in the French and Italian-speaking parts are similar.

Customer behaviour

- Swiss adolescent consumers increasingly spend their free media time with their mobile devices (92 percent daily or several times a week) and online (89 percent daily or several times a week). Thus, Internet radio becomes more important as consumers can easily access radio programmes via browser, mobile phone apps or OTT services (e.g., Apple TV). 61 percent of Swiss adolescent consumers specify that they listen to music online (livestreams) daily or several times a week. Spending free media time online and with mobile devices is also becoming more popular within older age cohorts, not least because the adolescents are keeping their consumer patterns with advancing age.
- Today around 20 percent of all households possess one or more digital radios and thus are able to receive DAB/DAB+. The key driver of an extensive conversion to digital radio is mainly dependent on the availability and penetration of low-cost reception devices and the adoption of the technology by the automotive industry. Nowadays, digital automobile radios are available at many specialist shops in Switzerland although they are not considered standard when manufacturing cars (on July 13, JVC released their first two DAB+ ready car radios). A number of car companies are starting to install HD radio equipment in their products. BMW for example, equipped its complete product range with HD radio, in 2011. Other car companies are starting to offer HD radios as optional equipment in their cars. It can be assumed that the installation of HD radios in cars will help drive the market the way it has done for satellite radio.

Digital Radio

- Medium-term substitution of analogue radio by digital is not to be expected, given that penetration of reception devices is still rather low. Nonetheless, the vast majority of radio stations are upgrading their digital technology for digital broadcasting. However, there is at present no agreement on a national standard. SRG SSR and various private radio stations are currently distributing some twenty services through Digital Audio Broadcasting (DAB/DAB+) and more of them were planned for launch in the course of 2010. The BAKOM is expecting the number of radio stations distributing their signal through DAB/DAB+ to rise from 43 in 2010 to more than 80 in 2013. DAB+ is estimated to fully substitute DAB by the end of 2012. To ensure a smooth transition parallel operation of both technologies will be ensured up until the end of 2015.
- The digital radio layer of SwissMediaCast AG (owned by a consortium of private radio, publishing, media technology and telecom companies), started the following stations in the first half of the year 2011: Radio Argovia (as of May 2011), Radio Central (as of June 1, 2011), Radio Sunshine (as of June 1, 2011), Radio Top (as of June 1, 2011). All four stations transmit private radio broadcasts, which can already be received via FM. With DAB+ diffusion the terrestrial coverage area now reaches a large portion of the German-speaking part of Switzerland.
- Starting July 1, 2011 Radio 24 could also be received via DAB+-digital radio. The diffusion will be carried out by the DAB+ ensemble of SwissMediaCast AG. This means that Radio 24 can now be received throughout the German part of Switzerland. The second DAB+ layer of the Swiss German-speaking part was completed in the first half of 2011. By 2013, local DAB+ nets (3rd layer) will be added in the Romandie as well as the Swiss German-speaking part.
- The proliferation of digital radio might help the advertising market in the future. Digital radio has a number of benefits over traditional radio, including better sound quality, the ability to broadcast a number of channels on the same spectrum, and a text display with additional information. The UK has the highest penetration of digital audio broadcasting in Western Europe. More than 12 million DAB radios have been sold in the UK, and DAB now accounts for 25 percent of listening. Household penetration by digital radios is approaching 40 percent.

Internet Radio

- Digital radio is confronted with competition from the increasing consumption of cable and mobile Web radio. The streaming of radio programmes on the Internet by both traditional radio broadcasters and Internet-only broadcasters is on the rise as people listen to the radio on their computers and mobile devices.
- New technology is freeing Internet radio from the computer, allowing it to become more portable and thereby reaching more people. Wi-Fi radios will enable those consumers who are unwilling to pay for satellite radio but who want more than the limited selection on terrestrial radio to access Internet stations. A number of apps are available that enable consumers with smartphones such as iPhones or BlackBerrys and tablets such as the iPad or the ASUS Eee Pad Transformer to listen to Internet radio on their device.

- Consumers get access to innovative technologies such as Pandora via the Internet. Internet radio competes with traditional Swiss radio stations and could become popular, especially among young consumers. Pandora is a leading Internet radio broadcaster that patented its MusicGenome Project, which establishes playlists of songs it feels are compatible with songs consumers requested. Pandora has more than 80 million registered users in the US and represents more than 50 percent of Internet listening. In the first half year of 2011 Pandora went public and announced that it plans to expand beyond the US as well as to add news and sports to its content.
- The Swiss telecommunication services companies (Swisscom, Orange, and Sunrise) are upgrading their mobile networks with 4G, allowing for continued heavy usage of Internet services on mobile devices (e.g., Web-streaming).

The Swiss Radio Market Compared to Western Europe

Aggregate volume in Western Europe

- In 2010, the aggregate volume of the radio market in Western Europe amounted to CHF 13.9 billion. The biggest contributors were Germany (CHF 4.8 billion), France (CHF 2.1 billion), the United Kingdom (CHF 2 billion) and Italy (CHF 647 million).
- Portugal (CHF 131), Finland (CHF 170), Greece (CHF 191) and Denmark (CHF 227) were among the smallest contributors. We expect very moderate average market growth of around 1.5 percent by 2015, resulting in a market volume of CHF 14.9 billion.
- The highest growth rates (CAGR 2011–2015) will be attained by Norway (5.0 percent), Italy (4.4 percent) and Portugal (3.8 percent) while the Netherlands (–0.1 percent), Germany (0.7 percent), Greece and the UK (0.8 percent each) are expected to have the slowest growth from 2011–2015.

Radio advertising in the UK and the largest neighbouring countries

- The radio advertising market in the UK increased in 2010 after several years of decline. We expect the modest growth to continue, with revenues increasing by 1.4 percent on a compound annual basis from CHF 773 million in 2010 to CHF 829 million in 2015. Advertising in the UK is relatively small because the BBC, which has the largest audience in the UK, does not accept advertising. The audience is quite large in the UK, with 90 percent of the population listening to radio at least once a week, dominated by the BBC, with 55 percent of listeners.
- Germany has the largest radio advertising market in Western Europe, at CHF 983 million in 2010. Online radio stations are growing in Germany, with over 2,200 online stations operational in 2010, 80 percent of which are exclusively online and the remaining 20 percent of which represent simulcasts of broadcast stations. Around 25 percent of the population listens to the radio online. Mobile listening on smartphones is becoming more accepted in Germany and will be boosted from 2012 onward by the rollout of long-term evolutions, which started in 2010.
- Radio advertising in France increased in 2010 following three years of decline. Unlike the situations in Germany and the UK, public service radio broadcasters are not as significant a force in France compared to the private stations that are controlled by four broadcast groups: RTL, NRJ, TF1, and Lagardère. Overall, there are a thousand radio stations across the country. Radio's share of advertising in France is among the highest of any country in Western Europe, in part because of a ban on prime-time advertising on France Télévisions imposed by French President Nicolas Sarkozy in 2009, though there are currently no plans to ban advertising on public radio. We expect French radio advertising to increase by 1.4 percent on a compound annual basis to CHF 869 million in 2015.

Swiss Radio Market Compared to Western Europe (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Switzerland	562.6	560.6	561.4	574.5	590.4	598.2	606.8	616.3	626.0	635.2	1.8
Western Europe	14,146.3	14,627.0	14,576.9	14,218.3	14,462.2	14,635.3	14,807.4	15,137.9	15,341.2	15,552.9	1.5

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

- In Italy, the number of listeners has been stable over the past few years, with radio reaching more than 73 percent of the population each day and more than 87 percent each week. Public broadcaster RAI operates three national stations: Radio Uno, Radio Due, and Radio Tre. Radio Uno is the leading station in Italy, reaching 6 million listeners daily. The three stations combined reach 22 percent of the audience and attract a similar percentage of the advertising. There are 14 commercial networks and more than a thousand local stations. RTL 102.5, RDS, and Radio DeeJay are the leading commercial stations, each attracting more than 5 million listeners daily. We expect Italian radio advertising to increase by 4.4 percent on an annual basis from CHF 675 million in 2010 to CHF 836 million in 2015, representing the highest growth rate in Western Europe.

Experience with DAB/DAB+ in the UK and the largest neighbouring countries

- Because Europe is generally a densely populated area comprising many different languages, digital terrestrial is the logical next step in the evolution of radio, as opposed to satellite radio, which would make more sense in large rural areas where the people speak a single language. Additionally, the European continent is covered by thousands of high-quality public and private stations that meet listener demand for radio programming.
- The experience of DAB in Western Europe has been mixed. The UK is at the forefront of digital broadcasting, starting the process earlier than any other country in Western Europe. Digital listening has continued to grow in the UK, reaching 25 percent, and 12 million digital radios have been sold in the UK. Digital household penetration is approaching 40 percent. The BBC is installing new transmitters and expects to have 92 percent coverage by the end of 2012.
- The UK is one of the few countries in Western Europe that has adopted DAB as the standard, and many other countries are looking to DAB+, which is a more advanced version of the standard in that it has better sound and can support more stations. The problem in switching to the DAB+ standard is that it would make the 12 million DAB radios obsolete. New receivers currently being developed will be able to receive DAB and DAB+ transmissions, but that offers no consolation to the millions of people who bought DAB radios. Countries that are now starting to test digital technology are more likely to use DAB+ because it is more efficient.
- In Germany, DAB infrastructure is available to about 70 percent of the population, with over 60 stations. Germany is working toward a re-launch of digital radio, partly using DAB+. The German Commission of Broadcasting Policies has approved a nationwide multiplex, which can transmit 10 to 15 programmes. Additionally, there will be two or three multiplexes in each of the 16 regions to provide regional and local programmes from the public broadcaster and private broadcasters. Eventually, each listener will have access to 30 to 40 services. Nationwide digital radio transmissions are expected to start in August 2011.
- Over the years, France has experimented with a number of digital standards. At the end of 2007, France's regulator, the Conseil supérieur de l'audiovisuel declared that DMB will be the official standard in France. Digital multimedia broadcasting (DMB) is part of the Eureka 147 family of standards that also includes DAB and DAB+. DMB is a multimedia technology based on the DAB standard that offers mobile TV as well as data applications. It is backwardly compatible with DAB and can also be used for radio transmissions. In January 2009, a law was passed that all radio receivers, including those in cars, must be digitally enabled by September 2013.
- In 2007, Club DAB Italia, a joint project between the commercial broadcasters and public radio stations, launched Italy's first DAB+ trial with five channels. A number of other trials, covering 75 percent of the population, are taking place in Italy, with services expected to be launched in the next few years. The Italian government has approved DAB+ as the digital standard.

9 *Out of Home*

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Executive Summary

Definition

- The out of home (OOH) advertising market comprises the net advertising expenditure (excluding agency costs) for OOH media such as poster advertising (paper placards of various formats), neon installations, advertising on public transport (leaflet holders, lettering and painting of rolling stock, banners, etc.) sports and stadium advertising as well as ad screens and large electronic advertising boards.

Market size and growth in Switzerland

- For the OOH market, we expect solid average annual growth of 3.6 percent until 2015. We expect out of home advertising expenditure to increase from CHF 644 million in 2010 to CHF 768 million in 2015.

Market size and growth by component

- The physical out of home segment is expected to increase at a moderate annual growth rate of 1.6 percent, from CHF 634 million in 2010 to CHF 685 million in 2015.
- The digital out of home segment is expected to contribute heavily to the overall anticipated growth. We forecast an average annual growth rate for digital out of home advertising of 52.9 percent, up from CHF 10 million in 2010, to CHF 83 million in 2015. This means that digital out of home advertising is expected to cross the 10 percent landmark in 2015 and reach 10.8 percent of total out of home spending.

Main drivers

- After a significant decline of 12 percent in 2009, the Swiss OOH market recovered in 2010 and grew by 1.2 percent.
- The out of home market is being transformed by the deployment of digital billboards and other forms of digital screens and the expansion of captive video networks. Although digital technologies still account for a relatively small proportion of the out of home market, they are generating a large proportion of OOH growth.
- One of the main drivers for out of home spending is the increased mobility of the Swiss population and therefore increased exposure to the various forms of out of home advertising: research indicated that, on average, a person in Switzerland travelled 15,000 additional kilometres over the last 10 years and is expected to

travel 130,000 kilometres per year by 2020. The mobility rate of the Swiss population exceeds 90 percent.

- The worldwide tendency towards increased urbanisation, leading to megacities or large agglomerations, also stimulates increased spending in out of home, as a larger audience can be reached.
- The cost of installing a DOOH infrastructure continues to decrease. This is one of the reasons the DOOH segment will grow strongly. Furthermore, digital signage solutions (optimised quality combined with greater flexibility in showing sequential ads, daypart bookings, pricing schemes based on effective audience, interactivity and enhanced measurability of advertising impact) spur investment in digital out of home.

Market Overview

- We expect solid growth of the Swiss OOH market at an average annual growth rate of 3.6 percent for the period from 2010 to 2015. In 2010, the market grew by 1.2 percent, having clearly recovered from the strong declines in 2009.
- Switzerland's poster advertising market continues to be dominated by two companies (Affichage Holding SA and Clear Channel Outdoor). There are a number of smaller players especially in the digital out of home segment, of which Neo Advertising, Goldbach Group and Livesystems are among the largest.
- Switzerland's telecoms and cable operators are largely absent from the Swiss OOH market, this is in contrast to some other European countries (e.g., Deutsche Telekom in Germany), which take advantage of their investments in optical fibre networks to connect and deploy a digital out of home network.
- In Switzerland, and around the world, the OOH market is undergoing significant transformation from conventional poster advertising, also referred to as "sneaker-net", towards large-surface digital billboards and higher investment allocation to digital networks (such as narrowcasting). As an intermediate solution, many conventional billboards will be replaced by back-lit display installations and later on by full digital screens, as the cost of such screens comes down.
- Affichage Holding is the market leader in Switzerland in the poster advertising market. Its more than 70,000 out of home locations cover, amongst others, the cities of Basle, Berne, Geneva, Lausanne and Zurich, all SBB railway stations, over 90 percent of an estimated 4,200 public transport and post vehicles, over 90 percent of all ski lifts, Geneva international airport, Lugano

airport, city centre parking locations, and a number of shopping centres, such as the largest shopping centre in the Romandie, Balexert in Geneva.

- Clear Channel Outdoor is Affichage Holding's main competitor. Clear Channel Outdoor is active in city centres and can boast a leading position in Zurich. Its 20,000 out of home locations span the international airports of Zurich and EuroAirport Basel-Mulhouse-Freiburg, petrol stations operated by Shell, Tamoil, Coop, Migrol, Agip and Avia, a number of exhibition centres, such as the OLMA in St. Gall or Messe Bern in Berne. Since January 1st, 2011, Clear Channel Outdoor has also handled the advertising on 100 vehicles of the Geneva public transport organisation. Clear Channel Outdoor locations are home to a large number of 3D campaigns.

Screens in Switzerland (July 2011)

- Neo Advertising owns 40 screens at Geneva international airport and 619 screens distributed across 49 mainly Coop shopping centres in Switzerland. It operates 161 TV screens, situated above the cashier area, in more than 70 percent of all Coop Pronto locations. Other locations are the two major exhibition centres Palexpo in Geneva and Forum Fribourg in Fribourg, where it owns 77 screens distributed across both sites. In the Geneva area, Neo Advertising owns a further 6 screens in major business centres.
- Goldbach Media, a division of Goldbach Group, owns and operates 322 in-store TV ad screens at healthcare and beauty points-of-sale, 567 screens at 111 Migrolino shops, 940 mainly petrol pump screens at 76 Migrol/Shell and 77 Tamoil petrol stations, 360 screens at 234 post offices, 656 screens at the weighing machines at

33 Manor department stores and 62 screens at 19 waiting areas for mountain railways. In conjunction with Monzoon Networks, Goldbach Media also owns and operates 65 advertising screens, which are integrated into the so-called All-Media-Towers at 29 Swiss military bases. Furthermore, Goldbach Group also operates the advertising for in-store radio at Coop and Coop Pronto, as well as at a number of parking areas.

- Livesystems owns and operates 923 public transport screens under the brand "passenger TV" in 18 cities spread across 9 regions throughout Switzerland. It counts, for example, the public transport organisations of the cantons of Aargau, St. Gallen and Lucerne as its customers. More than 50 percent of its screens are located in eastern and central Switzerland. Most screens are also marketed through Goldbach Group and PubliGroupe.
- In total, it is estimated that today Switzerland is served by approximately 25,000 digital out of home screens. Germany counts approximately 60,000 digital screens, spread across a large number of operators. Among the bigger operators are Ströer, which, for example, plans to own and operate a network of approximately 1,000 screens at 200 high-traffic train stations. Deutsche Telekom is also active in the digital out of home market: under its brand "NetContact" it owns and operates several thousand screens at airports, shopping centres and supermarkets. Neo Advertising is also active in Germany – it owns and operates 1,500 screens in 270 Edeka supermarkets.
- Overall, Switzerland's non-digital OOH market is considered saturated. Outdoor advertising carriers (poster panels, poster stands, advertising columns, building megaposters or other suitable public surfaces) are a fully exploited opportunity governed by regulation.

