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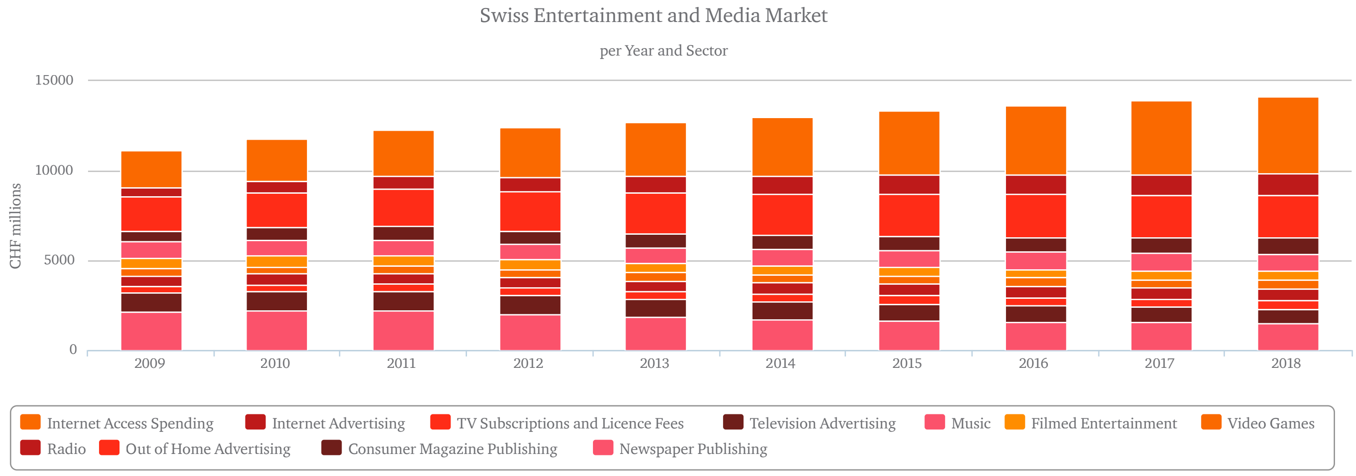
# *Swiss Entertainment and Media Outlook 2014*

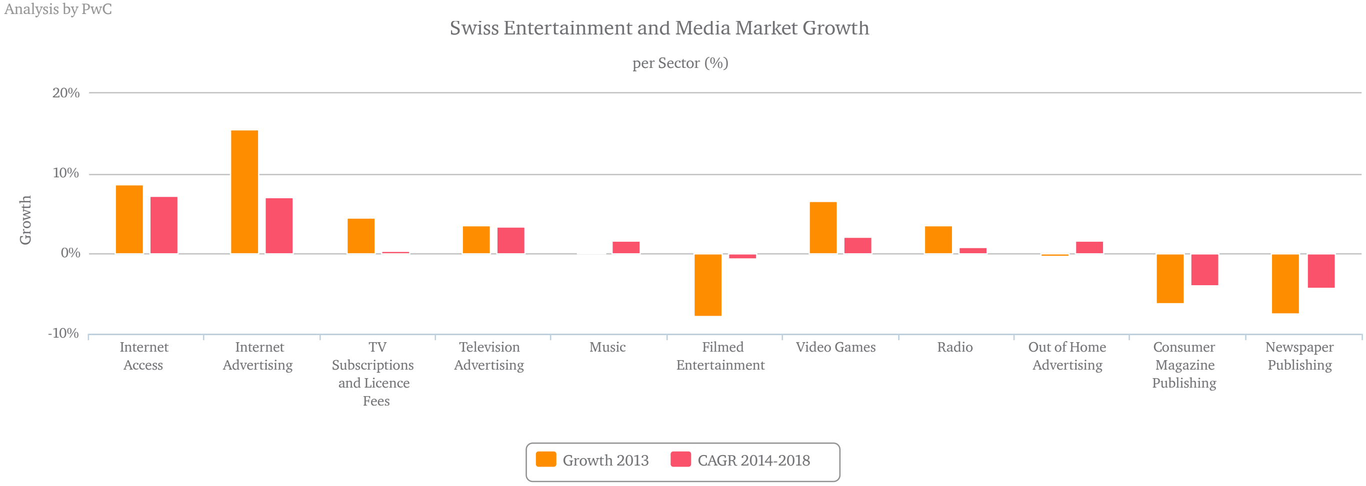
# Contents

# Executive Summary

## Introduction




Analysis by PwC

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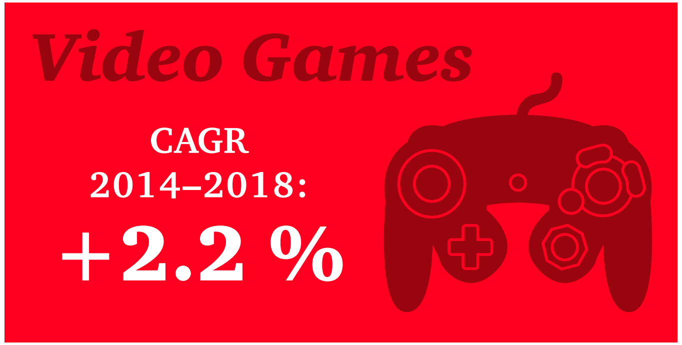
The overall trend in the Swiss media and entertainment market is the ongoing shift from physical to digital distribution. Nevertheless, the outlook for most segments remains quite stable for the coming five years. Thus in this section we provide merely a snapshot of the potentially most disruptive issues in the industry segments discussed below. If you are interested in gaining deeper insight into a given industry, we invite you to browse through the particular section.