Out of home Advertising Market (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Physical Out of Home	626.4	696.2	716.2	628.4	633.8	642.5	651.9	667.1	676.2	685.2	1.6
Digital Out of Home	1.5	6.3	7.3	7.9	9.9	14.0	24.3	36.2	55.2	82.8	52.9
Total Out of Home	627.9	702.5	723.5	636.3	643.7	656.6	676.3	703.4	731.5	768.1	3.6

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz

Out of home Advertising Market growth (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Physical Out of Home	6.7	11.1	2.9	-12.3	0.9	1.4	1.5	2.3	1.4	1.3	1.6
Digital Out of Home	100.0	320.0	15.9	8.2	25.3	41.4	73.6	49.0	52.5	50.0	52.9
Total Out of Home	7.0	11.9	3.0	-12.1	1.2	2.0	3.0	4.0	4.0	5.0	3.6

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz

Digital Out of Home

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	1.5	6.3	7.3	7.9	9.9	14.0	24.3	36.2	55.2	82.8	52.9
Growth (%)	100.0	320.0	15.9	8.2	25.3	41.4	73.6	49.0	52.5	50.0	52.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz

Digital Out of Home

- We expect digital out of home advertising to show a strong annual growth rate of 52.9 percent in the digital advertising and digital signage market segment until 2015. Up from 2.1 percent in 2010 it will attain a relative share in the OOH market of 10.8 percent by 2015.
- According to industry sources, the share of digital OOH advertising may reach 90 percent in some countries by the end of this decade.
- One element still holding back a stronger substitution effect is the fact that some advertisers consider it is not yet possible to run a nationwide digital out of home campaign due to a lack of digital screens.
- The great advantage of digital out of home (DOOH), or digital signage, is that it allows individual solutions per screen and time of day, whilst assuring real-time flexibility in display. This is especially appealing to advertisers who want to attract distinct groups of consumers at different times of the day at, for example, airports and train stations.
- The ability to make use of streaming video increases DOOH's attractiveness as an advertising medium, in addition to television, online and cinema advertising formats. The only constraint is the fact that DOOH usually cannot make use of sound. Nonetheless, it allows advertisers to reach young urban people through an additional channel.
- Improved measurement of the OOH audience provides advertisers with information to evaluate the impact of purchases by making comparisons with other media and also facilitates incorporation of out of home as part of advertising and marketing campaigns. As a result, improved audience measurement is generally associated with increased spending, both in total as well as to justify price premiums.
- In the past, to determine the value of signs, groups of people were hired to count how many people passed by the signs. Today, anonymous video analytics have been developed that use cameras embedded in the posters combined with mathematical algorithms to detect faces. The analytics are anonymous in that the facial images are not stored in a database. Instead, the system uses pattern detection to determine how long people look at a poster, and it can also determine basic demographics such as gender and general age-group.
- The concept of "gladvertising", however, intends to take the video analytics one step further. The word "gladvertising" refers to "glad" and "advertising" and intends to make use of embedded poster cameras and emotional recognition software to detect a person's current mood. The technology matches movements of the eyes and mouth to six expression patterns corresponding to happiness, anger, sadness, fear, surprise and disgust. The ad on display then is adapted to the outcome of such analysis. The first commercially viable "gladvertising" formats can be expected to appear as of 2012.
- A general trend in digital out of home advertising is interactivity. For example, Swiss start-up Kooaba intends to benefit from the move from text to visuals in online communication. Its Smart Ads solution makes print advertising interactive, by taking advantage of the fact that smartphones are equipped with digital cameras and high-speed Internet connections: after taking a picture of an item on display in print advertising with the embedded smartphone camera, Kooaba's image recognition apps, which are available for iOS and Android devices, recognise these items and connect them with relevant digital content about the brand or product on display. The apps cannot be used for face recognition.
- Multitouch display is also finding its way to the general public. As in Steven Spielberg's blockbuster "Minority Report", the Portuguese manufacturer of multitouch displays, Displax, has developed innovative interactive technologies like finger interaction with holographic screens, as well as a wide range of displays, floor interaction, personalised interactive solutions and systems.
- Switzerland's tipi2 solutions, developed by cid technologies ag, aims at generating an enhanced customer experience at the touch-sensitive shop window. By means of a computer controlled camera and infrared technology, the tipi2screen determines the position of the finger using sensors, and thereby makes interactive communication possible through any pane of glass, including bullet-proof glass. More than 50 such screens have now been installed.

The Swiss Out of Home Market Compared to Western Europe

- The Swiss out of home market is highly developed. Today, out of home advertising has a relative market share of 15 percent of the total advertising mix. This clearly exceeds the European average of approximately 5–10 percent.
- Therefore, the Swiss out of home market will grow less rapidly than the Western European average. It is expected that Switzerland will show an average annual growth rate of 3.6 percent versus 3.9 percent for Western Europe.
- Within Western Europe, there are strong variations between countries. Strongest relative growth is expected in the United Kingdom, benefiting not least from the London 2012 Olympic Games, with an average annual growth rate of 5.9 percent until 2015.
- Unsurprisingly, the lowest growth in OOH is expected to occur in Greece, where its anticipated growth rate of 1.2 percent will probably be below the effective inflation rate.
- Growth rates similar to Switzerland's (i.e., 3.6 percent) are expected to occur in the Netherlands and Germany, whereas growth rates in Italy and France are expected at 3.3 and 2.7 percent respectively.

“New digital out of home advertising media are subject to the same criteria as classical products in this segment. Only those advertising providers will prevail that can offer targeted digital advertising media at well-selected established locations, hence reaching a higher impact. Digital advertising media as such does not create additional inventory, but merely makes use of existing inventory in a more efficient and effective manner.”

Olivier Chuard, Chairman of the BoD, Livesystems AG

- Interestingly, Switzerland's out of home advertising spending is more than twice as high than in the Netherlands, yet with half the population. And Switzerland can boast it will have reached two-thirds of total German expenditure in 2015, with roughly one-tenth of the population.
- Overall, out of home revenues within Western Europe are expected to move up from up from CHF 6.7 billion in 2010 and reach CHF 8.1 billion in 2015, an increase of 3.8 percent.

Swiss OOH Advertising Market Compared to Western Europe (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Switzerland	627.9	702.5	723.5	636.3	643.7	656.6	676.3	703.4	731.5	768.1	3.6
Western Europe	7,250.1	7,596.8	7,526.1	6,541.1	6,670.5	6,887.8	7,259.9	7,511.2	7,784.3	8,071.2	3.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz

Swiss OOH Advertising Market Growth Compared to Western Europe (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Switzerland	7.0	11.9	3.0	–12.1	1.2	2.0	3.0	4.0	4.0	5.0	3.6
Western Europe	5.5	4.8	–0.9	–13.1	2.0	3.3	5.4	3.5	3.6	3.7	3.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, Stiftung Werbestatistik Schweiz

10 Consumer Magazine Publishing

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Executive Summary

Definition

- The consumer magazine publishing market comprises spending by advertisers on consumer print magazines, on magazine web sites and magazine mobile sites, including tablets and smartphones. Consumer magazine publishing includes spending by readers to purchase magazines via subscriptions or at retail outlets and kiosks, as well as paid online and mobile subscriptions, including tablet and smartphone applications.
- 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.

Market size and growth in Switzerland

- We expect the Swiss consumer magazine market to increase from CHF 1,127 million in 2010 to CHF 1,221 million in 2015, a 1.6 percent compound annual growth rate.
- In comparison, the Western European market will grow by a projected compound annual growth rate of 0.9 percent, from CHF 28.8 billion in 2010, to reach revenues of CHF 30.2 billion in 2015.

Market size and growth by component

- Spending on print advertising will increase from CHF 659 million in 2010 to CHF 689 million in 2015, a 0.9 percent compound annual growth rate.
- Spending on digital advertising will continue to grow strongly. Spending on digital advertising will increase from CHF 20 million in 2010 to CHF 88 million in 2015, a compound annual growth rate of 34.6 percent.
- Spending on consumer magazine print circulation will decrease from CHF 448 million in 2010 to CHF 429 million in 2015, a 0.9 percent compound annual decrease.
- Spending on consumer magazine digital circulation, a whole new market, is estimated to reach revenues of CHF 15 million in 2015, whereas today's revenues are negligible.

Principal drivers

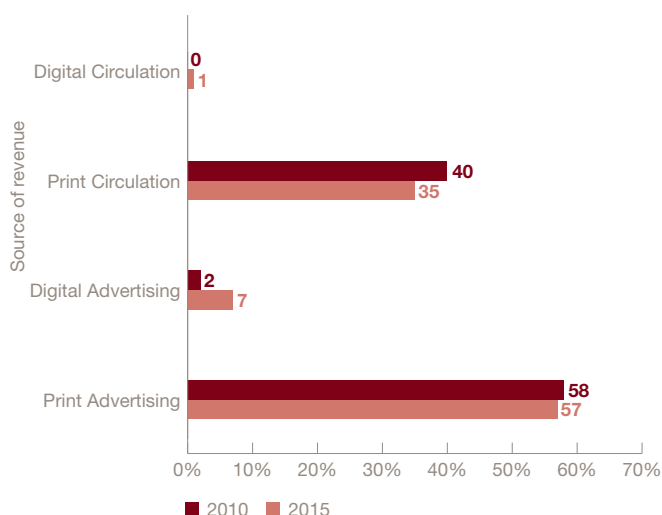
- Improved economic conditions will lead to modest growth in print advertising spending during the next five years.

- Growth will be muted by declining readership, as consumers shift to online and digital sources and reduce their use of print magazines. Smartphone and tablet applications, especially, will replace print subscriptions and readership, but at the same time new formats also provide opportunities to attract new readers. News and gossip titles will be most vulnerable to migration to the Internet as information available online reduces demand for print. Special interest titles will be less vulnerable to online competition.
- Despite the trend to digital advertising, we believe that print advertising will remain the main source of income during the next years.
- A major challenge for consumer magazine publishers is how to optimally benefit from the migration of readership from print, especially to tablet applications and other forms of online content.

Market Overview

- The consumer magazine market splits into spending for advertising and spending on circulation. Both sections can be divided into print and digital. In Switzerland, the ratio of advertising to circulation is 60 to 40.
- The print advertising market share will decrease slightly from 58 percent in 2010 to 57 percent in 2015.
- The digital advertising market share will increase from 2 percent in 2010 to 7 percent in 2015.
- The consumer magazine print circulation market share will decrease from 40 percent in 2010 to 35 percent in 2015.
- Consumer magazine digital circulation is expected to reach a 1 percent market share in 2015.
- The consumer magazine market (advertising and circulation) in Switzerland fell by 11.4 percent in 2009 and a further decline of 0.8 percent was projected for 2010, considering the forecasted outlook for the European and Swiss economies. Instead, the market developed very positively, profiting from renewed consumer optimism and a robust Swiss economy. In 2010, the Swiss consumer magazine market grew by 4.9 percent, pushed by an increase in print advertising revenues of a remarkable 8.6 percent.
- Nevertheless, as the economic woes are not over, we expect a cautious recovery for the coming years and expect the market to grow by an annual compound growth rate of 1.6 percent.

Consumer magazine publishing market, relative share per source of revenue



Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association

- The consumer magazine market in Switzerland is dominated by just a few publishers. The main publishers are Ringier AG (“Schweizer Illustrierte”, “l’Hebdo”, “Monopol”, “Bolero”, etc.), Tamedia AG (“Schweizer Familie”, “Revue Automobile”, “Das Magazin”, “20 Minuten Friday”, etc.), Axel Springer Schweiz AG (“Beobachter”, “Tele”, “Auto Bild Schweiz”, etc.) and Reader’s Digest AG. The TV programming magazine “TV täglich”, covering the programming of 40 television and radio channels, is a joint publication of Ringier and Tamedia.
- The ageing of Swiss society is considered beneficial to the consumer magazine industry. Nevertheless, overall circulation is slightly declining, with the exception of a few titles such as the ones mentioned above. When compared to circulation in 1990, the top thirteen today have significantly lower readership.
- The current investments in bandwidth will continue to push readers online, either on websites or via mobile applications. Growing consumer magazine web site and app traffic will drive digital advertising.

Consumer Magazine Publishing Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	681	722	730	607	659	669	674	679	684	689	0.9
Digital Advertising	7	9	15	15	20	31	41	55	70	88	34.6
Total Advertising	688	731	745	622	679	700	715	734	754	777	2.7
Print Circulation	461	470	467	452	448	447	446	442	436	429	-0.9
Digital Circulation	0	0	0	0	0	0	1	4	10	15	
Total Circulation	461	470	467	452	448	447	447	446	446	444	-0.2
Total Advertising and Circulation	1,149	1,201	1,212	1,074	1,127	1,147	1,162	1,180	1,200	1,221	1.6

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association

Consumer Magazine Publishing Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	-0.4	6.0	1.1	-16.8	8.6	1.5	0.7	0.7	0.7	0.7	0.9
Digital Advertising	133.3	28.6	66.7	0.0	33.3	55.0	32.3	34.1	27.3	25.7	34.6
Total Advertising	0.1	6.3	1.9	-16.5	9.2	3.1	2.1	2.7	2.7	3.1	2.7
Print Circulation	0.7	2.0	-0.6	-3.2	-0.9	-0.2	-0.2	-0.9	-1.4	-1.6	-0.9
Digital Circulation	N/a	N/a	N/a	N/a	N/a	N/a	N/a	300.0	150.0	50.0	
Total Circulation	0.7	2.0	-0.6	-3.2	-0.9	-0.2	0.0	-0.2	0.0	-0.4	-0.2
Total Advertising and Circulation	0.3	4.5	0.9	-11.4	4.9	1.8	1.3	1.5	1.7	1.8	1.6

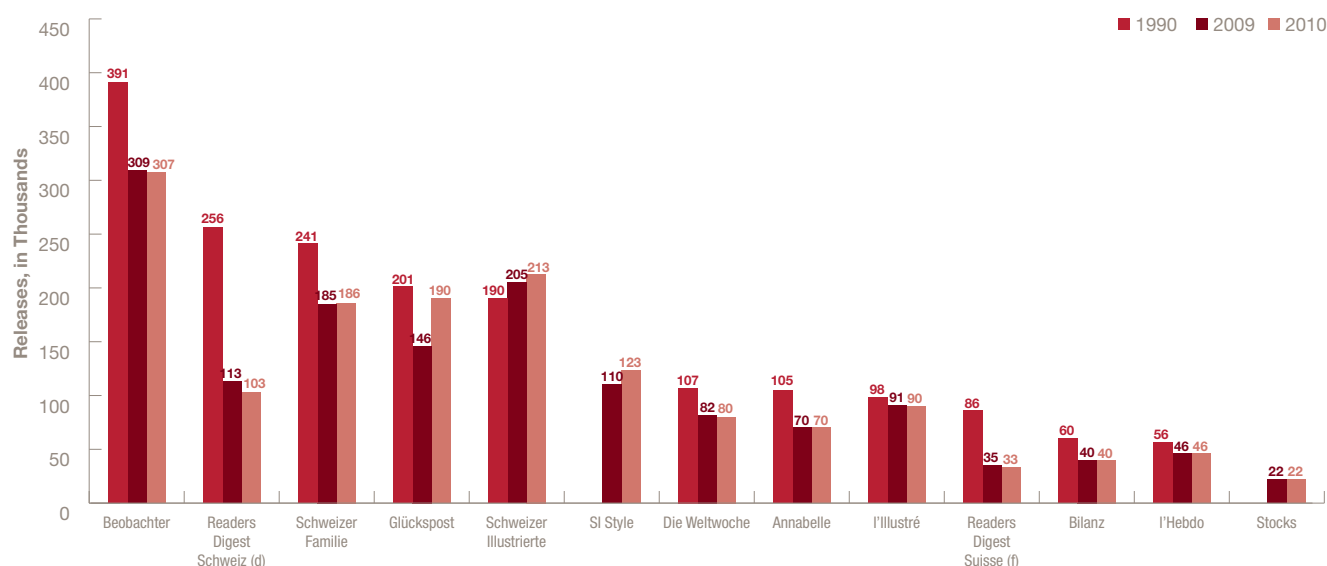
Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association

Consumer Magazine Circulation

- Circulation spending (print and digital) in Switzerland fell by 3.2 percent in 2009 and continued to decline at 0.9 percent in 2010. We expect circulation to remain almost stable, with a modest decrease from 2011 to 2015 of –0.2 percent. We expect circulation revenues to decrease slightly from CHF 448 million in 2010 to CHF 444 million in 2015. Losses in print circulation are expected to be almost compensated for by digital subscriptions; however, it will take some time before this segment really becomes substantial.

- In 2010, circulation figures for the top three titles of the popular, financial and economic press were the “Beobachter”, with a circulation of 306,531 in 2010 (–0.6 percent compared to 2009) and “Schweizer Illustrierte” with a circulation of 213,243 in 2010 (+4.1 percent compared to 2009). The former number three, “Schweizer Familie”, with a circulation of 186,098 in 2010 (+0.5 percent compared to 2009) lost its spot to “Glückspost”, which was able to increase its circulation by a stunning 30.0 percent, from 146,325 in 2009 to 190,151 in 2010.

Consumer Magazine Releases 1990, 2009, 2010



Source: WEMF, Swiss Media Association

- In June 2011, NZZ decided to replace its “NZZ am Sonntag” style section with a separate glossy magazine supplement, starting in August 2011. The scope of the new supplement is larger than the original section of the newspaper: it now also includes galleries, art and exhibitions, in addition to the more traditional areas of fashion, design, indulgence, jewellery, watches, cars, travel and gadgets. The existing monthly supplement of “Z – die schönen Seiten” will continue to be published as a supplement as well.
- Competition from the Internet is immense, especially for commoditised information. Magazines therefore, are increasingly shifting their attention from the pure transmission of information to more value-adding ser-

vices such as the interpretation and structuring of such information. Edipresse for example decided to expand the scope of its most successful television magazine, “Télétop Matin”, available in kiosks on Friday and inserted in “Le Matin Dimanche”, from a programme guide to a television magazine with a structured, thematic overview of television content, background information and news from the world of television, DVD/BD releases and video-on-demand offerings available on the Internet.

- Mobile devices represent a new outlet for circulation. In addition to a number of smartphone applications for magazines, especially the tablet magazine applications, are starting to gain ground.

- After gaining initial experience with the “Schweizer Illustrierte” applications, in April 2011, Ringier launched, “The Collection”, its first ever global magazine application for tablets in four languages – English, German, French and Chinese. “The Collection” is Ringier’s first mono-thematic magazine for tablets, taking advantage of all of the tablet’s multimedia possibilities, such as 3D animations, photography and video. The topic of the first issue was “Prince William – The British Monarchy’s Great Hope”, and the second edition featured “The Global Baby”. The first chapter can be accessed for free. For full access, prices are country-specific and vary from CHF 5.00 in Switzerland to USD 4.99 for the USA.
- “Femina” is the first Edipresse publication available on iPad. The women’s magazine can be downloaded weekly for a single copy price of CHF 3.30.
- Magazine publishers are expanding their services to online platforms. As it is difficult to reach double-digit growth rates in Switzerland, many publishers seek to expand their presence in Asia or Central and Eastern Europe. Edipresse, for example, acquired the Polish online platform Pomocni.pl in August 2011, strengthening its strategic focus on service offerings for women and families.
- But not all new media launches are digital. In April 2011, Ringier launched “Landliebe”, a Swiss family magazine dedicated to combining urban life with traditional values, nature and photography. In each edition, both knitting and hiking are covered. The initial circulation was 200,000 copies. The magazine will appear four times a year, at a cover price of CHF 6.50 or CHF 24 for an annual subscription. Over the past years, the German magazine “Landlust” already proved that this market segment reflects the current zeitgeist.
- The average selling prices for individual copies of popular, financial and economic publications increased from CHF 5.24 in 2006 to CHF 6.31 in 2011, a compound annual growth rate of 3.8 percent. Over the same period, yearly subscription prices remained stable, from CHF 148.27 in 2006 to CHF 148.38 in 2011.
- Cover prices for the technical press decreased from CHF 13.99 in 2006 to CHF 12.45 in 2011, a compound annual decrease of –2.4 percent. However, subscription prices increased from CHF 120.61 in 2006 to CHF 125.10 in 2011, a compound annual growth rate of 0.7 percent.
- Finally, cover prices for special-interest publications increased from CHF 7.25 in 2006 to CHF 8.39 in 2011. Subscription prices increased from CHF 70.22 in 2006 to CHF 72.07 in 2011. This is a compound annual growth rate of 3.0 percent and 0.5 percent, respectively.

Consumer Magazine Print Circulation

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	461	470	467	452	448	447	446	442	436	429	–0.9
Growth (%)	0.7	2.0	–0.6	–3.2	–0.9	–0.2	–0.2	–0.9	–1.4	–1.6	–0.9

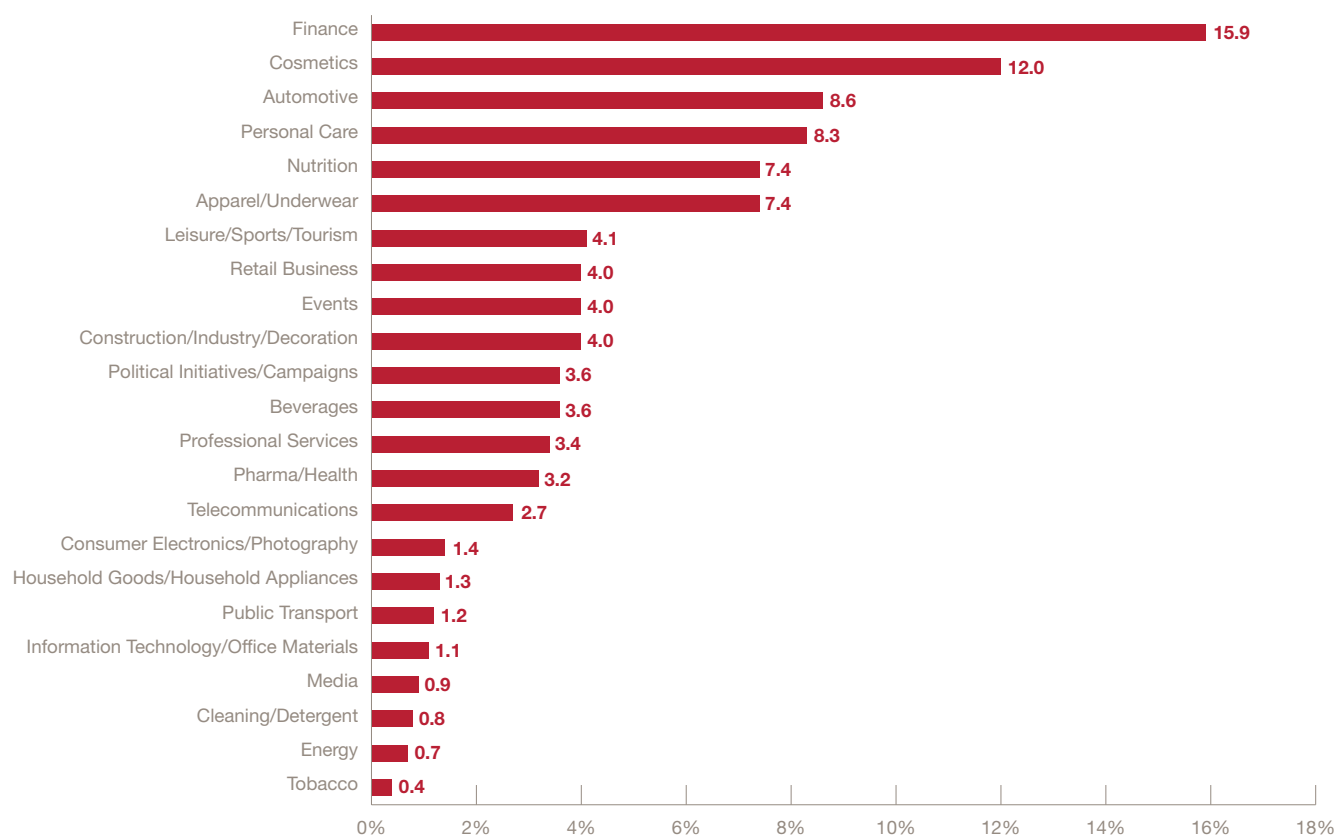
Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association

Consumer Magazine Digital Circulation

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	0	0	0	0	0	0	1	4	10	15	
Growth (%)	N/a	N/a	N/a	N/a	N/a	N/a	N/a	300.0	150.0	50.0	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association

2010 Print Advertising in the Popular, Finance and Economics Press, as a percentage of the total



Source: Media Focus

Consumer Magazine Advertising

- The overall consumer magazine advertising market in Switzerland showed remarkable recovery throughout 2010 and grew by 9.2 percent. We believe that the overall consumer magazine advertising market will continue to grow during 2011–2015. For the period 2011–2015, we expect spending to increase at a 2.7 percent compound annual growth rate, from CHF 679 million in 2010 to CHF 777 million in 2015.
- Print advertising will remain the main source of income for consumer magazine publishers. Consumer magazine print advertising is expected to increase from CHF 659 million in 2010 to CHF 689 million in 2015, a 0.9 percent compound annual growth rate. This conservative forecast takes into account the fragility of the current financial and economic situation in Western Europe.
- In 2010, the major contributors to consumer magazine gross print advertising revenues were the financial services, cosmetics, automotive, personal care and nutrition sectors. Together, these five sectors constituted more than 50 percent of total gross print advertising expenditure.
- We expect the digital advertising market in Switzerland to strongly outpace print advertising growth during the next years. Increasingly, readers and advertisers are migrating to the Internet and making use of smartphone and especially tablet applications. Digital advertising is expected to grow from CHF 20 million in 2010 to CHF 88 million in 2015, a compound annual growth rate of 34.6 percent.
- Competition in the tablet market is fierce. Numerous manufacturers of consumer electronics have launched their own versions of the Apple iPad, many of which make use of Google's Android operating system. As a result, Apple lost its first rank spot to Google in the USA. Consumers, however, get to choose between a vast number of tablets, and countless applications. In Switzerland, prices for tablets with Wireless LAN connectivity and 16 GB internal memory in September 2011 ranged from CHF 252 for the Archos 101 Internet Tablet, to CHF 599 for the Samsung Galaxy Tab P7310. 3G connectivity is usually available for an additional CHF 100.

The Swiss Consumer Magazine Publishing Market Compared to Western Europe

- The Swiss consumer magazine market accounts for 4.0 percent of the Western European market.
- The largest consumer magazine market in Western Europe in 2010 was France, at CHF 6.4 billion, followed by Germany at CHF 5.8 billion, the UK at CHF 4.4 billion and Italy at CHF 4.2 billion. Together, these four countries constituted 69 percent of the total Western European consumer magazine market.
- Switzerland's consumer magazine market is comparable in size to the consumer magazine market of the Netherlands, but double the size of Austria's and triple the size of the consumer magazine market in Belgium. This is remarkable, considering the fact that Switzerland has significantly fewer inhabitants than any of the other nations.
- Germany and the United Kingdom are at present comparable markets with respect to digital consumer magazine circulation, with estimated revenues of CHF 42 million in 2011. However, digital circulation is expected to increase to CHF 192 million in Germany, versus CHF 181 million for the United Kingdom.

Consumer Magazine Publishing (CHF millions)

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Austria											
Consumer magazine publishing	551	579	610	560	560	571	592	614	635	656	3.2
Consumer magazine advertising	286	310	341	302	306	319	341	363	385	409	5.9
Digital advertising	3	4	8	8	9	16	22	30	39	48	38.6
Print advertising	282	305	333	294	297	303	319	333	346	361	4
Consumer magazine circulation	266	270	269	257	253	252	251	251	250	247	–0.5
Digital circulation	0	0	0	0	0	1	3	5	7	9	
Print circulation	266	270	269	257	253	251	248	246	243	237	–1.3
Belgium											
Consumer magazine publishing	399	407	403	388	387	397	409	420	434	446	2.9
Consumer magazine advertising	155	160	159	151	156	167	179	191	205	219	7
Digital advertising	1	3	4	4	5	8	12	16	21	26	38
Print advertising	154	157	155	146	151	159	167	176	184	192	5
Consumer magazine circulation	244	247	244	237	231	230	230	229	229	227	–0.4
Digital circulation	0	0	0	0	0	1	3	4	7	9	
Print circulation	244	247	244	237	231	229	227	225	222	218	–1.2

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
France											
Consumer magazine publishing	6,953	6,946	6,839	6,343	6,355	6,377	6,431	6,480	6,532	6,588	0.7
Consumer magazine advertising	1,812	1,727	1,671	1,372	1,426	1,464	1,520	1,563	1,598	1,644	2.9
Digital advertising	18	25	40	38	48	69	99	129	158	196	32.4
Print advertising	1,794	1,702	1,632	1,335	1,378	1,395	1,420	1,434	1,440	1,449	1
Consumer magazine circulation	5,141	5,219	5,167	4,970	4,930	4,913	4,911	4,917	4,934	4,943	0.1
Digital circulation	0	0	0	0	0	5	16	48	107	167	
Print circulation	5,141	5,219	5,167	4,970	4,930	4,908	4,895	4,869	4,827	4,776	–0.6
Germany											
Consumer magazine publishing	6,425	6,396	6,184	5,672	5,773	5,853	5,906	5,948	6,003	6,071	1
Consumer magazine advertising	2,665	2,652	2,511	2,119	2,235	2,305	2,344	2,380	2,419	2,469	2
Digital advertising	93	127	165	166	198	247	306	363	424	494	20.1
Print advertising	2,572	2,525	2,346	1,953	2,038	2,058	2,038	2,017	1,996	1,975	–0.6
Consumer magazine circulation	3,760	3,745	3,672	3,553	3,538	3,548	3,562	3,569	3,584	3,602	0.4
Digital circulation	0	0	0	0	16	42	69	104	146	192	65.1
Print circulation	3,760	3,745	3,672	3,553	3,522	3,506	3,493	3,465	3,437	3,410	–0.6
Italy											
Consumer magazine publishing	5,457	5,415	5,199	4,460	4,223	4,170	4,188	4,219	4,267	4,302	0.4
Consumer magazine advertising	1,361	1,403	1,339	947	896	917	950	982	1,017	1,053	3.3
Digital advertising	14	21	33	26	30	44	63	82	101	124	32.6
Print advertising	1,347	1,382	1,305	920	866	873	887	901	915	929	1.4
Consumer magazine circulation	4,096	4,012	3,860	3,513	3,326	3,253	3,238	3,237	3,250	3,249	–0.5
Digital circulation	0	0	0	0	0	3	9	31	69	110	
Print circulation	4,096	4,012	3,860	3,513	3,326	3,250	3,229	3,206	3,181	3,139	–1.2
The Netherlands											
Consumer magazine publishing	1,350	1,356	1,330	1,213	1,201	1,200	1,204	1,210	1,222	1,235	0.6
Consumer magazine advertising	430	425	402	305	294	294	300	308	318	332	2.4
Digital advertising	4	7	9	8	9	14	20	25	31	39	32.7
Print advertising	426	417	392	297	285	280	280	282	287	293	0.6
Consumer magazine circulation	920	931	929	908	907	906	904	903	904	904	–0.1
Digital circulation	0	0	0	0	0	1	3	8	20	30	
Print circulation	920	931	929	908	907	905	901	894	884	873	–0.7

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Sweden											
Consumer magazine publishing	499	513	526	484	492	498	504	514	520	529	1.5
Consumer magazine advertising	111	116	132	94	99	105	110	116	120	128	5.1
Digital advertising	1	2	3	2	3	5	7	9	12	16	38
Print advertising	110	114	129	92	96	99	103	107	109	112	3.1
Consumer magazine circulation	388	396	394	390	392	393	394	397	400	402	0.5
Digital circulation	0	0	0	0	0	0	1	4	8	14	
Print circulation	388	396	394	390	392	393	393	393	391	388	–0.2
Switzerland											
Consumer magazine publishing	1,149	1,201	1,212	1,074	1,127	1,147	1,162	1,180	1,200	1,221	1.6
Consumer magazine advertising	688	731	745	622	679	700	715	734	754	777	2.7
Digital advertising	7	9	15	15	20	31	41	55	70	88	34.6
Print advertising	681	722	730	607	659	669	674	679	684	689	0.9
Consumer magazine circulation	461	470	467	452	448	447	447	446	446	444	–0.2
Digital circulation	0	0	0	0	0	0	1	4	10	15	
Print circulation	461	470	467	452	448	447	446	442	436	429	–0.9
United Kingdom											
Consumer magazine publishing	4,706	4,836	4,574	4,258	4,352	4,406	4,460	4,514	4,562	4,598	1.1
Consumer magazine advertising	1,338	1,311	1,262	1,003	1,018	1,045	1,083	1,121	1,160	1,203	3.4
Digital advertising	26	32	48	42	48	68	89	112	134	161	27.3
Print advertising	1,312	1,278	1,214	961	970	977	994	1,009	1,026	1,042	1.4
Consumer magazine circulation	3,368	3,525	3,312	3,255	3,335	3,361	3,377	3,393	3,402	3,395	0.4
Digital circulation	0	0	0	0	15	41	66	98	139	181	65.3
Print circulation	3,368	3,525	3,312	3,255	3,320	3,320	3,312	3,295	3,262	3,214	–0.6

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, DoubleClick, Google, MACH Basic 2011–2

11 Newspaper Publishing

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Executive Summary

Definition

- The newspaper publishing market comprises spending on daily print newspapers by advertisers and readers and advertising on newspaper websites and mobile device sites. Spending by readers includes newsstand and kiosk purchases and subscriptions as well as payments for newspapers delivered to mobile devices and fees to access online content.
- Circulation numbers exclude free daily newspapers and weekend editions, unless stated otherwise.