Most segments of the Swiss media and entertainment market managed to grow last year, but some of them are being forced to face the consequences of their outdated business models. The segments consumer magazine publishing, newspaper publishing and filmed entertainment recorded lower revenues. It is no coincidence that those particular segments are struggling with a declining market volume. They are still having trouble implementing viable business models that integrate digital distribution in a useful and profitable manner. However, companies that anticipated this trend were able to garner dominant positions in the market within a short time.

As can be seen in the chart below, the overall entertainment and media market is predicted to grow by 2.2 per cent annually through 2018. The main drivers fostering this upward trend are internet access spending, internet advertising and television advertising, which have an above-average forecast for the given period.

## *Video games – smartphone games attract a new clientele*




Handheld consoles are facing harsh competition in form of smartphones. In the wake of increased smartphone penetration that currently stands as 77 per cent in Switzerland, game developers are focusing more and more on the mobile segment. As a result, the selection of games for smartphones and their quality are steadily increasing. The games developed for mobile devices differ clearly from games developed for PCs and consoles. Smartphone games have a shallow learning curve and thus are ideally suited as a pastime. The new customers attracted by these mobile games are also traditionally non-gamers who consequently increase the market volume rather than cannibalising existing forms of gaming. The significantly lower price of the mobile games compared to PC or console games, combined with the fact that no additional device must be acquired, may be another reason why a completely new client segment is attracted by these games. Therefore, the mobile games segment is predicted to grow at an annual rate of approximately 9.5 per cent.

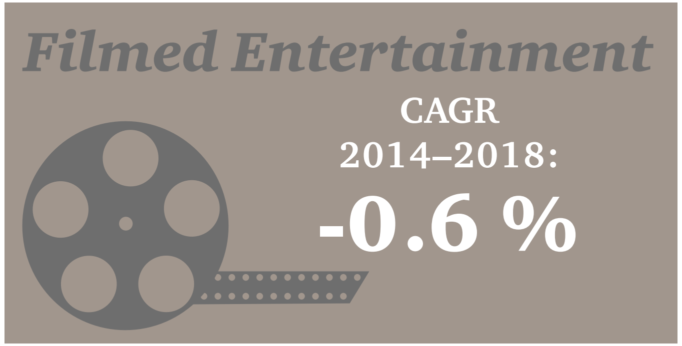
## *Music – disrupting the disruptor*

One of the early and very impressive examples of the disruptive shift from physical to digital distribution in entertainment and media is the music segment. While the first digital shift was the general trend towards digital distribution with the option for consumers to buy songs online on platforms such as iTunes, we are now observing a phenomenon in this industry segment that we call the "second wave of digital disruption". Although the means of distribution remains digital, new business and pricing models offered by Spotify and Pandora, amongst others, are becoming more and more popular. These companies, with their new business models that actually meet existing unfulfilled client needs, take away market shares from the nowadays "traditional" digital distribution domain where music still is purchased and owned by the customers. Years ago, the first-movers disrupted the traditional business models at the time, i.e. the selling of physical sound carriers, but today they are being out-innovated by the second-wave players who offer access to an almost unlimited amount of streamed music – the disrupter got disrupted.


In 2013 the digital distribution segment was already 1.5 times the size of the physical distribution segment and demonstrates a trend line that is clearly shifting upwards, while the physical segment is predicted to decline. We expect this trend to continue and eventually lead to a complete displacement of physical distribution at some point. On the other hand, the fast growth of digital music implies that the demand for digital distribution was present for a long time. A lack of download options or the right pricing model could have caused some customers to opt for illegal downloads in the past, a trend that seems to be declining now that there is a broad range of "freemium" offers where music can be accessed legally and for free.

## Filmed entertainment – following the streaming trend in music

In the filmed entertainment segment, similar changes as in the music market can be observed, however with a time lag. We anticipate strong growth in the digital home video segment of 12.6 per cent annually over the next five years. Like the music market, the demand for streaming solutions is clearly given in the filmed entertainment market since this model allows consumers to access the content whenever and wherever they want it to stream. Netflix, amongst other providers, obviously identified this unfulfilled need and just started its offering in Switzerland, as opposed to our last year's prediction that the company would not aim to enter the European or the Swiss market in particular.