Market size and growth in Switzerland

- We expect the Swiss newspaper publishing market to increase from CHF 2.2 billion in 2010 to CHF 2.4 billion in 2015, a compound annual growth rate of 1.9 percent.
- In comparison, the EMEA market will grow by a projected 1.6 percent compound annual growth rate and Western Europe by 1.0 percent compounded annually. For Western Europe, we expect newspaper publishing revenues to increase from CHF 51.9 billion in 2010 to CHF 54.6 billion in 2015.

Market size and growth by component

- Spending on print advertising is the principal component of the market, with revenues of CHF 1.3 billion in 2010, representing 61 percent of total spending. We expect an increase to CHF 1.5 billion in 2015, a 2.4 percent compound annual growth rate.
- We expect print circulation spending, the second largest component, representing 35 percent of total spending, to decrease from CHF 774 million in 2010 to CHF 768 million in 2015, a 0.2 compound annual decrease.
- Spending on digital advertising is expected to rise from CHF 67 million in 2010 to CHF 113 million in 2015, an 11.0 percent compound annual increase.
- Spending on digital circulation is expected to become a whole new market segment, with revenues reaching CHF 22 million in 2015.

Principal drivers

- Improved economic conditions will have a positive impact on both advertising and circulation spending.

- Nevertheless, under the influence of the migration of readers to the Internet and changing consumer behaviour, circulation and advertising spending will continue to decrease.
- Price increases, especially for Sunday newspapers, are compensating in the short term for declines in circulation, but cannot be counted on looking forward.
- Mobile devices such as eReaders, tablets and smartphones are starting to represent a new outlet for circulation and related advertising revenues. As readership usage patterns have not been established for long, publishers need to experiment to find the optimal usability and attractiveness of such applications to its readership.
- Applications can cater to the specific needs of readerships through the integration of additional content, related third-party content, video interviews and photo series.
- The general public is accustomed to paying for applications, allowing publishers to step away from the free content model to paid applications.

Market Overview

- The Swiss newspaper publishing market is small compared to the neighbouring markets in Germany, France and Italy. However, with a total number of 193 newspaper titles in 2010 (2009: 197), no other country in Europe has such a high-density coverage of newspaper titles as a percentage of the total population. Despite the financial crisis, Switzerland continues to be a typical “print press country”.
- The newspaper publishing market in Switzerland is thus characterised by its size, but also by its geographical and linguistic boundaries and the political system of direct democracy, with most decisions being taken at local and regional levels. Therefore, local and regional news has a specific function and importance, both as a communication channel as well as an official means of publishing decisions, amendments and announcements of local or regional relevance to the public.
- Nevertheless, due to continuous consolidation activity, the titles of only a handful of publishers comprise the vast majority of total market circulation.
- In 2010, a number of publishers started to make use of their newly developed newsrooms. In March 2010 for example, Ringier started its Zurich newsroom operations, and in September 2010, AZ Medien started their newsroom operations in Aarau as an integrated part of their completely renewed AZ media centre.

- Early in 2011, Tamedia announced it was interested in selling off its radio and television businesses. However, as Swiss media law only allows one company to own a maximum of 2 licenced radio and 2 licenced television stations, the number of potential buyers was expected to be limited. This is because it is not possible, for example, to make optimal use of synergies by building a single nationwide brand. Having access to regionally focused electronic media may, however, appeal to regional publishers. In August 2011, the sale of the television businesses, comprising “Tele Züri” and “Tele Bärn” to AZ Medien was announced.
- Publishers are also searching for growth outside of publishing. Ringier, for example, considers the entertainment area to be of strategic importance. It has created four areas of entertainment: radio, films, events and services, and continues to expand its service offerings in these areas. Recent acquisitions involve ticketing services and music event organisations. Another area of expansion is sports marketing. Here, Ringier announced in June 2011 a 50-50 joint venture with Infront Sports & Media AG, to exploit the Swiss sports market by providing marketing and consulting services to sport event organisations and athletes. InfrontRingier began its operating activities with an exclusive mandate from Swiss Olympic, in that it will evaluate and examine a potential Swiss bid for the Olympic Winter Games of 2022, including which areas of Switzerland have the best chances of providing the ideal winter sports environment. As of 2015 it will also be marketing the Tour de Suisse, Switzerland’s largest cycling event.
- The free daily newspapers “20 Minuten” for the German-speaking part of Switzerland and “20 minutes” for the Romandie of Tamedia and “Blick am Abend” of Ringier have been able to capture their share of the market in Switzerland. In September 2011, Tamedia launched “20 minuti” for the Italian-speaking part of Switzerland, in cooperation with Mr. Giacomo Salvioni, publisher of the daily newspaper “La Regione Ticino”. The first edition comprised 36,000 copies. 20 minuti SA, is a 50-50 joint venture of Tamedia and Mr. Giacomo Salvioni.
- With a few exceptions, Swiss publishers are expanding into digital services. This involves creating digital editions for tablets and smartphones on the one hand, and acquiring stakes in digital platforms on the other. In some cases it also involves divesting print titles that are no longer considered to be of strategic importance, or for which critical mass in terms of readership and advertising volume is deemed to be difficult to reach.
- Today, with the exception of the online edition of the “Schaffhauser Nachrichten”, all online newspaper sites of the major publishers can be accessed for free. However, following the examples of the “New York Times” or the “Financial Times”, all major publishers show an increasing interest in the creation of a “freemium” paywall. In its most common version of this business model, it is possible to access a number of articles per month free before a payment is required for further access. Since January 6, 2011, the Schaffhauser Nachrichten however, has restricted access to the online newspaper edition to paying subscribers only. Other publishers are still investigating or planning paid online subscription models. We expect other publishers to install such paywalls starting mid-2012.
- Some publishers intend to create an integrated digital paywall, which not only comprises the paid use of the online edition, but also includes tablet and smartphone usability. AZ Medien, for example, is considering installing such a paywall version by autumn, 2013.
- Subscribers of “Die Südostschweiz” automatically have access to the e-paper version for online and tablet (Android and Apple). A smartphone version is to be released soon. New tablet subscribers can choose a subscription that includes an Asus Eee Pad Transformer tablet. The Südostschweiz Medien tablet version integrates the media offerings of Radio Grischa and Tele Südostschweiz.
- Like Südostschweiz Medien, most major Swiss publishers have launched tablet editions of their newspaper titles. In some cases these come as independent applications that are refreshed twice a day, and in other these involve daily e-paper versions of the regular newspaper. In all cases the tablet versions of the daily newspapers cannot be accessed free: as of September 6, 2011, Tamedia’s “Tagesanzeiger” tablet application also operates under the “freemium” model: front page articles can be accessed free, but to read other articles users need to choose between a monthly digital subscription at CHF 29, a weekly subscription at CHF 9 or a daily copy at CHF 2.
- Sunday newspapers are also available through tablet applications and usually require paid subscriptions. A one-year subscription to the NZZ am Sonntag, for example, costs CHF 143 for the tablet edition, versus CHF 203 for the paper edition, a discount of roughly 30 percent. But individual copies of Sunday newspapers can also be acquired: through, for example AZ Medien’s application, readers can download individual Sunday newspaper copies for CHF 3, as an alternative to its paid subscription model.

Newspaper Publishing Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	1,688	1,765	1,676	1,309	1,341	1,350	1,381	1,416	1,456	1,495	2.2
Digital Advertising	51	62	67	59	67	75	82	92	102	113	11.0
Total Advertising	1,739	1,827	1,743	1,368	1,408	1,425	1,463	1,508	1,558	1,608	2.7
Print Circulation	759	760	780	777	774	773	771	768	768	768	–0.2
Digital Circulation	0	0	0	0	0	1	3	6	12	22	
Total Circulation	759	760	780	777	774	774	774	774	780	790	0.4
Total Advertising and Circulation	2,498	2,587	2,523	2,145	2,182	2,199	2,237	2,282	2,338	2,398	1.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, DoubleClick, Google, MACH Basic 2010–2

Newspaper Publishing Market Growth by Component (%)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Print Advertising	4.5	4.6	–5.0	–21.9	2.4	0.7	2.2	2.6	2.8	2.7	2.2
Digital Advertising	62.1	21.3	8.8	–12.9	15.1	11.3	9.7	11.4	11.4	10.2	11.0
Total Advertising	5.7	5.1	–4.6	–21.6	3.0	1.2	2.6	3.1	3.3	3.2	2.7
Print Circulation	0.0	0.1	2.6	–0.4	–0.4	–0.1	–0.3	–0.4	0.0	0.0	–0.2
Digital Circulation	N/a	N/a	N/a	N/a	N/a	N/a	200.0	100.0	100.0	83.3	
Total Circulation	0.0	0.1	2.6	–0.4	–0.4	0.0	0.0	0.0	0.8	1.3	0.4
Total Advertising and Circulation	3.8	3.6	–2.5	–15.0	1.8	0.8	1.7	2.0	2.5	2.6	1.9

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, DoubleClick, Google, MACH Basic 2010–2

Publishers' expansion into digital in Switzerland (selection)

- In September 2010, Ringier announced the launch of Vanilla.ch, a sales promotion platform allowing payment at cash registers using a smartphone or the Vanilla MasterCard®. Vanilla.ch has been realised in conjunction with GE Money Bank AG and MF Group AG. The service also offers location-based services, in that it shows users where to find special offers or discounts in the immediate vicinity of their current location. Consumers log on to the homepage, Vanilla.ch, or download the free application. The application provides the option of selecting either the free standard package (Mobile Payment) or the premium package with Vanilla MasterCard® and Mobile Payment at a fee of CHF 100. Payment is via barcode, which is transmitted directly to the smartphone and from the respective cash register system to Vanilla, or with the Vanilla MasterCard®. Customers are awarded points for every transaction conducted via Vanilla, which they can redeem at the premium store. Whereas the mobile payment aspects of the venture proved to be appealing to consumers, the bonus points programme did not develop successfully. As a result, Ringier stopped the Vanilla project in April 2011.
- In January 2011, Ringier and Qualipet, a leading Swiss pet shop chain with 76 stores across Switzerland, founded their joint venture Qualipet Digital AG. The newly formed company will expand Qualipet's mail order business into digital offerings, including an online and mobile pet shop, classifieds, service contact points, online advice and a community for animal lovers. The new qualipet.ch online portal went online in May 2011.
- In January 2011, Tamedia acquired the remaining 85 percent of car4you, achieving 100 percent ownership of the online classifieds portal for automobiles. The transaction price was CHF 6 million. Car4you had a turnover of CHF 1.8 million and net results of CHF 0.2 million in the first 6 months of 2011.
- In February 2011, Scout24 Schweiz Holding AG – Ringier holds 39.9 percent of shares – acquired a 15 percent stake in jobs.ch AG, a leading Swiss online job platform. In exchange, jobs.ch took over the topjobs.ch por-

tal from Scout24. Scout24 will continue to operate its jobscout24.ch portal. Both platforms agreed on further collaboration in the field of online jobs classifieds.

- In April 2011, Tamedia increased its stake in jobsuchmaschine.ch to 49 percent and intends to acquire the remaining shares in 2013. By expanding its footprint in jobmaschine.ch, Tamedia adds a further brand to its portfolio of online jobs classifieds and portals, which currently spans the brands alpha.ch, jobwinner.ch, jobup.ch und jobsuchmaschine.ch.
- In May 2011, Tamedia acquired a 49 percent stake in Doodle, a scheduling platform. Further increases in Tamedia's stake are planned between 2013 and 2016.
- In May 2011, a planned online e-reader platform and online kiosk for newspaper and consumer magazine titles, a joint venture of Tamedia, Ringier, NZZ Gruppe, Orell Füssli and Swisscom, was stopped. According to industry sources, the main reasons for the termination of the project are to be found in the complexity of the project, with its very different parties, content and technologies, and the need to make use of a subscription model based on Apple's iTunes.
- In June 2011, both Ringier and Tamedia decided to board the e-couponing train and invest in the daily deal and discounted vouchers business. On June 27th, 2011, Ringier announced its 60 percent participation in DeinDeal.ch, an online group buying platform, owned by Goodshine AG. The remaining 40 percent continues to be held by the founders and investors of DeinDeal.ch. Only one day later, Tamedia announced a similar deal. In conjunction with Fashion Friends (in which Tamedia holds a 25 percent stake), Tamedia launched scoup.ch,

an online platform for discounted deals in fashion, gastronomy, beauty, leisure and wellness. Tamedia holds a 75 percent share in the joint venture. The founders of Fashion Friends hold the remaining 25 percent.

- In July 2011, Ringier announced the joint venture between Ringier and bank zweiplus ag. Under the "cash" brand, it will provide independent online financial and economic information services and online banking and transaction services supported by personal savings, investment and pension advisory services. Pending approval from the general regulatory, competition and tax authorities, operations are scheduled to begin early in 2012.

Newspaper Advertising Market Switzerland

- Newspaper print advertising grew by 2.4 percent in 2010, after declines of 5.0 percent in 2008 and a massive 21.9 percent in 2009. Still, growth in digital advertising was not sufficient to offset the decreases in print advertising during the last years.
- Total newspaper advertising is expected to increase from CHF 1,408 million in 2010 to 1,608 million in 2015, a 2.9 percent annual increase.
- Digital advertising is projected to continue to grow its relative market share and is expected to increase from 4.8 percent in 2010 to constitute 7.0 percent of total newspaper advertising in 2015.

Newspaper Publishing Advertising Market by Component (CHF millions)

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Print Advertising	1,688	1,765	1,676	1,309	1,341	1,350	1,381	1,416	1,456	1,495	2.2
Digital Advertising	51	62	67	59	67	75	82	92	102	113	11.0
Total Advertising	1,739	1,827	1,743	1,368	1,408	1,425	1,463	1,508	1,558	1,608	2.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, Double-Click, Google, MACH Basic 2010-2

Newspaper Publishing Advertising Market Growth by Component (%)

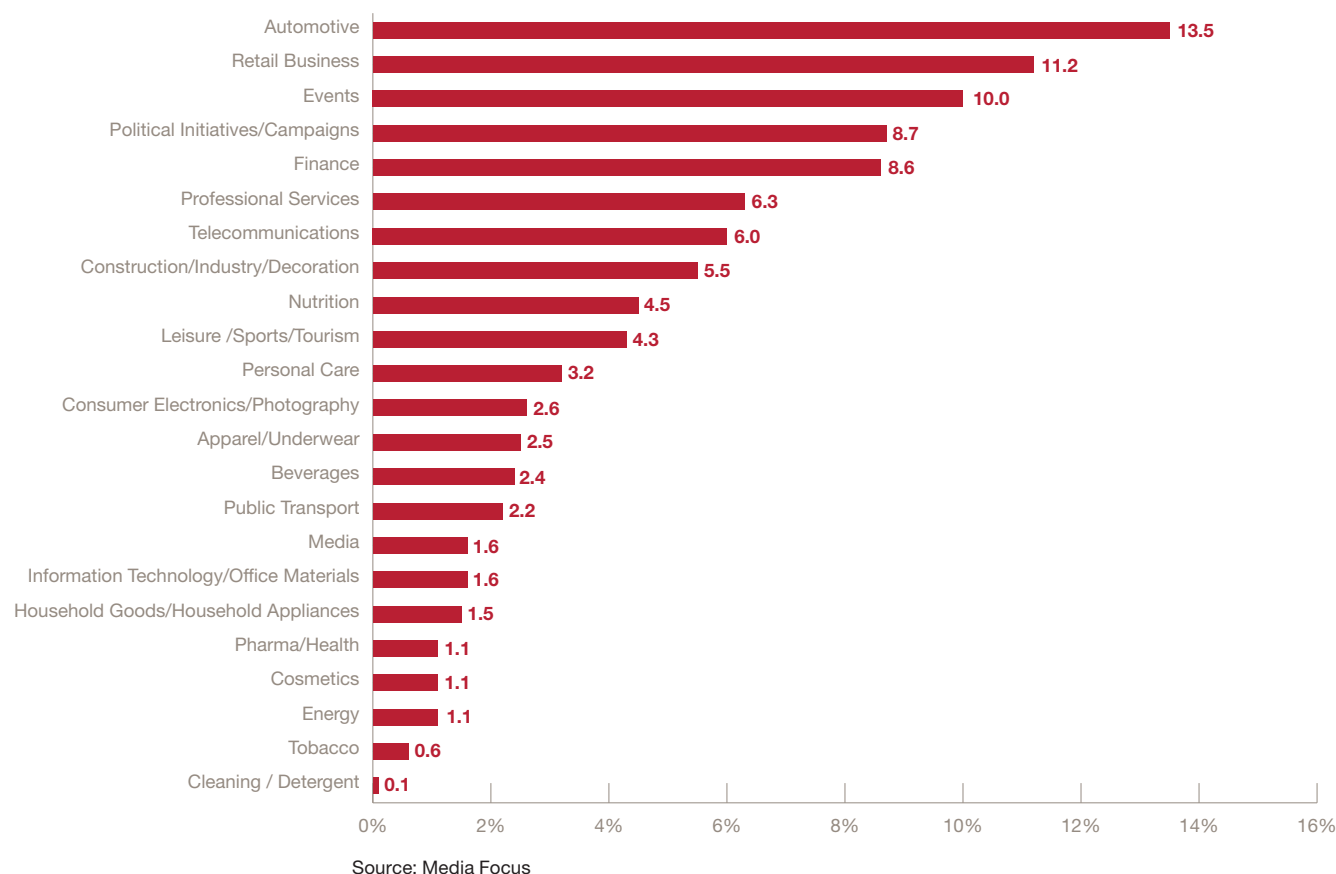
Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Print Advertising	4.5	4.6	-5.0	-21.9	2.4	0.7	2.2	2.6	2.8	2.7	2.2
Digital Advertising	62.1	21.3	8.8	-12.9	15.1	11.3	9.7	11.4	11.4	10.2	11.0
Total Advertising	5.7	5.1	-4.6	-21.6	3.0	1.2	2.6	3.1	3.3	3.2	2.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, Double-Click, Google, MACH Basic 2010-2

Newspaper Print Advertising Market Switzerland

- The Swiss print advertising market was able to recover quickly from the recession, and grew by 2.4 percent in 2010. The recession and falling circulation had previously led to a 21.9 percent decrease in print newspaper advertising in 2009. For 2011 a further fragile increase of 0.7 percent is expected. For the following consecutive 4 years we expect a stable growth rate of around 2.5 percent. The Swiss print advertising market is thus expected to grow from CHF 1,341 million in 2010 to CHF 1,495 million in 2015, a 2.4 percent compound annual increase.
- In 2009, the Sunday newspapers were hit the hardest by the decline in advertising – minus 28.7 percent. In 2010, however, their recovery was slightly stronger than the overall newspaper segment. Sunday newspaper print advertising increased by 3.1 percent in 2010, versus 2.9 percent for daily newspapers and only 0.1 percent for the regional weekly press.
- In 2010, the major sectors contributing to print newspaper advertising's gross advertising revenues were automotive, retail business, events, political initiatives and campaigns, and financial products and services. Together, these five sectors constituted more than 50 percent of total gross print advertising expenditure.

Print Advertising in the Daily, Weekly and Sunday Press, as a percentage of the total



- After a number of major free dailies ceased to exist in 2009, such as “CASH”, “Le Matin Bleu”, “News”, “heute,” and “.ch”, a new free daily was announced: “20 minuti”. Tamedia announced the launch of the new commuter newspaper for the Italian-speaking part of Switzerland, Ticino, for 14 September 2011. The free daily is launched in partnership with the Ticinese publisher Giacomo Salvioni. The initial edition was 36,000 copies. The “20 minuti” online platform was created in cooperation with a leading portal in Ticino, tio.ch.
- Despite the turbulence in Europe and the USA, we expect the economy to show moderate growth in 2011 and to begin to rebound in 2012, with a return

to healthy growth as of 2013. This growth, combined with continuing broadband household growth, heavy investment in optical fibre and therefore strongly increasing bandwidth capacity, will lead to enhanced use of the Internet. Overall advertising will benefit from a stronger economy.

- The switch of classifieds from print to online also continued into 2010. Of the top three categories (jobs, real estate and cars), the cars segment, especially, transitioned to the Internet. An analysis conducted by Tamedia showed that over the period of 2000–2010, jobs print revenue declined by 70 percent, real estate by 76 percent and cars by a stunning 94 percent.

Newspaper Print Advertising

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	1,688	1,765	1,676	1,309	1,341	1,350	1,381	1,416	1,456	1,495	2.4
Growth (%)	4.5	4.6	–5.0	–21.9	2.4	0.7	2.2	2.6	2.8	2.7	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, Double-Click, Google, MACH Basic 2010–2

Newspaper Digital Advertising Market Switzerland

- In general, the continuing broadband penetration and growth in newspaper website traffic expands the online audience for newspapers. Advertisers are following readers and are shifting budgets from print to the Internet. As a result, the websites of the largest publishers are experiencing steady growth. Tamedia’s online portals “newsnetz/tagesanzeiger.ch” and “20 Minuten” are profitable, and NZZ’s “nzz.ch” is moving towards break-even. Axel Springer Switzerland has bundled the online editorial staff for its “Handelszeitung” newspaper and “Stocks” and “Bilanz” magazines, in order to benefit from synergy effects.
- The discussion between the national broadcaster SRG SSR and the publishing companies as to whether a state-owned broadcaster should be allowed to make use of online advertising at its online news portals or not is still ongoing. SRG SSR distributes news, podcasts, videos and a wide range of multimedia content over its television channel sf.tv and radio channel drs.ch.
- The national broadcaster SRG SSR idée Suisse believes it should be allowed to make use of Internet advertising because, according to SRG SSR, the dual financing model, consisting of revenues from licence fees and external advertising and sponsoring revenue is jeopardised in the medium term. The linking of advertising

regulations to the distribution channel, as stipulated in the RTVG/RTVV, therefore becomes increasingly unrealistic in the light of media convergence and fragmentation of media consumption.

- The publishing industry, by means of its association, the Swiss Press Association, takes the view that SRG SSR should not be allowed to make use of Internet advertising. Instead, it promotes a transformation to a clear ecosystem where private media companies are responsible for the advertising revenues and the public media companies for the licence fees.
- On April 14th, 2011, a member of the Swiss parliament (member of the National Council) Thomas Müller handed in a motion to restrict SRG SSR from making use of online advertising on its various platforms. On June 6, 2011, the Federal Council advised Parliament to reject the motion. By August 2011, a decision had not been taken.
- The gathering of online content from newspaper publisher websites by Google for its Google News service remains an intensely debated issue in Switzerland, as in the several other countries. In July 2011, Google decided to ban certain Belgian newspapers for one week from its search engine, in reaction to copyright infringement allegations. Press associations fear Google may be using its market domination to influence Internet use.

Newspaper Print Circulation

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	759	760	780	777	774	773	771	768	768	768	0.2
Growth (%)	0.0	0.1	2.6	−0.4	−0.4	−0.1	−0.3	−0.4	0.0	0.0	−0.2

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, Double-Click, Google, MACH Basic 2010-2

Newspaper Digital Circulation

Switzerland	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Spending (CHF millions)	0	0	0	0	0	1	3	6	12	22	
Growth (%)	N/a	N/a	N/a	N/a	N/a	N/a	200.0	100.0	100.0	83.3	

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

Circulation Market in Switzerland

- Newspaper circulation is expected to increase slightly, by 0.4 percent compounded annually, to reach revenues of CHF 790 million in 2015, up from CHF 774 million in 2010. This increase is mainly due to the new segment, digital newspaper circulation, which is expected to reach CHF 22 million in 2015.
- The average subscription price for daily newspapers increased from CHF 308 in 2004 to CHF 354 in 2009, then to CHF 362 in 2011. We expect prices to increase even further in order to compensate for declines in circulation and corresponding advertising inventory.
- After reaching its peak in 2009, in the midst of the financial crisis, “20 Minuten” has not been able to achieve that level again. In 2011, net readership is projected to reach 1,381,000 for the versions in the German-speaking part of Switzerland, and 463,000 in the French-speaking part. The combined circulation of the German (20 Minuten) and French (20 minutes) version of “20 Minuten” thus reaches 1,844,000 readers in 2011, which is still 34,000 above 2010 levels, but 100,000 less than 2009. “20 Minuten Friday” was able to attract 433,000 readers in 2011, a decrease of 4.0 percent compared to 2010.
- In the French-speaking part of Switzerland, it appears that free dailies are losing ground. With the exception of “Lausanne-Cités”, all other free dailies are losing readership.
- In contrast, Ringier’s free daily evening newspaper “Blick am Abend” was able to extend its reach by 140,000 after the re-launch, to a total of 635,000 readers.
- Among the paid newspapers in the German-speaking part of Switzerland, both “Basler Zeitung” and “St. Galler Tagblatt” were able to increase their readership significantly, with increases of 27.4 percent and 34.0 percent respectively. But “Tages Anzeiger” also achieved a gain of 7.6 percent. Readership of “Die Südostschweiz”, “Aargauer Zeitung” and “Blick” remained stable, although the tendency for the latter is one of slow, but steady decline.
- In the French-speaking part of Switzerland, “Le Matin Semaine” was able to increase its readership significantly, with a gain of 6.0 percent, or 15,000 readers. However, “24 Heures” and “Le Temps” lost ground, with 8,000 and 13,000 fewer readers respectively.

Free Newspaper Net Readership (thousands)

German-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
20 Minuten	1,417	1,315	1,381	5.0%
20 Minuten Friday	n/a	451	433	−4.0%
Blick am Abend	358	495	635	28.3%

Source: WEMF

Free Newspaper Net Readership (thousands)

French-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
20 Minutes	527	495	463	-6.5%
GHI	180	174	169	-2.9%
Lausanne-Cités	118	107	107	0.0%
Courrier Neuchâtelois	76	78	75	-3.8%
Arc Hebdo	40	43	32	-25.6%

Source: WEMF

- In the German-speaking part of Switzerland, the “traditional” Sunday newspapers all lost ground, whereas the recent newcomers “Die Südostschweiz am Sonntag” and “Zentralschweiz am Sonntag” were able to attract more readers. “Blick am Sonntag” showed the strongest decline, with 45,000 fewer readers, followed by “NZZ am Sonntag”, with 15,000 fewer readers.
- Against this negative trend, “Le Matin Dimanche” was able to also grow its Sunday newspaper readership, achieving a gain of 15,000 readers, or 2.9 percent.

Daily Newspaper Net Readership, a Selection (thousands)

German-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
Aargauer Zeitung GES	251	206	210	1.9%
Basler Zeitung G	169	175	223	27.4%
Berner Zeitung/Bund GES	395	362	353	-2.5%
Blick	649	628	622	-1.0%
Neue Luzerner Zeitung GES	278	267	276	3.4%
Neue Zürcher Zeitung (CH)	306	306	292	-4.6%
St Galler Tagblatt GES	201	197	264	34.0%
Die Südostschweiz, GES N	236	235	236	0.4%
Tages Anzeiger	487	472	508	7.6%

Source: WEMF MACH-Basic 2011-2, Net Reach Total, GES

Daily Newspaper Net Readership, a Selection (thousands)

French-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
24 Heures éd. Totale	229	231	223	-3.5%
Tribune de Genève	159	140	138	-1.4%
Nouvelliste	114	115	116	0.9%
La Liberté	87	93	87	-6.5%
L'Express	60	57	61	7.0%
Quotidien Jurassien	46	46	45	-2.2%
L'impartial	38	43	41	-4.7%
La Gruyère	32	34	36	5.9%
Biel-Bienne	26	29	28	-3.4%
Journal du Jura	20	26	25	-3.8%
Le Matin semaine	246	251	266	6.0%
Le Temps	137	132	119	-9.8%

Source: WEMF MACH-Basic 2011-2, Net Reach Total, GES

Sunday Newspaper Net Readership (thousands)

German-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
NZZ am Sonntag	492	505	490	-3.0%
Der Sonntag, GES	370	364	352	-3.3%
Sonntags Blick	891	870	825	-5.2%
SonntagsZeitung	835	771	758	-1.7%
Südostschweiz am Sonntag	107	106	109	2.8%
Zentralschweiz am Sonntag	n/a	174	184	5.7%

Source: WEMF MACH-Basic 2011-2, Net Reach Total, GES

Sunday Newspaper Net Readership (thousands)

French-speaking part of Switzerland	MACH Basic 2009-2	MACH Basic 2010-2	MACH Basic 2011-2	Development (%)
Le Matin Dimanche	520	511	526	2.9%

Source: WEMF MACH-Basic 2011-2, Net Reach Total, GES

- Despite disappointing results from similar projects from abroad, such as Niiu in Germany, the Swiss Post plans to continue its personalised news project in form of a personalised digital newspaper, where subscribers can select typical newspaper sections from different national and international newspapers. The initial testing period will last for one year, after which a decision will be made on whether to continue the project

or not. The electronic or printed versions of this personalised paper include the regular newspaper section editions, including advertising. AZ Medien ("Aargauer Zeitung"), Südostschweiz Medien ("Die Südostschweiz") and Tamedia ("Tages-Anzeiger", "Finanz und Wirtschaft") were attracted to the project. The first German partner is Verlagsgruppe Georg von Holtzbrinck GmbH ("Südkurier").

The Swiss Newspaper Market Compared to Western Europe

- Germany had the largest newspaper publishing market in 2010, at CHF 12,103 million, followed by the UK at CHF 10,033 million and France at CHF 4,613 million.
- The size of Switzerland's newspaper market is similar to the Austrian, Belgian, Dutch and Swedish markets. However, Switzerland only had 7.7 million inhabitants in 2010, versus 8.4 million for Austria, 10.6 million for Belgium, 16.4 million for The Netherlands and 9.2 million for Sweden.
- Whereas newspaper publishers in Austria, France and The Netherlands are more dependent upon subscription revenue, publishers in Switzerland, Belgium and Italy rely to a much larger extent on advertising. In Germany, Sweden and the United Kingdom, both forms of revenue are more or less equally balanced.
- Newspaper publishing in Europe is a fragmented market. The largest newspaper publishers in Europe are News International, Axel Springer and Associated Newspapers. Together these three enterprises are estimated to hold 9 percent of total European market share. Despite the debacle concerning the "News of the World" in the UK, News International is still estimated to hold 3.7 percent of the total European newspaper market. Axel Springer, with leading titles such as "Bild Zeitung" in Germany, holds an estimated 3.2 percent and Associated Newspapers, publisher of the "Daily Mail", is estimated to hold 2.1 percent of European market share.
- Growth in today's nearly non-existent digital circulation is expected to be highest in the United Kingdom, France and Germany, with an estimated annual growth rate of 92.6 percent, 73.3 and 52.2 percent respectively until 2015. In terms of revenue, however, Germany has one of the most-developed digital circulation markets, with more than 20 papers selling tablet applications, which generated revenues of CHF 30 million in 2010. Users usually pay for unlimited access per week or month, rather than for individual copies. In addition, a number of e-papers are also available in Germany. Digital circulation revenues in Germany are expected to reach CHF 248 million in 2015, more than eleven times the estimated Swiss revenues of CHF 22 million. The French market is expected to reach CHF 131 million in 2015, and the United Kingdom CHF 222 million.
- Pearson, publisher of the Financial Times, announced in March 2011 that it is considering joining Google's One Pass service and bypassing iTunes. Google charges a 10 percent commission instead of the estimated 30 percent charged by Apple, and it also shares customer data with publishers.
- Whereas Swiss publishers are in the phase of evaluating paywall possibilities, the French newspaper "Le Monde" generated EUR 5 million with its online subscriptions in 2010.
- Some publishers seek to combine forces in the quest for growth outside of Western Europe. In July 2010 for example, Ringier AG and Axel Springer AG founded Ringier Axel Springer Media AG, a joint venture based in Zurich, with the aim of combining both publishing houses' strengths for the Central and Eastern European publishing markets.