Apart from the fact that pricing models for streaming obviously better suit today's customer expectations, digital distribution and consumption offer additional potential for the providers. In contrast to physical distribution, the data on customer behaviour can be compiled more accurately and in realtime. From this huge amount of data, valuable insights into users' interests and inclinations can be obtained. Netflix for example uses its Big Data Analytics to create shows that perfectly match the preferences and expectations of the audience. The results, "House of Cards" and "Orange Is the New Black", were extraordinarily successful and did not even require any promotion or advertisement since the shows exactly met the expectations of the audience.

## Consumer magazine and newspaper publishing – or why dinosaurs are doomed to become extinct

The consumer magazine and newspaper segment is facing the harshest consequences of the digitalisation underway in the whole entertainment and media industry. The Swiss magazine and newspaper market is struggling with not only a shrinking subscriber base but also a decrease in advertising revenue, seeing as how the content as well as the advertising market is shifting to the virtual space. As a result, many consumer magazine and newspaper publishers are confronted with an uncertain future.


Almost all of those players have a declining subscriber base for hard copies, while free online news portals such as 20min.ch attract an increasingly large group of consumers. But the online news portals have to find answers to the question of how to monetise their content. One example of an innovative solution to this issue is the in-magazine e-shop used by Wired, a US magazine that covers technology and lifestyle trends. In the e-version of the magazine, customers can directly purchase items recommended by the editors and without leaving the application. The customer benefits from an enhanced shopping experience and a more convenient check-out procedure that enables impulse purchases, and the publisher can receive a commission. The result is a win-win situation for both, as well as an innovative way to monetise the content by charging the beneficiary (i.e. the seller), not the consumer.

## Conclusion

This big shift from physical to digital distribution is leading to multiple, profound changes in the market. Players who are not able to adapt to these shifts are losing market share and influence, mainly to new entrants who offer innovative and customised products. In the Media Trends section, we look into the possible consequences of this development and their impact on the different segments, while this year's Deep Dive addresses the question of how innovative solutions for monetising content in a digital era may look, especially in the digitally reluctant newspaper and consumer industry segments. To explore the most recent development in our 11 industry segments, we encourage you to take a closer look at each of the sections in order to benefit from our industry insight.

# Media Trends

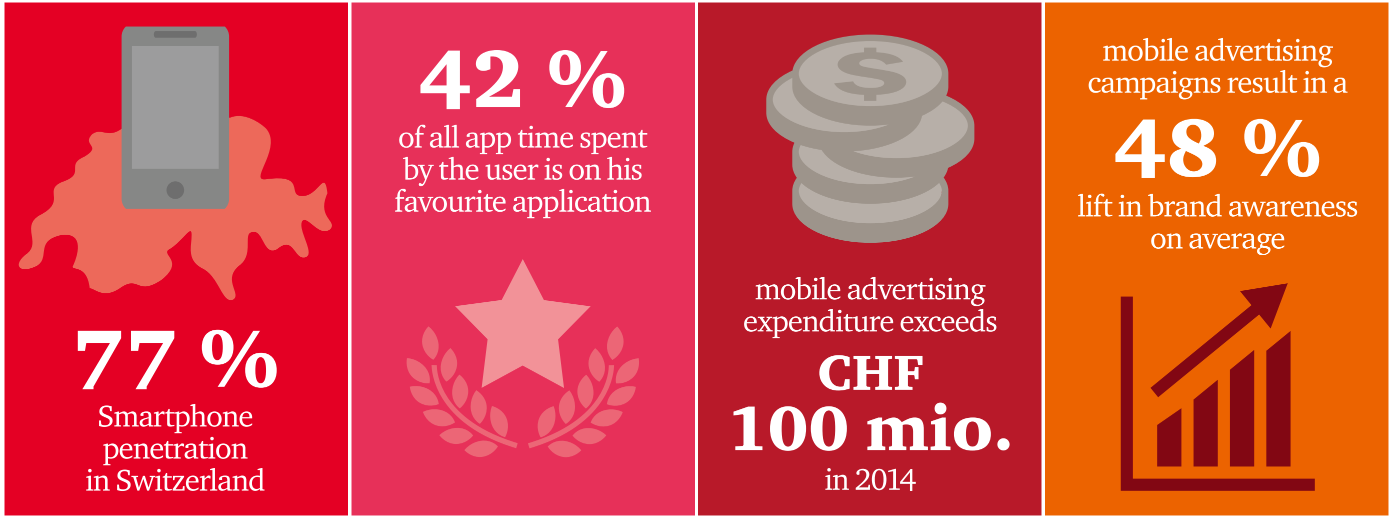
## Introduction

In this section, we address four major media trends that affect all segments of the entertainment and media industry, namely the ongoing pervasion of mobile devices, the challenge of mobile advertising, the individualisation and customisation of content as well as the interconnection between smart devices.