Newspaper Publishing (CHF millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe											
Austria											
Newspaper publishing	2,014	2,146	2,205	2,228	2,281	2,349	2,418	2,494	2,578	2,671	3.2
Newspaper publishing advertising	575	642	675	684	745	791	836	881	927	974	5.5
Digital advertising	17	25	31	40	51	63	73	84	95	108	16
Print advertising	559	617	643	644	693	728	763	797	832	866	4.5
Newspaper publishing circulation	1,438	1,504	1,530	1,544	1,537	1,559	1,583	1,613	1,652	1,698	2
Digital circulation spending	0	0	0	0	0	3	5	13	26	48	
Print circulation spending	1,438	1,504	1,530	1,544	1,537	1,555	1,577	1,600	1,625	1,650	1.4

Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Belgium											
Newspaper publishing	2,215	2,265	2,251	2,252	2,290	2,314	2,334	2,356	2,385	2,416	1.1
Newspaper publishing advertising	1,534	1,577	1,556	1,556	1,594	1,616	1,630	1,645	1,661	1,676	1
Digital advertising	38	46	52	60	69	77	85	93	101	110	9.7
Print advertising	1,497	1,531	1,504	1,497	1,525	1,539	1,545	1,552	1,560	1,566	0.5
Newspaper publishing circulation	681	687	695	696	696	698	704	710	724	741	1.3
Digital circulation spending	0	0	0	0	0	1	3	5	12	21	
Print circulation spending	681	687	695	696	696	697	701	705	712	720	0.7
France											
Newspaper publishing	4,699	4,699	4,748	4,645	4,613	4,598	4,636	4,719	4,868	5,023	1.7
Newspaper publishing advertising	1,941	1,903	1,913	1,767	1,734	1,715	1,724	1,768	1,855	1,949	2.4
Digital advertising	56	73	91	104	119	135	151	167	191	217	12.7
Print advertising	1,885	1,829	1,822	1,663	1,615	1,580	1,573	1,600	1,663	1,732	1.4
Newspaper publishing circulation	2,757	2,796	2,835	2,879	2,879	2,883	2,912	2,952	3,013	3,074	1.3
Digital circulation spending	0	0	0	0	8	12	28	48	90	131	73.3
Print circulation spending	2,757	2,796	2,835	2,879	2,870	2,871	2,884	2,904	2,924	2,943	0.5
Germany											
Newspaper publishing	12,681	12,788	12,704	11,834	12,103	12,243	12,388	12,510	12,600	12,589	0.8
Newspaper publishing advertising	6,776	6,883	6,644	5,635	5,731	5,715	5,678	5,619	5,560	5,503	-0.8
Digital advertising	133	179	214	225	264	303	346	383	424	469	12.2
Print advertising	6,643	6,704	6,430	5,410	5,467	5,412	5,331	5,236	5,137	5,034	-1.6
Newspaper publishing circulation	5,906	5,906	6,060	6,200	6,372	6,528	6,710	6,891	7,039	7,087	2.1
Digital circulation spending	0	0	0	0	30	52	87	161	234	248	52.2
Print circulation spending	5,906	5,906	6,060	6,200	6,342	6,476	6,623	6,730	6,805	6,839	1.5
Italy											
Newspaper publishing	3,702	3,794	3,575	3,155	3,116	3,129	3,171	3,238	3,329	3,422	1.9
Newspaper publishing advertising	2,434	2,537	2,363	2,000	1,995	2,030	2,082	2,144	2,226	2,307	3
Digital advertising	71	97	112	118	137	159	183	204	230	256	13.3
Print advertising	2,363	2,439	2,251	1,882	1,858	1,871	1,898	1,940	1,996	2,051	2
Newspaper publishing circulation	1,268	1,257	1,212	1,155	1,121	1,098	1,090	1,094	1,104	1,115	-0.1
Digital circulation spending	0	0	0	0	0	1	4	8	18	31	
Print circulation spending	1,268	1,257	1,212	1,155	1,121	1,097	1,086	1,086	1,086	1,084	-0.7

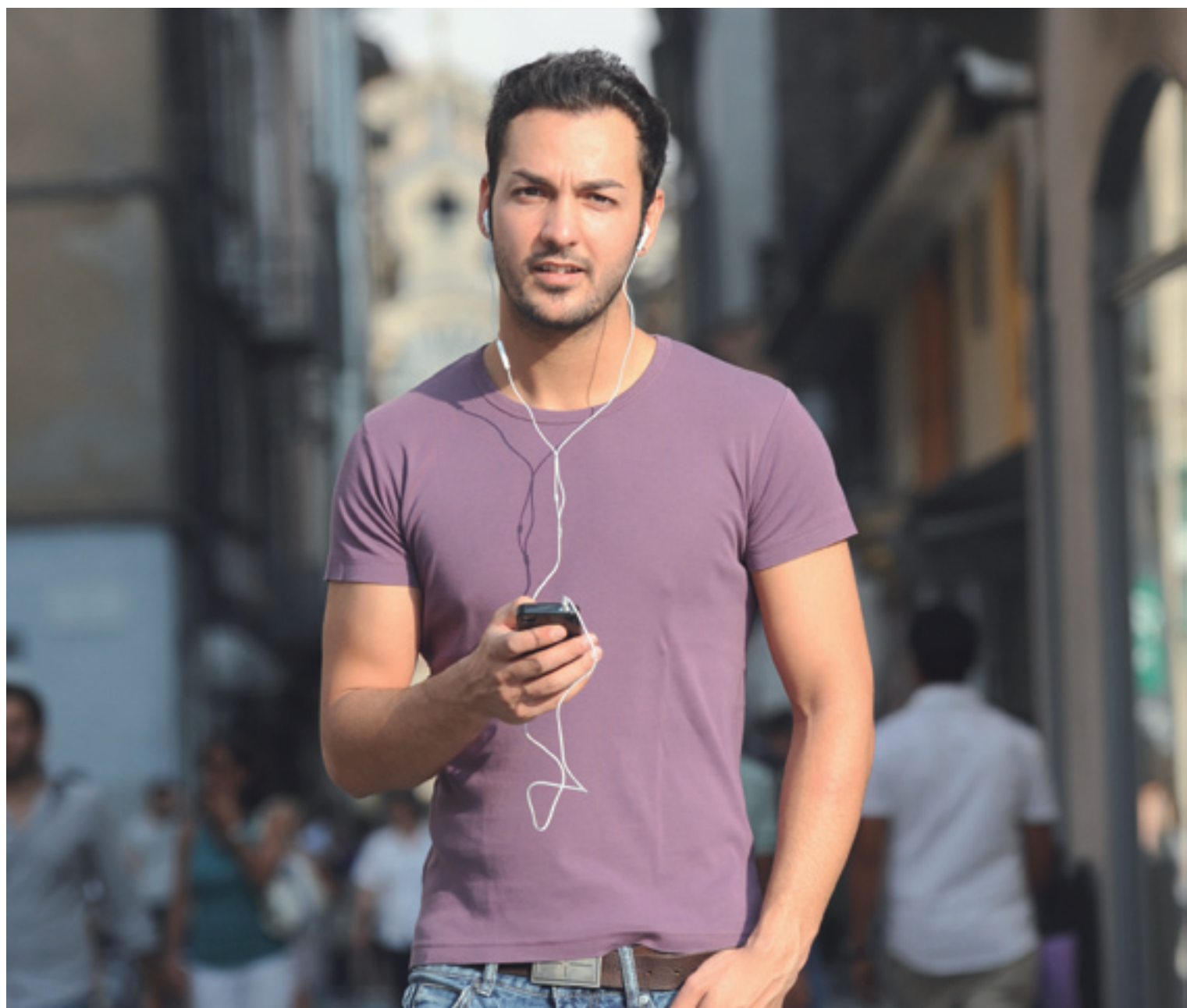
Western Europe	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
The Netherlands											
Newspaper publishing	2,237	2,261	2,217	2,007	1,967	1,957	1,964	1,978	2,004	2,039	0.7
Newspaper publishing advertising	1,010	1,041	1,019	840	825	834	851	873	904	935	2.5
Digital advertising	29	40	48	50	56	65	75	84	93	104	12.9
Print advertising	981	1,001	971	790	769	769	776	790	811	832	1.6
Newspaper publishing circulation	1,227	1,221	1,199	1,167	1,142	1,123	1,113	1,105	1,100	1,104	–0.7
Digital circulation spending	0	0	0	0	0	1	4	8	18	33	
Print circulation spending	1,227	1,221	1,199	1,167	1,142	1,122	1,109	1,096	1,083	1,070	–1.3
Sweden											
Newspaper publishing	2,360	2,401	2,361	2,086	2,186	2,234	2,284	2,338	2,396	2,469	2.5
Newspaper publishing advertising	1,288	1,341	1,310	1,044	1,146	1,187	1,230	1,274	1,319	1,368	3.6
Digital advertising	38	51	63	62	78	93	108	121	136	152	14.1
Print advertising	1,250	1,290	1,247	982	1,068	1,094	1,122	1,153	1,183	1,216	2.6
Newspaper publishing circulation	1,072	1,060	1,051	1,042	1,040	1,047	1,054	1,064	1,077	1,100	1.1
Digital circulation spending	0	0	0	0	0	2	4	8	17	31	
Print circulation spending	1,072	1,060	1,051	1,042	1,040	1,045	1,050	1,055	1,061	1,069	0.6
Switzerland											
Newspaper publishing	2,498	2,587	2,524	2,145	2,182	2,199	2,237	2,282	2,338	2,398	1.9
Newspaper publishing advertising	1,739	1,827	1,743	1,368	1,408	1,425	1,463	1,508	1,558	1,608	2.9
Digital advertising	51	62	67	59	67	75	82	92	102	113	11.0
Print advertising	1,688	1,765	1,676	1,309	1,341	1,350	1,381	1,416	1,456	1,495	2.4
Newspaper publishing circulation	759	760	781	777	774	774	774	774	780	790	0.4
Digital circulation spending	0	0	0	0	0	1	3	6	12	22	
Print circulation spending	759	760	780	777	774	773	771	768	768	768	–0.2
United Kingdom											
Newspaper publishing	10,880	11,861	11,187	9,762	10,033	9,863	9,801	9,781	9,814	9,865	–0.3
Newspaper publishing advertising	6,642	6,680	5,935	4,729	5,161	5,128	5,188	5,248	5,322	5,406	0.9
Digital advertising	194	257	282	278	356	404	455	499	549	600	11
Print advertising	6,448	6,422	5,652	4,451	4,805	4,725	4,733	4,749	4,773	4,805	0
Newspaper publishing circulation	4,238	5,182	5,252	5,033	4,872	4,734	4,613	4,533	4,492	4,459	–1.8
Digital circulation spending	0	0	0	0	8	21	42	87	157	222	92.6
Print circulation spending	4,238	5,182	5,252	5,033	4,864	4,713	4,571	4,446	4,336	4,237	–2.7

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates, WEMF, Stiftung Werbestatistik Schweiz, Media Focus, Swiss Media Association, DoubleClick, Google, MACH Basic 2011–2

12 Casino and Online Gaming

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Executive Summary

Definition

- Casino gaming in Switzerland consists of games that are legally offered in the 19 licenced casinos. It does not include sports betting, lotteries or any games offered outside the official casinos. Traditional casino gaming, or gambling, will be covered in section 2 of this chapter.
- Historical figures do not include any revenues generated by online platforms, as offering such services is currently still prohibited in Switzerland. However, legislation is about to be revised and a few online licences are likely to be granted in the near future. Online gaming is covered in section 3 of this chapter.

Market size and growth in Switzerland

- We expect revenues from land-based Swiss casinos to increase from CHF 869 million in 2010 to CHF 1,028 million in 2015, which corresponds to a compound annual growth rate (CAGR) of 3.4 percent.
- Starting operations in 2012 and 2013, the recently granted new licences for the cities of Neuchatel and Zurich will contribute more than CHF 100 million in 2015. CAGR of the existing 19 land-based casinos, i.e., excluding revenues from the two additional licences, will amount to 1.2 percent from 2010 to 2015.
- In comparison, the Western European market will grow by a projected 2.5 percent compounded annually from 2010 to 2015. Starting at CHF 13,028 million in 2010, total gaming revenues will increase to CHF 14,765 million in 2015.

Market size and growth by component

- Since the first casinos were opened in 2002, slots have been attracting an increasing number of visitors as opposed to table games. While slots accounted for about 70 percent of revenues in the early 2000s, the share has now increased to over 80 percent. International comparisons indicate that a further shift to as much as 90 percent is likely.
- Online gaming offerings are growing apace. However, owing to the legal and regulatory uncertainties that surround the yet to be legalised online gaming market in Switzerland, and heterogeneous approaches abroad, this analysis does not include specific revenue forecasts for online gaming.

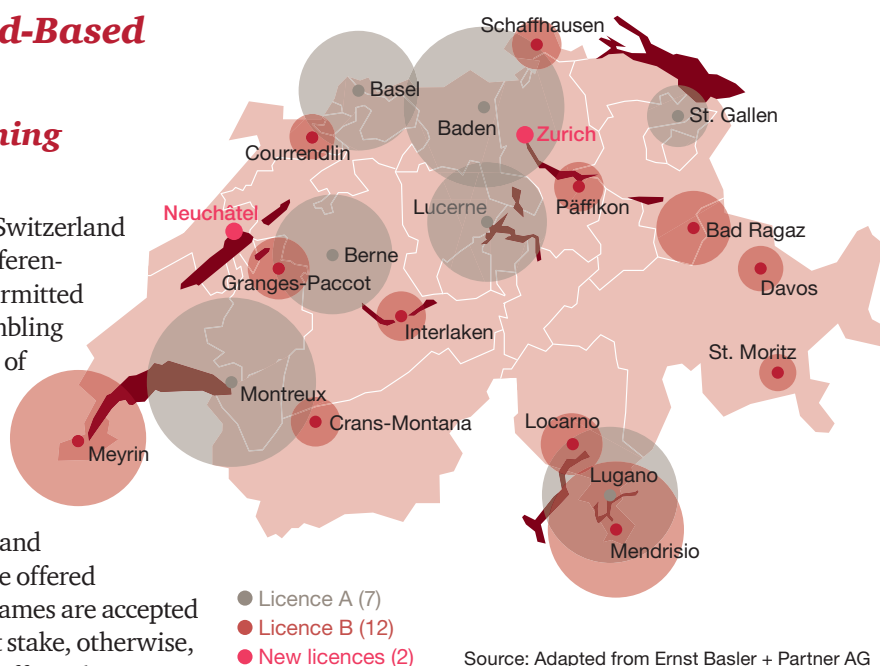
Principal drivers

- Macroeconomic factors continue to be the main influences on the online casino industry as a whole. A renewed onset of economic difficulties could trigger a similarly negative impact as in the past years (CAGR 2008 to 2010 in Switzerland of –5.2 percent and Western Europe –2.0 percent).
- One of the biggest industry challenges is to stay close to its customers and continue to match their changing tastes, needs, and lifestyle behaviours.
- Shifting demand and rising consumer expectations are forcing gaming operations to find ways to differentiate themselves from competition. This drives innovation and more compelling and encompassing offerings as only the best opportunities will trigger spending.
- Further supply side changes by the government and operators have the power to change the structure of the Swiss gaming industry. The two recently granted additional licences will cause significant revenue shifts within the market.
- Economic pressure will increase as a consequence of increased competition. Successful operators will focus on efficiency gains and cost optimisation.
- Complex issues will confront online gaming regulators on national and international levels. The regulatory environment is of key importance and influence to the further growth of the rising online gaming market.

Market Overview of Land-Based Casinos

Evolution of the current gaming industry

- Gambling was strictly prohibited in Switzerland until 1993. Following a legislative referendum in that year, the government permitted limited-stakes casinos. The new Gambling Act released in 1998 and effective as of January 1, 2000 laid the basis for unlimited-stakes casinos.
- Currently, Swiss legislation differs among games of chance and games of skill. The latter comprise lotteries and betting. Games of chance must not be offered outside the licenced casinos. Poker games are accepted as long as no money or the like are at stake, otherwise, only licenced casinos are allowed to offer poker games. Slots are generally prohibited outside casinos since 2005. However, a few exceptions exist for slots that require a certain level of skill rather than luck alone.
- Based on the new Gaming Act, the Government granted 22 casino licences as of 2002. Today, the Swiss market comprises 19 casinos as three have gone out of business or did not start operations.
- Both limited and unlimited-stakes licences were granted. The former are required to adhere to upper limits on wagers and service offerings (i.e., a maximum of three different table games and 150 slots, limited wagers and profits per game and no joint jackpot systems with other casinos). Following the enactment of the new Gambling Act, seven casinos received unlimited-stakes licences (A casinos) and twelve limited-stakes licences (B casinos). The latter are typically found in tourism destinations whereas A casinos usually operate in metropolitan areas.
- Gaming revenues increased significantly after 2002, due to the increasing number of casinos, improved customer perception and not least favorable economic conditions. Gaming revenues peaked in 2007 when a total of CHF 1,020 million was generated. In 2010, the industry's total revenues were down 14.8 percent compared to the peak year.
- The reasons for the decline are manifold, with the main adverse influences coming from unfavorable economic conditions and the smoking bans implemented as of 2008. Despite the recent drop, the strict regulatory framework and successful evolution since 2002 means the Swiss casino industry has an excellent reputation, both domestically and internationally.



Recent industry developments and trends

- In 2010, the Swiss Federal Council announced it would issue two additional casino licences for land-based casinos in order to increase overall gaming and tax revenues.
- On June 22, 2011 an A licence was granted to the city of Zurich and a B licence to the city of Neuchatel. The latter is expected to start operations in early 2012 and the opening of the casino in Zurich is likely to occur in early 2013. While the Neuchatel location is expected to generate annual gaming revenues of around CHF 25 million, the casino in Zurich will likely take over the position as market leader from Grand Casino Baden and become the top revenue generator with over CHF 125 million annually.
- Governmental action that aims to increase tax revenues from casinos can largely be attributed to the intention to improve public finances and can be observed in many other countries as well. Changing regulations in adjacent countries can have a major impact on Swiss casinos operating in border areas.
- Of particular interest are the developments in Italy, Germany, France and Austria. Furthermore, the government in Liechtenstein has issued a Gaming Act that regulates both land-based and online casinos. It is expected that a licence for a land-based casino will be granted in 2011 and that online licences will follow later. Given that taxation is significantly lower than in Switzerland, the new casino in Liechtenstein's capital Vaduz will have an impact on the casinos in eastern Switzerland.

- Over the past years, a number of trends have been observed that are also relevant for the future:
 - Demographic trends that positively impact the expected audience are the aging of the population and an increasing share of female gamblers. Furthermore, a growing orientation towards leisure time can be expected across all client segments. Therefore, casinos will offer increasingly encompassing services that not only include gaming but also restaurants, shows and other forms of entertainment.
 - In order to create long-lasting client relationships understanding the needs of existing and new client segments and offering tailor-made solutions is key. Where not already in place, customer relationship management systems that allow for different treatment of customer segments will likely gain in importance.
 - Besides competition evolving from new casinos in adjacent countries there are also a number of alternatives to gambling in Switzerland, i.e., video lottery terminals (VLT) or entertainment centres in Italy or Germany that resemble casinos but do not require any licence and are therefore not subject to casino regulations.
 - The economic pressure on existing casinos is increasing and consolidation in the domestic casino market is expected, as was observed in more developed gambling markets such as the USA. With the expected legalisation of online gaming the pressure will increase further.
 - The importance of slots will further increase in Switzerland. Up until now slots have accounted for around 80 percent of total revenues, while in other countries, e.g., France, this ratio amounts to 90 percent. The increasing degree of computerisation and automated gaming in state-of-the-art slots and a growing affinity towards electronic applications and computers, particularly in younger generations, will further fuel this shift.
- The smoking bans imposed as of 2008 affected domestic casino revenues significantly as about half of the casino audience smokes. So far, the situation is heterogeneous and allows for certain exceptions. This is because the implementation of smoking bans is each canton's individual responsibility. Should there be more severe restrictions imposed by law, a further drop in revenues is likely to occur.
- With almost one billion dollars of annual revenues, casinos play an important role in the Swiss entertainment industry. Gaming taxes also cover a substantial portion of federal contributions to the old-age and survivors' insurance (AHV). In order to maximise future revenues within the legal framework, the distinction between A and B licences will possibly be abandoned in the future.

Conclusion

- Competition is likely to increase in the future as two more licences have been granted for land-based casinos. Furthermore, increased competition in cross-border areas will result from adjacent countries trying to maximise their own gaming revenues. Online gaming will increase competition for land-based casinos even more.
- We consider there is some upside potential in the market. However, achieving further growth will require casino operators to remain innovative and tailor their offerings to their client segments.
- Finally, the future evolution of the land-based Swiss casino market depends on changes in Swiss gambling legislation as well as changes in international legislation.
- Despite increased local competition and some cannibalisation effects, the two additional casinos will increase overall gaming revenues significantly. The openings are expected to occur in 2012 in Neuchatel and 2013 in Zurich. We estimate that the net impact in 2013 will be an increase in gaming revenues of about CHF 96 million, of which 80 million can be attributed to the Zurich location.

Gaming Revenue Forecasts 2011 to 2015

Gaming revenues in CHF millions	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR	2008–10 CAGR
Western Europe Total	13,186	13,849	13,727	13,363	13,028	12,907	13,046	13,417	13,908	14,765	2.5%	–2.0%
Growth rate	N/a	5.0%	–0.9%	–2.7%	–2.5%	–0.9%	1.1%	2.8%	3.7%	6.2%		
Switzerland	955	1,020	992	936	869	848	869	973	1,000	1,028	3.4%	–5.2%
Growth rate	9.2%	6.8%	–2.7%	–5.6%	–7.2%	–2.4%	2.5%	12.0%	2.7%	2.8%		

Source: PricewaterhouseCoopers AG, Wilkofsky Gruen Associates

- We estimate that revenues will increase from CHF 869 million in 2010 to CHF 1,028 million in 2015, which corresponds to a CAGR of 3.4 percent. The CAGR excluding the two additional casinos amounts to 1.2 percent over the same period, which shows that the Swiss market is relatively further developed compared to Western Europe.
- Overall, the next five years will see an evolution rather than a revolution in the Swiss land-based casino industry.
- However, in many countries the legal and regulatory position of online gaming is unclear and open to different interpretations, or governmental action is still hesitant. The regulations in force may also differ markedly between the various forms of online gaming. A number of countries have even taken steps to ban or limit online gaming. However, it is also important to note that there have been efforts to harmonise regulation across the European Union.
- In the absence of a uniform approach, the size, growth, and competitive dynamics of the online gaming market are primarily shaped by the prevailing regulatory regimes, which vary widely between countries. Consequently, online gaming has become a global business with capital flows that are difficult to regulate and tax at national level.
- Today, most of the legal online gaming in the world occurs in EMEA. The UK has the largest legal market, reflecting the fact that it has one of the most open online gaming regimes anywhere. The legal situation in the countries surrounding Switzerland can be summarised as follows:

Market Overview of Online Casinos

Evolution of the global online gaming market

- When online gaming first emerged in the early 2000s, many countries took the view that online gaming could not be regulated effectively. Their resulting legislative inactivity contributed to today's prevailing legal uncertainty.
- Switzerland was initially also wary of legalising online gaming. However, with the global rise of online gaming and the onset of the global financial crisis and its resulting negative impact on public sector finances, there has been a change in attitude.
- Online gaming is now considered a potentially valuable source of tax revenues in many countries. There is also a strong argument that since consumers will engage in illegal online gaming anyway, it is better to licence and tax it than allow the revenues to go to unlicensed operators. Also, far more effective technologies are now available than a few years ago to maintain online security and verify the location and age of people taking part in online gaming.
- Germany: online gaming has been prohibited since 1 January 2008. Online lotteries and sport betting is, however, allowed and popular.
- Austria: the Austrian Lottery Company holds the national online gaming licence and, together with Casino Austria (which operates all land-based casinos in Austria), offers a broad range of gambling services. Only Austrian residents are allowed to play.
- Liechtenstein: in 2009 the Liechtenstein Government lifted its general ban on gambling, which had been in place since 1949, and was one of the strictest in Europe. The country has issued a decree that fully regulates online gaming. Participation is open to both citizens from Liechtenstein and foreigners.
- Italy: online wagering was legalised in 2007 and online skill games (poker) in 2008. Based on a 2010 decree, 200 online licences have been authorised, of which the first were granted in July 2011.
- France: eleven operators have been awarded licences for online gaming from mid-2010. Going forward, the number will increase to more than 30.

The forms of online gaming can be broadly categorised into six disciplines:

- (1) poker,
- (2) casino gaming,
- (3) betting on horse races,
- (4) betting on other sports such as soccer,
- (5) online bingo, and
- (6) online lotteries.

- Currently, only a few jurisdictions have territorial restrictions that limit participation in online gaming in relation to the country's boundaries (e.g., in Austria, only residents are allowed to play, while in other territories, such as Australia, only foreigners are eligible to play). However, some countries are currently discussing enacting territorial restrictions in order to be able to capture tax revenues from online gaming.
- Such boundaries are sometimes referred to as “walled gardens”. In simple terms, this involves the regulatory authorities introducing a regime that legalises the provision of specific types of online gaming services within their own territory, as long as these are provided by operators licenced within the country or state, and only to people resident there. Companies that are licenced locally are also required to pay tax locally on their revenues. The move towards walled gardens is currently gaining momentum both in Europe and the US.
- We believe the emergence of “walled gardens” represents an interim stage that will ultimately be superseded by inter-country services where liquidity is pooled and tax shared in some way between different tax authorities. However, this convergence is unlikely to occur within the next five years.
- The FGB analysed four models of liberalisation: (1) free market, (2) limited or unlimited right to receive licences upon compliance with all restrictions, (3) unaffiliated and affiliated (to existing land-based casino) licences, and (4) state-operated online casinos. The FGB recommended that online gaming should be legalised by granting two to three unaffiliated online licences with territorial restrictions. Furthermore, accompanying measures should be implemented to prevent illegal gambling. Allowing online gaming would bring several advantages:
 - Transparency for regulating agencies.
 - Transparent market for consumers.
 - Fraud could be prevented and fought against more efficiently.
 - Domestic interests and controls are more easily and effectively maintained.
- In April 2009, the Federal Council followed the recommendation and authorised a revision of the Gambling Act in order to legalise online gaming over the Internet. The FGB argues that other forms of online gaming such as mobile Internet or mobile phones or interactive television will not be legalised for the time being as these technologies have not yet become established in the online gaming market. It was further stated that the same regulations would apply to operators of online casinos as to the existing land-based businesses.

Current legal situation in Switzerland

- Online gaming is currently still prohibited in Switzerland. Article 5 of the Federal Gambling Act states that all telecommunications-based execution of gaming is prohibited.
- The Gambling Act further aims to ensure secure and transparent gambling operations, the generation of tax revenues, prevention of criminality and money laundering in or through casinos, and prevention with regard to negative social effects such as pathological gambling.
- Given the rising online gaming volumes observed internationally, and also in Switzerland over the last years, the Federal Council of Switzerland assigned the FGB in 2008 to conduct a study on the current ban on online gaming. The FGB concluded that the ban stated in Article 5 of the Gambling Act cannot be enforced under the current legislation.

Expected development and emerging change drivers

Cross-border liquidity

- One of the key issues in online gaming is the critical mass of the number of available players within the jurisdiction, and whether this is sufficient to sustain a viable and growing market. In smaller markets like Switzerland there is a distinct possibility that there will not be enough players within the local jurisdiction to sustain growth.
- The “walled gardens” will therefore likely come under growing pressure to interconnect and share liquidity once countries with smaller populations start to implement legalised and licenced online gaming. However, this is a paramount consideration mainly for poker.

Regulation

- As today's global online gaming market is composed of fragmented and discrete pockets of legal and illegal spending rather than a coherent global market, the current situation is unsustainable.
- While it might be feasible for an operator to gain the required licences in multiple jurisdictions, the cross-border flows of liquidity, revenues, and profit will create significant operational, financial, and taxation challenges, both for operators and governments.
- It will therefore be in the interests of all parties to reach agreement on these issues. Furthermore, effective regulation of online gaming will require an international perspective, irrespective of any territorial boundaries.
- However, one area where different territories are likely to diverge most strongly is in the form of permitted online games. Harmonisation in this area is unlikely to occur due to differences in gaming cultures across different countries.

Taxation levels

- The generation of tax revenues is one of the main attractions for governments to legalise and licence online gaming services. However, they need to be keenly aware of the need to balance tax take and market growth.
- There are two basic taxation models for the taxation of online gaming revenues. Combinations of the two models are also applied in certain jurisdictions:
 - Annual flat fee independent of profit or gaming revenues.
 - (Progressive) taxation of gaming revenues or similar figures. Usually the tax rate as a percentage of gaming revenues varies between 2.0 percent and 15.0 percent for online gaming services.
- If and when the online gaming market becomes truly cross-border, high taxation in some jurisdictions could see liquidity migrate, stunting the market's development within the borders of higher-tax territories while it grows strongly elsewhere.

Social networking

- Going forward, social networking will be an important driver of activity and growth in online gaming world-wide. Social networking platforms have been enjoying great popularity in recent years and have changed people's behaviours both online and offline.
- As an example, the virtual reality site Second Life played host to hundreds of virtual casinos, lottery games, and other forms of gambling for a while. Because Second Life's in-game currency could be exchanged for real money, these gaming activities became a focus for regulators. In mid-2007, to avoid regulatory action, the site took the drastic step of banning virtual gambling.
- A further sign of the potential is that Zynga already has an estimated 6 million Facebook users playing its poker game, which is not for cash.
- High levels of mobile usage and improved feasibility will further accelerate and support social networking and related applications.

The Swiss online gaming market in 2015

- Due to a fragmented regulatory landscape, the varying speeds at which regulation is changing in different jurisdictions and the current uncertainty in many countries over the boundaries between legal and illegal services we have not attempted to provide hard revenue forecasts for online gaming. However, our expectation is that online gaming will still account for a relatively minor portion of the total gaming industry in 2015, both in Switzerland and globally.
- For 2007, the FGB estimated online gaming revenues to amount to CHF 26 million to CHF 35 million. For 2012, a range of between CHF 40 million and CHF 62 million has been estimated. However, revenue projections regarding the Swiss online gaming market vary greatly depending on the source.
- Over the next years, online gaming will become legalised in Switzerland and regulation will continue to evolve and progress as in most other countries. While this evolution will initially take the form of "walled gardens", growing momentum behind moves to pool online gaming liquidity to build critical mass and align regulation across borders, especially in skill-based games such as poker, will be observable in the long run.

- As a result, pressure for inter-country liquidity pooling will grow for Swiss operators. While at the level of the European Union greater regulatory involvement must be expected, it is questionable whether this will also stimulate bilateral agreements between Switzerland and other countries.
- The competitive environment in the online gaming market is international. At the same time, operators of online casinos will have to compete with existing land-based casinos and other forms of entertainment and vice versa.
- The “walled gardens” are currently gaining momentum in many countries. We expect single territories to come under growing pressure to interconnect and share liquidity, especially once countries with smaller populations start to implement legalised and licenced online gaming. Despite the need for international harmonisation in gaming legislation, existing differences in, for example, taxation of income will result in an uneven distribution of gaming revenues across the different territories.

Conclusion

- The future development of the online gaming industry will be affected by a further migration to digital formats. Social networking platforms, interactive TV with transactional capabilities, 3D technology, massively multiplayer online (role playing) games (MMO(rp)Gs), and mobile broadband all bring major implications. The biggest challenge for online casinos will therefore be to continue to match consumers’ changing tastes, needs and lifestyle behaviors.
- Technological change may drive the emergence of new and as yet unthought of niche offerings, and increasing convergence and collaboration with other media. Limiting the Swiss online licences to the Internet only may, therefore, be questionable as the legislation is likely to require revision shortly to account for other media.
- As with land-based casinos, macroeconomic factors continue to have the main influence on the online casino industry. It seems that an online gaming market without territorial restrictions would show less dependency on the resident country’s economic situation but rather on the overall macroeconomic factors of players’ residence countries.

13 Methodology and Fair Use

How we derive the data

Historical information

Historical information is obtained principally from confidential and proprietary sources. In instances where third-party sources are consulted and their information is used directly – from such sources as government agencies, trade associations, or related entities that seek to have their data disseminated in the public domain – the sources of such information are explicitly cited. In instances where the information is used indirectly, as part of the calculus for the historical data, the sources are proprietary. In instances where no reliable historical data can be obtained, assumptions are made based on industry expert judgment.

Forecast information

Recent trends in industry performance are analysed, and the factors underlying those trends are identified. The factors considered are economic, demographic, technological, institutional, behavioural, competitive, and other drivers that may affect each of the entertainment and media markets. Models are then developed to quantify the impact of each factor on industry spending. A forecast scenario for each causative factor is then created, and the contribution of each factor on a prospective basis is identified. These proprietary mathematical models and analytic algorithms are used in the process to provide an initial array of prospective values. Our professional expertise and institutional knowledge are then applied to review and adjust those values if required. The entire process is then examined for internal consistency and transparency vis-à-vis prevailing industry wisdom. Forecasts for 2011–2015 are also based on an analysis of the dynamics of each segment in Western Europe and on the factors that affect those dynamics. We provide compound annual growth rates (CAGRs) that cover the 2011–2015 forecast period. In the calculation of CAGRs, 2010 is the beginning year, with five growth years during the forecast period: 2011, 2012, 2013, 2014, and 2015. The end year is 2015. The formula is:

$$\text{CAGR} = 100 * ((\text{Value in 2015} / \text{Value in 2010})^{(1/5)} - 1)$$

How we report the data in each chapter

Segment spending consists of advertising and end-user spending related directly to entertainment and media content. The introduction to each chapter begins with a definition of the spending streams that are included in that segment. We do not include spending on hardware or on services that may be needed to access content. End-user spending is counted at the consumer or end-user level – not at the wholesale level – and includes retail markups when

applicable. Advertising spending is measured net of agency commissions, where possible. In addition to annual spending figures, we also present data that is measured at a single point in time, such as TV subscriptions, Internet subscriptions, mobile subscriptions, and newspaper unit circulation. In those instances, we show annual averages rather than year-end totals because annual averages more accurately connect the impact of those figures to annual spending.

Rounding

The rounding of revenues, especially in the lower million range, may lead to variations in the calculation of CAGRs.

Inflation

Across all chapters, figures are reported in nominal terms reflecting actual spending transactions and therefore include the effects of inflation.

Exchange rates

All figures are presented in Swiss francs based on the average 2010 exchange rate held constant for each historical year and forecast year. This means the figures reflect industry trends and are not distorted by fluctuations in international exchange rates. However, when comparing the different European markets, the effect of the strong Swiss franc comes into effect.

The exchange rates used for the individual countries in Western Europe are set forth in the table on page 127.

Nominal GDP growth

Because all figures are shown as actual spending with the effects of inflation included, nominal GDP growth has an important influence on entertainment and media spending.

The table shows historical and projected growth rates for nominal GDP for the individual countries in Western Europe.