### *Mobile first is already a reality.*

Worldwide, the slogan “Mobile First” is gaining greater importance as people want greater flexibility. According to a recent study, every second respondent in Switzerland desires more flexibility in consuming media. Flexibility in terms of location, channel and device for content consumption is one of the main characteristics of the digital media world, especially since the smartphone penetration in Switzerland already reached the 77 per cent level in March 2014. In order to provide this greater flexibility to the consumer, the digital and mobile shift needs to be considered carefully in companies’ strategies, especially in the entertainment and media industry, which is regarded to be somewhat of a laggard when it comes to digitalisation. To win more customers, companies need to offer content through all channels and on all devices to guarantee a seamless user experience.

The US market is an example of well-established flexibility in the way media is consumed. Also, America’s mobile advertising market is already more mature and spending on mobile advertising is rising rapidly. According to a study by comScore, mobile applications account for more than half of the time spent on the consumption of digital media, consequently apps today are driving the majority of media consumption activity. A significant 42 per cent of all app time on smartphones is spent on the individual user’s single most-used app, and three out of four minutes is spent on the top four apps.




The question is how to gain this popularity? Facebook is the most frequently used app in terms of audience size and share of time spent for each demographic segment. Social Networking, Games and Radio contribute to nearly half of the total time spent on mobile applications, and proving mobile usage is largely centred on entertainment and communication.

Moreover, marketers today are tending to move towards mobile campaigns that offer consumers an incentive, such as free music or in-app content, in exchange for interacting with other content. As marketers continue to think outside the box for new ways of interaction with mobile users, there is an opportunity to make mobile ads more personalised, this by means of data analytics and in reflection of consumers’ actual mobile behaviours as well as their current location.

Due to the behavioural shift from static to mobile screens, the advertisement formats also need to become mobile. In Switzerland, spending on mobile advertising has grown at a slow pace until now but there is still potential. According to optimistic estimates of mobile advertising marketer Adello, the mobile advertising expenditure in Switzerland is predicted to exceed the CHF 100 million mark in 2014. It is crucial to gain the attention of people through mobile advertising in a differentiated, more situation-based way. Advertising in mobile form is relevant when it triggers positive feelings amongst viewers and ties them to a particular product. Mobile advertising needs to generate added value, seeing as how “relevant advertising” doesn’t attract potential customers merely through content. Also, location-based advertisements, such as coupons or discounts for items in shops nearby, have considerable potential to be used more in the future.

Content- or location-based marketing and native advertising are forms of advertising that correspond to a specific editorial section in print media and therefore are not seen as a disturbing factor for those specific audiences. In the mobile market, contextual advertising is also of great importance since much more accurate data about the consumer is available, whereas this content can be enhanced with video, audio, games and even coupon offerings. The image and text material can be directly related to additional information and entertainment value that is highly appreciated by users. Moreover, attractive services such as coupons, in-game interaction with competitors and conversations, videos and music create added value and offer new possibilities in location-based advertising. User-generated content and social media in particular enhance the viewer's loyalty and interactivity level. An advertiser should also consider unique selling propositions that convey to people the specific benefits of a product or service, which in turn leads to increased sales.

***The winners in mobile advertising combine engagement, identity and insight.***

That being said, we are convinced that the winners in the mobile advertising market of the future will be those players who succeed in combining engagement, identity and insight. Mobile advertising of course involves sizeable investments and the existing offerings are not very mature, but the effort will pay off in the future and the potential is enormous.

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Mobile advertising has such a great potential especially because it affords the opportunity to talk to very granularly targeted user groups in their specific situation. A popular yet still unexploited means of mobile advertising is geo-targeting. By using the tracking function, advertising is shown to consumers who reside within a specific geographic radius around a target point. According to comScore, the average mobile advertising campaign results in a 48 per cent boost to brand awareness, and purchase intent increases by 23 per cent.

***There is no target group; instead, just individual customers.***

Understanding consumer behaviour is of considerable importance to a corporate strategy. Through data analytics, customer behavioural patterns and further useful information can be gained. Those patterns must be taken into account in a business strategy that is fit for the digital age. Hence data analytics opens the way for personalised advertising. That customised approach can be based on information a company obtains in an often unconscious way on the part of the consumer, e.g. contributions on a social platform, digital input entered while purchasing goods, or even just by browsing and looking up information on the Internet. Companies can benefit from this process, but they need to create a more targeted mindset. Ads can be targeted to behaviour, time, demographics and/or audience. The personalised advertising route allows you not just to advertise your product, but also shows consumers what they want to see.

Consumption of information and entertainment is continuing to shift from print media and static screens to digital and second-screen devices such as smartphones and tablets. The trend towards multi-screen experiences brings more and more interconnected devices to the market. The first connected device for mobile and TV is emerging, and also tablet TV and mobile radio will be an important medium in the future according to experts who see great potential in that business. Networked TVs, which offer a variety of features and apps, continue to be on the advance.

***Interconnection between devices defines the media future.***

A great example of innovative, well-connected formats is the casting show “The Voice of Switzerland” from SRG. The show was broadcast via Internet, radio, TV and the social media platforms Facebook and Twitter in a constant dialogue with audience and fans. Most notably, accessibility was ensured 24 hours a day and regardless of any device, thereby guaranteeing the seamless user experience consumers are looking for.

According to a consumer study by Publisuisse, about five per cent of Internet use will take place on smart TVs by 2020. Also smartphone-TV will significantly change the television landscape: 56 per cent of the experts foresee a major shift in consumer’s confidence in being able to move with speed and agility. Also, mobile radio is an important future issue for 42 percent of the Swiss, especially digital radio, music-streaming services and social radio.

## Conclusion

In summary, the media industry is steadily moving in the direction of interaction with the audience rather than just transmitting content. Media companies should consider these four major trends carefully in order to keep in step with the needs of a new breed of digital customers.

# Innovative Revenue Models

While the Internet was becoming increasingly popular, most media content remained free online. After realising the users' shift from analogue to digital consumption, providers of media and entertainment on the Internet tried to monetise this content with so-called paywalls. There is an array of paywall concepts out there, varying from a limited number of articles that are accessible free, to pay-by-article to exact copies of the monthly subscription fee model known from traditional newspapers. However, most users have become accustomed to the fact that most content is somehow accessible for free on the Internet, be it on the website of the preferred newspaper or an equivalent of it.

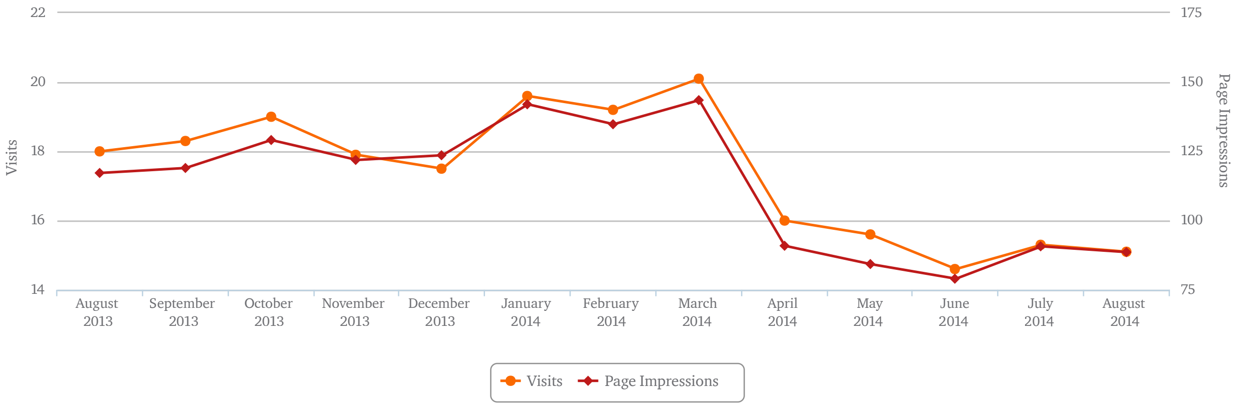
***Paywalls – or why newspapers are struggling.***

One example of this phenomenon is the Swiss newspaper Tagesanzeiger. In April 2014, the Tagesanzeiger launched a paywall where the user can read only twenty articles per month for free and has to pay a subscription fee if he wants to read additional articles. As a result of the implementation of this paywall, the number of website visits dropped by a fifth from twenty million visits in March to 16 million visits in April. The page impressions, which measures the number of loads of a particular website, decreased even more from 144 million in March to only 91 million page views in April, a 37 per cent drop compared to the previous month. The major problem of most paywall models is that customers are not willing to pay for content that is also accessible for free, especially not if they were used to consuming exactly the same content on the same website for free in the past.

The only positive example of an efficient paywall system is the New York Times, which introduced its paywall system back in 2011. In 2012, the online subscription fees already accounted for 14 per cent of the total subscription sales. It was the first time that revenues from the online subscriptions were greater than the revenues from advertising. Nevertheless, this is one of the few exceptions and generally the New York Times, with its global readership and credibility, is not comparable to most of the market players in Switzerland.

Tagesanzeiger

Visits and Page Impressions (in millions)




Analysis by PwC

Consequently, the newspaper and consumer magazine industry is desperately searching for new revenue models to monetise their online content. This year, a new application called Readly was launched, which offers bundles of different magazines. For a monthly subscription fee, all magazines can be accessed and read. Instead of buying different magazines at different places, the customer can comfortably access all magazines on one platform. The main advantages are an enhanced user experience and the ease of use due to an intelligent application design. The business and pricing model is similar to the one for music streaming services and follows the general trend in the media segment, i.e. shifting from buying specific content pieces to paying for access to the content the user is looking for.

The players in the Swiss market should focus on the valuable content they are providing and concentrate on enabling a superior user experience when consuming content online. These two major factors are considered to be the key to success in a digital era.