Fair Use

Use of Outlook data

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Exchange rates per CHF (2010 average)

Western Europe	Currency	Exchange rate
Austria	Euro	0.7238
Belgium	Euro	0.7238
Denmark	Krone	5.3904
Finland	Euro	0.7238
France	Euro	0.7238
Germany	Euro	0.7238
Greece	Euro	0.7238
Ireland	Euro	0.7238
Italy	Euro	0.7238
Netherlands	Euro	0.7238
Norway	Krone	5.7935
Portugal	Euro	0.7238
Spain	Euro	0.7238
Sweden	Krona	6.9005
Switzerland	Franc	1.0000
United Kingdom	Pound sterling	0.6208
North America		
United States of America	US Dollar	0.9598
Asia		
China	Renminbi Yuan	6,4871
India	Rupee	43,8530
Japan	Yen	84,1300

Nominal GDP growth by country (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe											
Austria	5.2	5.7	4.1	-1.7	3.1	3.3	3.6	3.5	3.4	3.3	3.4
Belgium	5.0	5.3	2.9	-2.1	3.6	3.6	3.5	3.6	3.7	3.6	3.6
Denmark	5.6	3.7	2.7	-4.3	4.0	4.3	4.3	4.0	4.1	3.9	4.1
Finland	4.4	5.3	0.9	-8.0	3.2	2.9	2.7	2.8	2.6	2.6	2.7
France	4.9	4.9	2.7	-2.0	3.2	3.3	3.5	3.8	3.8	3.8	3.6
Germany	3.7	4.4	2.8	-3.7	4.7	3.3	3.5	3.9	3.5	3.6	3.6
Greece	7.7	7.6	5.6	-0.7	0.4	-0.5	1.6	2.8	3.0	3.1	2.0
Ireland	9.3	6.8	-5.0	-11.3	-1.9	2.0	3.0	3.7	3.8	3.7	3.2
Italy	4.0	4.0	1.4	-3.0	2.3	2.6	2.7	3.2	3.2	3.3	3.0
Netherlands	5.2	5.3	4.8	-4.3	3.1	2.8	3.0	3.1	3.3	3.4	3.1
Norway	8.5	2.4	10.0	-4.0	2.0	3.0	3.4	3.5	3.7	3.7	3.4
Portugal	4.2	4.9	2.1	-1.5	2.0	0.3	1.3	1.7	2.1	2.4	1.6
Spain	8.3	7.0	4.0	-4.0	1.2	1.8	3.2	3.6	3.9	3.9	3.3
Sweden	6.3	6.2	2.8	-3.3	6.3	4.5	5.1	5.5	5.0	4.8	5.0
Switzerland	5.8	6.2	4.0	-1.7	2.8	2.1	2.8	3.1	3.3	3.5	3.0
United Kingdom	5.7	5.5	3.5	-3.6	4.9	4.6	4.0	4.5	4.6	4.6	4.4
Western Europe total	5.2	5.1	3.0	-3.3	3.4	3.1	3.4	3.7	3.7	3.7	3.5

14 Glossary

Advertising systems	Advertising systems are digital billboards at squares as well as in streets or public buildings (e.g. cinemas, train stations, etc.).
Affiliate Internet advertising	Affiliate Internet advertising encompasses Internet ads which are placed on a high number of Web sites which are typically linked to an affiliate network. Affiliate Internet advertising typically is settled on a performance basis (i.e. cost per click or cost per acquisition).
Cable Television (CATV)	CATV is a system of providing television to consumers via signals transmitted to TV sets through fixed optical fibres or coaxial cables. In contrast to the traditional over-the-air broadcasting method no antenna is needed.
Classification	Classification refers to the average number of copies of a newspaper distributed in a day.
Classified (Internet) advertising	Classified (Internet) advertising differs from standard advertising in that it allows private individuals (not simply companies or corporate entities) to solicit sales for products and services. Classified (Internet) advertising is usually text-only and can consist of as little as the type of item being sold and a telephone number to call for more information. Classified (Internet) advertising is called such because it is generally grouped within the publication under headings classifying the product or service being offered. Typical classes are cars, real estate or job offerings.
Codec	A codec is a device or computer programme capable of encoding and/or decoding a digital data stream or signal. A codec encodes a data stream or signal for transmission, storage or encryption, or decodes it for playback or editing. Codecs are used in videoconferencing, streaming media and video editing applications.
Code Division Multiple Access (CDMA)	CDMA (Code-Division Multiple Access) refers to any of several protocols used in second-generation (2G) and third-generation (3G) wireless communications. CDMA is a form of multiplexing, which allows numerous signals to occupy a single transmission channel, optimising the use of available bandwidth. The technology is used in ultra-high-frequency (UHF) cellular telephone systems in the 800-MHz and 1.9-GHz bands.
DAB / DAB+	Digital Audio Broadcasting (DAB) is a digital radio technology for broadcasting radio stations, used in several countries, particularly in Europe. As of 2006, approximately 1,000 stations worldwide broadcast in the DAB format. An upgraded version of the system was released in February 2007, which is called DAB+. DAB is not forward compatible with DAB+, which means that DAB-only receivers will not be able to receive DAB+ broadcasts. DAB+ is approximately twice as efficient as DAB due to the adoption of the AAC+ audio codec, and DAB+ can provide high quality audio with as low as 64kbit/s
Digital Terrestrial Television (DTT)	DTT is a technological evolution and advance from analogue terrestrial television. It provides more capacity, better picture quality, and lower operating costs for broadcast and transmission after the initial upgrade costs. DTT uses aerial broadcasts to a conventional antenna instead of a satellite dish or cable connection.
Display Internet Advertising	Display Internet advertising appears on Web pages in many forms, including web banners. These banners can consist of static or animated images, as well as interactive media that may include audio and video elements (these audio and video elements are typically referred to as Rich Media). Adobe Systems Flash or .gif are the preferred presentation formats for such interactive advertisements.

Digital Radio Mondiale (DRM)	Digital Radio Mondiale is a set of digital audio broadcasting technologies designed to work over the bands currently used for AM broadcasting, particularly shortwave. DRM can fit more channels than AM, at higher quality, into a given amount of bandwidth, using various MPEG-4 codecs.
Enhanced Data rates for GSM Evolution (EDGE)	Enhanced Data rates for GSM Evolution (EDGE) (also known as Enhanced GPRS (EGPRS), or IMT Single Carrier (IMT-SC), or Enhanced Data rates for Global Evolution) is a backward-compatible digital mobile phone technology that allows improved data transmission rates, as an extension on top of standard GSM. EDGE is considered a 3G radio technology and is part of ITU's 3G definition. EDGE was deployed on GSM networks beginning in 2003. EDGE is standardised by 3GPP as part of the GSM family, and it is an upgrade that provides more than three-fold increase in both the capacity and performance of GSM/GPRS networks. EDGE can be used for any packet switched application, such as an Internet connection. EDGE-delivered data services create a broadband Internet-like experience for the mobile phone user.
Evolved High-Speed Packet Access (HSPA+)	HSPA+ provides HSPA data rates up to 56 Mbit/s on the downlink and 22 Mbit/s on the uplink. Future revisions of HSPA+ support up to 168 Mbit/s using multiple carriers.
Federal Gaming Board (FGB)	The FGB is the Swiss statutory supervisory authority responsible for monitoring compliance with casino regulations, and issues the necessary directives for the implementation of the Gaming Act. In cases of violation, the Board also acts as the prosecuting authority and may issue rulings. It also assesses and levies gaming tax.
Financial and business press	Financial and business press address an audience with particular interests in economic and financial topics.
Free-to-air services (FTA)	FTA services are broadcasted unencrypted and may be received via any suitable receiver. FTA television channels can be delivered either by satellite or by broadcast via unencrypted on UHF or VHF bands.
Fibre to the Home (FTTH)	Fibre to the Home is the installation and use of optical fibre from a central point directly to individual buildings, such as residences, apartment buildings and businesses to provide unprecedented high-speed Internet access and/or other bandwidth-intensive services. In Switzerland, the FTTH connection includes all necessary in-house installations.
Gigabits per second (Gbps)	See Megabits per second (Mbps).
Global System for Mobile (GSM)	GSM (Global System for Mobile communication) is a digital mobile telephony system that is widely used in Europe and other parts of the world. GSM uses a variation of time division multiple access (TDMA) and is the most widely used of the three digital wireless telephony technologies (TDMA, GSM, and CDMA). GSM digitises and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot. It operates at either the 900 MHz or 1800 MHz frequency band.
HD Radio	HD Radio is the trademark for iBiquity's in-band on-channel (IBOC) digital radio technology used by AM and FM radio stations to transmit audio and data via a digital signal in conjunction with their analogue signals. It was selected by the United States Federal Communications Commission (FCC) in 2002 as a digital audio broadcasting method for the United States and is the only digital system approved by the FCC for digital AM/FM broadcasts in the United States. Other digital radio systems include FMeXtra, Digital Audio Broadcasting (DAB), Digital Radio Mondiale (DRM30, DRM+), and Compatible AM Digital (CAM-D).

High-definition Television (HDTV)	HDTV refers to images having resolution substantially higher than traditional television systems. HDTV has up to two million pixels per frame, roughly five times the previous standard. Today HDTV is digitally broadcast using video compression.
High speed packet access (HSPA)	High Speed Packet Access is a collection of two mobile telephony protocols, High Speed Downlink Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA), that extends and improves the performance of existing WCDMA protocols. A further standard, Evolved HSPA (also known as HSPA+), was released late in 2008 with subsequent adoption worldwide into 2010.
International Telecommunication Union (ITU)	The ITU (International Telecommunication Union) is the United Nations' specialised agency for information and communication technologies (ICTs). ITU allocates global radio spectrum and satellite orbits, develops the technical standards that ensure networks and technologies seamlessly interconnect, and strives to improve access to ICTs to underserved communities worldwide.
Internet advertising	Wired and mobile Internet advertising consists of spending by advertisers on paid-search, display, classified, and other online formats as well as advertising delivered to mobile phones via formats designed for mobile handset screens.
Internet Protocol Television (IPTV)	IPTV is a system through which TV content is delivered through the architecture and networking methods of the Internet Protocol Suite instead of being delivered through traditional broadcast, satellite, or cable.
Kilobits per second (Kbps)	See Megabits per second (Mbps).
Long-Term Evolution (LTE)	Long Term Evolution (LTE) is a 4G wireless broadband technology developed by the Third Generation Partnership Project (3GPP), an industry trade group. 3GPP engineers named the technology "Long Term Evolution" because it represents the next step (4G) in a progression from GSM, a 2G standard, to UMTS, the 3G technologies based upon GSM. LTE provides significantly increased peak data rates, with the potential for 100 Mbps downstream and 30 Mbps upstream, reduced latency, scalable bandwidth capacity, and backwards compatibility with existing GSM and UMTS technology. Future developments could yield peak throughput on the order of 300 Mbps.
Megabits per second (Mbps)	Mbps stands for millions of bits per second or megabits per second and is a measure of bandwidth (the total information flow over a given time) on a telecommunications medium. Depending on the medium and the transmission method, bandwidth is also sometimes measured in the Kbps (thousands of bits or kilobits per second) range or the Gbps (billions of bits or gigabits per second) range.
MMO(RP)Gs	A massively multiplayer online (role-playing) game (MMO[RP]G) is a type of computer game that enables hundreds or thousands of players to simultaneously interact in a game world they are connected to via the Internet. Typically this kind of game is played in an online, multiplayer-only persistent world. MMO(RP)Gs create a persistent universe where the game continues playing regardless of whether or not anyone else is. Since these games strongly or exclusively emphasise multiplayer gameplay, few of them have any significant single-player aspects or client-side artificial intelligence. As a result, players cannot "beat" MMO(RP)Gs in the typical sense of single-player games, but instead may be challenged to organise complex tasks, involving various online players ("raids"), whose identities are expressed via individual symbolic figures or shapes ("avatars").

Mobile Internet Advertising	Advertising delivered to mobile phones via formats designed for mobile handset screens. Does not include text message (SMS) advertising.
Mobile TV	Mobile TV usually means TV content watched on a small handheld device. One can distinguish between subscription-based broadcasts in mobile phone networks or received FTA via terrestrial television stations. Some devices can also download contents from the Internet (e.g. recorded TV programmes and podcasts) for later viewing.
MPEG-4	MPEG-4 is method of defining compression of audio and visual (AV) digital data. It was introduced in late 1998 and designated a standard for a group of audio and video coding formats and related technology agreed upon by the ISO/IEC Moving Picture Experts Group (MPEG). Uses of MPEG-4 include compression of AV data for web (streaming media) and CD distribution, voice (telephone, videophone) and broadcast television applications.
OFCOM	Federal Office of Communications (German: BAKOM, French: OFCOM, Italian: UFCOM. Regulates the telecommunications and broadcast market in Switzerland.
Pay per view (PPV)	PPV is a service by which a consumer can purchase certain TV content (e.g. movies or sports events) to view in their homes. The service provider broadcasts these events at the same time to all consumers who ordered them.
Popular press	Regularly, weekly or infrequently published print magazines which address a wide target audience and which are to accessible everybody.
Public radio licence fee	A public radio licence fee is an official duty levied in many countries for the reception of television content. It is a form of tax to fund public broadcasting, allowing the providers to transmit radio contents without, or with limited, funding from commercials.
Public TV licence fee	A public TV licence fee is an official duty levied in many countries for the reception of television content. It is a form of tax to fund public broadcasting, allowing the providers to transmit TV contents with, or without limited, funding from commercials.
RTVG	Swiss federal law on radio and television.
Satellite TV	Satellite TV services are delivered by the provider through communications satellite and received by the consumer through a satellite dish and set-top box. In many areas of the world a wide range of TV channels are provided, often to remote areas that are not serviced by terrestrial or cable providers.
Search Advertising	In Internet marketing, search advertising, also called paid search, is a method of placing online advertisements on Web pages that show results from search engine queries. Through the same search-engine advertising services, ads can also be placed on Web pages with other published content. Search advertisements are targeted to match key search terms (called keywords) entered on search engines.
Special interest press	The special interest press addresses particular interests of the audience, for example hobbies, culture, architecture, design, environment, education, health, etc.
Spectrum management	Spectrum management is the combination of administrative and technical procedures necessary to ensure the efficient utilisation of the radio-frequency spectrum by all radiocommunication services defined in the ITU Radio Regulations and the operation of radio systems, without causing harmful interference.

Subscription TV	Subscription-based TV refers to services usually provided by either analogue and digital cable or satellite, but also increasingly by digital terrestrial methods. Today, most subscription television services offer multiplex packages, where several channels of programming are offered rather than just one.
Technical press	The technical press addresses the audience of a particular professional category with specific job-related interests, for example services, sciences, trade and industry, public interests, agriculture, etc.
Time Division Multiple Access (TDMA)	TDMA is a technology used in digital cellular telephone communication that divides each cellular channel into three time slots in order to increase the amount of data that can be carried.
Ultra High Frequency (UHF)	UHF and VHF are the most commonly used frequency bands for transmission of radio and television signals. Some mobile phones also transmit and receive within the UHF spectrum. UHF is widely used by public service agencies for two-way radio communication, usually using narrowband frequency modulation.
Universal Mobile Telecommunications Service (UMTS)	UMTS is a third-generation (3G) broadband, packet-based transmission of text, digitised voice, video, and multimedia at data rates up to 2 megabits per second (Mbps). UMTS offers a consistent set of services to mobile computer and phone users, no matter where they are located in the world. UMTS is based on the GSM communication standard. It is also endorsed by major standards bodies and manufacturers as the planned standard for mobile users around the world. Once UMTS is fully available, computer and phone users can be constantly attached to the Internet wherever they travel and, as they roam, will have the same set of capabilities. Users will have access through a combination of terrestrial wireless and satellite transmissions. Until UMTS is fully implemented, users can use multi-mode devices that switch to the currently available technology (such as GSM 900 and 1800) where UMTS is not yet available.
Universal Service Obligation	The purpose of the universal service is to guarantee that a basic telecommunications services offer is made available to all sections of the population and in all the regions of the country. These services must be affordable, reliable and of a certain quality. The universal service includes telephony, telefax, data transmission, broadband Internet connections, access to the emergency services, public payphones and the provision of special services for the disabled.
Very High Frequency (VHF)	Common uses for VHF are FM radio broadcast, television broadcast, land mobile stations (emergency, business, and military), long range data communication with radio modems, amateur radio, marine communications, air traffic control communications and air navigation systems.
Video on demand (VOD)	VOD allows consumers to select and watch video content on demand. VOD systems either stream content through a set-top box for real time viewing or download and store content for viewing at any time.
Wideband code division multiple access (W-CDMA)	W-CDMA is an air interface standard found in 3G mobile telecommunications networks. It is the basis of Japan's NTT DoCoMo's FOMA service and the most commonly used member of the UMTS family and sometimes used as a synonym for UMTS. While not an evolutionary upgrade on the airside, it uses the same core network as the 2G GSM networks deployed worldwide, allowing dual-mode operation along with GSM/EDGE; a feature it shares with other members of the UMTS family.

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