## *Innovative revenue models – or how others are more successful.*

The following section addresses innovative revenue models we have observed in the market and which are substantially different from the clear failure of the paywall system described above. While focusing on the actual content and the experience for the user who consumes it, these revolutionary revenue models are actually capable of providing new revenue streams for the media industry as well as additional value for the customer.

Others learned from the failure of those players who insisted on implementing paywalls, although the proof of concept was never given. In this section, three innovative revenue models are briefly presented and business examples are given for the sake of better understanding. The impact of the new sources of revenue are also shown and discussed.

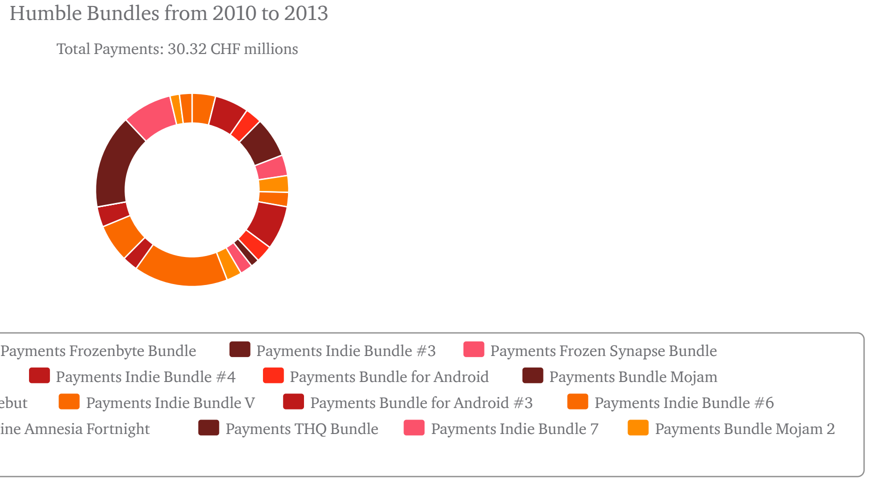
## *Pay with a Tweet used by Marc Jacobs*

One would expect only companies with small budgets to use a radically new way of payment or innovative advertising. Much to the contrary, no other than Marc Jacobs, the well-known luxury fashion brand, recently opened a 1,746 square foot store where no money is needed to buy items. Instead, customers can pay for products and samples by posting the hashtag #MJDaisyChain on social media platforms. Lori Singer, Group Vice President of Global Marketing for Coty Prestige, claims that the response on the social media channels was very encouraging. This innovative new payment method is called "Pay-with-a-Tweet".

Pay-with-a-Tweet enables producers of media and entertainment to give people free access to content or products if they tweet about it.

Instead of paying the producer with money, the actual currency is the attention created by the tweets or posts.
With this system, any media format can be promoted on multiple social media platforms, including Facebook, Twitter, LinkedIn, Instagram and Pinterest.

Pay-with-a-Tweet has security systems that prevent the user from paying more than once via the model and which make abuse of the system impossible. Pay-with-a-Tweet is also applicable to the media industry and an interesting means of stopping illegal downloads or the consumption of content without the exchange of value. Through application of this model, users still get some content for free but they also promote the content and its producer or provider at the same time.




Analysis by PwC

A concrete showcase of how Pay-with-a-Tweet could look in the entertainment and media segment is the release of an album by an artist. Instead of just focusing on the conversion of an interested person into a paying customer, this payment method creates attention amongst the social circle of the consumer and thereby a larger audience. The artist benefits from this attention since these new customers are attracted by the Tweet. Other producers of media content such as writers, filmmakers, game producers, journalists and painters could also make use of Pay-with-a-Tweet. However, there is a limitation to this model: it is only practicable for part of the content since it aims at attracting a potential audience and turning them into paying customers afterwards.

## *New ways of cross-media bundling and consumption*

A new trend in the bundling of media and entertainment products from different publishers and types of media has emerged in the industry, imitating a move that started in the music industry. One example is the Humble Bundle, an offering that was introduced in 2010 when several series of computer games were sold together on the steaming online platform for video games. The novelty of Humble Bundle is that it can be purchased at a price chosen by the buyer – also known as the Pay-What-You-Want concept. In addition, customers can decide whether they want to give part of the amount they paid to charity projects.

The diagram below illustrates the payments per bundle that have been made since 2010. The highest amount realised for a single bundle was CHF 4.78 millions for the “Humble Indie Bundle V”, with sales starting in May 2012.

Another important new way of bundling is the so-called super bundling concept. Apple, Amazon and Google are heading towards super bundling offerings that combine downloading and the streaming of different sorts of media content, which locks the customer into an ecosystem. One possibility would be to sell bundles of media that deal with the same topic or area of interest and focus on the customer’s interest instead of the media format, including movies, books and games.

These kinds of bundle offer the user a comprehensive experience and allow the seller to increase turnover by exploiting potential economies of scale since the distribution of digital content is realisable at almost no additional cost once it is produced. One success for players like Apple, Amazon and Google is the amount of customer data that becomes available. Through the analysis of the users’ data, the companies could offer user-specific super bundles that meet the client’s individual taste.

## *Social commerce platforms enhance the user experience*

Social commerce is a form of electronic commerce where the shared experience and interaction with other users or a community are at the centre of the buying experience. Chirpify is a marketing company that offers an innovative way to monetise media and entertainment content online. The Chirpify platform allows customers to buy products instantly in-stream. The big advantage of this e-commerce solution is the high involvement of the customer during the consumption of the media, as well as the simple checkout procedure. If a user is currently listening to a new album by a musician, the option to buy this product pops up. The likelihood of the user actually purchasing the album spontaneously is statistically higher than that of his making the purchase at a later point.

Another company offering a similar platform is Topspin, which specialises in monetising music and merchandise products of artists. The platform allows the user to buy the latest single as well as a shirt featuring their favourite band or artist. Topspin even allows artists to sell tickets for their concerts and later scan them at the entrance with a smartphone using the built-in Topspin application. The company claims that the average turnover per customer and artist is about USD 22, substantially higher than the 0.99 cents from a song sold via iTunes.

## ***The digital ecosystem – or where to go from here.***

These kinds of social commerce platform do not only allow new ways of generating revenue, they also manage to increase per-customer turnover for the content providers who use it.

Another important factor is the ease of operation and payment within the system, which significantly reduces the time spent to purchase the product and thereby lessens the likelihood of cancellation of the purchase during the checkout process. Both platforms also allow artists to form a community and manage their fan base to form a social system where customers can connect to each other.

In summary, the section above shows that there is a variety of possibilities how transactions for content may look, be it by payment via Tweets, new ways of bundling content and voluntary payments, or social commerce. Although not all of these concepts are predictable or result instantly in new revenues for the media companies, they foster loyalty and interaction with the consumers. As mentioned at the outset, constant interaction with the consumer and an outstanding user experience are the key success factors in today’s digital business environment.

The two examples presented in the final section below will give you a taste of how we at PwC envisage the future of the entertainment and media industry. These two companies are blurring the channel borders by focusing instead on specific topics and bringing together content, people and products from a specific segment.

## *VODO overcomes the tunnel vision of media companies*

Cross-media bundling is used only by relatively few market participants. Most of the market players are still focusing on the medium used to distribute the content instead of on what today's demanding customers are looking for. Although big players such as Google and Amazon have begun to address the issue, it is mostly the small companies that actually use this type of bundling already. An interesting example is VODO, which describes itself as a small global cross-media distributor. VODO creates different media bundles for events or topics. One example is the science-fiction themed Otherworld bundle which includes movies, games, comics and music.

The starter bundle costs USD 11.62 and includes two movies, a game, two e-magazines and two music albums. The revenues are split between the producers at a certain ratio determined in advance. This illustrates the shift from a tunnel-vision approach to one that centres more on the actual content provided.

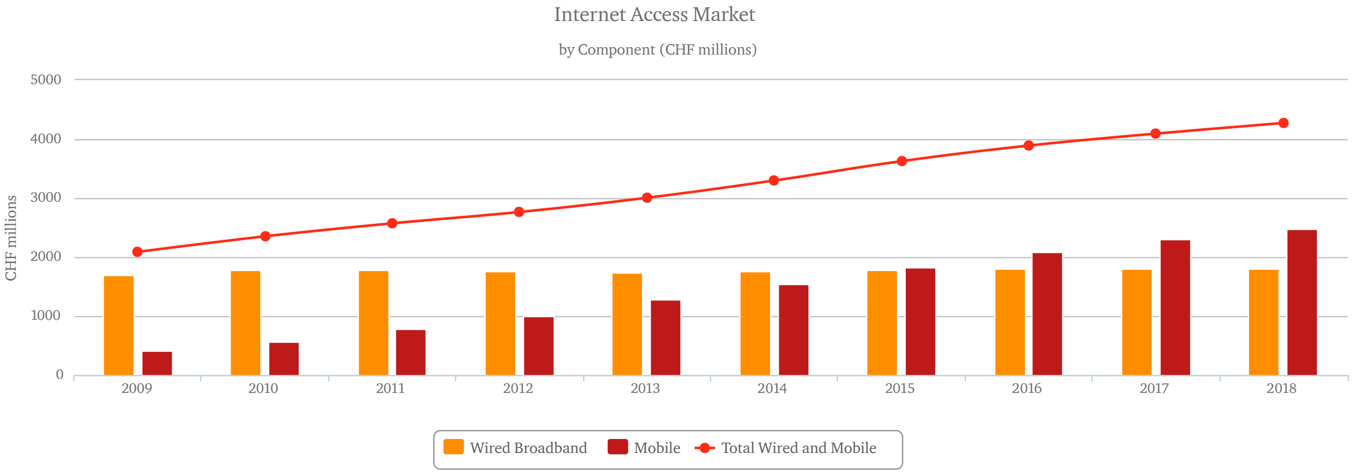
A big advantage for the user is the lower price of the bundle compared to the total price for the individual components. The game for example costs about USD 13 if purchased alone. The bundle makes it also much easier for the customer to buy the content, because all transactions are concluded at a single point of sale. Cross-media bundles, however, are not only beneficial for the buyer. Media producers can reach completely new customers through bundling, without additional marketing efforts.

## *NZZ Wine implements a topic-focused digital ecosystem*

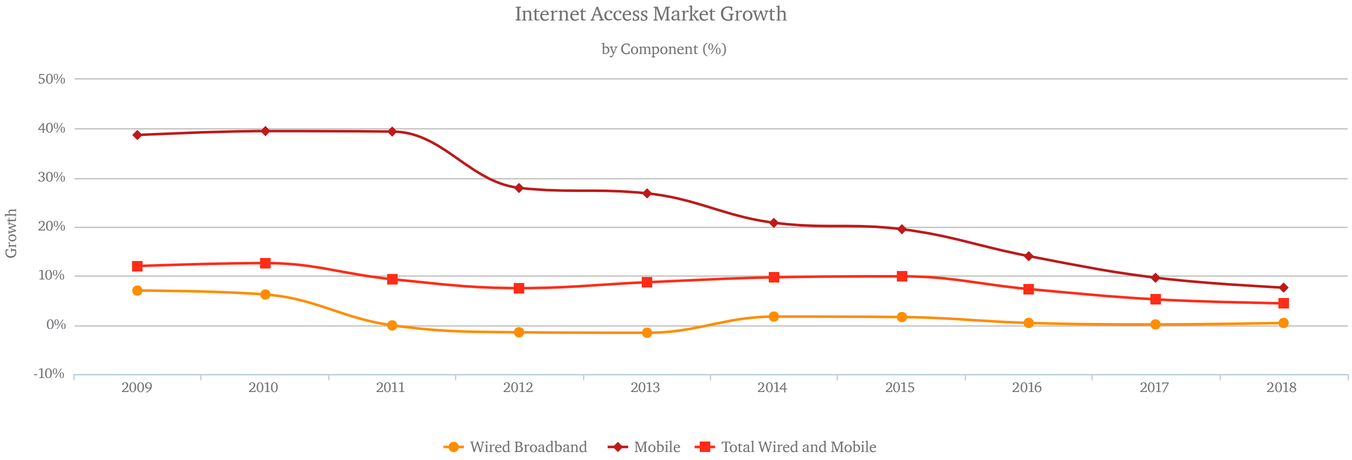
NZZ Wine is an example of how the future of the entertainment and media industry might look. On the NZZ Wine website, three important criteria of a digital ecosystem are givens: content, community and commerce. The main content of the NZZ Wine website comprises wine reviews and recommendations, both provided by trusted sources, namely independent journalists and the consumers themselves. Special wine seminars are also offered. At these events, customers can try different wines and discuss them with wine experts. These events also serve as a base for the community formed by customers who share the same interest. Apart from the elements of content and community, the third important aspect, the commerce dimension, is covered by the option to buy recommended wines directly on the NZZ Wine website via the integrated online shop. The main advantage of this digital ecosystem is the comprehensive user experience and the higher involvement of the customer compared to traditional transaction-focused online shops. The content adds value in the form of interesting information that is considered to be independent; moreover, the community amplifies the aforementioned involvement of the customer.

The past has shown that a changed business environment with digital distribution as an underlying factor makes new revenue models necessary since traditional models are failing to work anymore, no matter how widespread they are. Nevertheless, many companies, especially in the entertainment and media industry, cling to outdated revenue models instead of reinventing themselves by applying ingenious new ideas in effort to monetise their valuable content. Putting customers and their needs in the spotlight and overcoming the traditional tunnel vision will be even more important for media companies in the future, seeing as how a lot of innovative disruptors have already proven that moving first is the key to success.

# Internet Access Spending




Analysis by PwC




Analysis by PwC

## At A Glance

### Segment Definition

Internet access revenues consist of fees paid by consumers for wired and mobile Internet access. Wired Internet access revenues are paid to Internet service providers (ISPs) for broadband, while mobile Internet access revenues are received by wireless carriers for web access via mobile devices either as a stand-alone service or as part of a service bundle.

Internet access revenue figures do not include the purchase of content, such as music, or spending on downloaded entertainment content. These streams are included in the respective content chapters. Internet access fees for phones provided by companies, including access to the corporate network, are also not included.

## The Swiss Internet Access Market

### Market Overview

The Swiss Internet access market is dominated by four companies: Swisscom, Sunrise, Orange and UPC Cablecom. The market can be divided into the wired broadband and mobile access segments. With the exception of Orange, all companies offer wired broadband and mobile Internet access. Swisscom and Sunrise offer wired broadband access via xDSL (including FTTx) and UPC via its cable network. Orange focuses on mobile devices and therefore provides only mobile access.

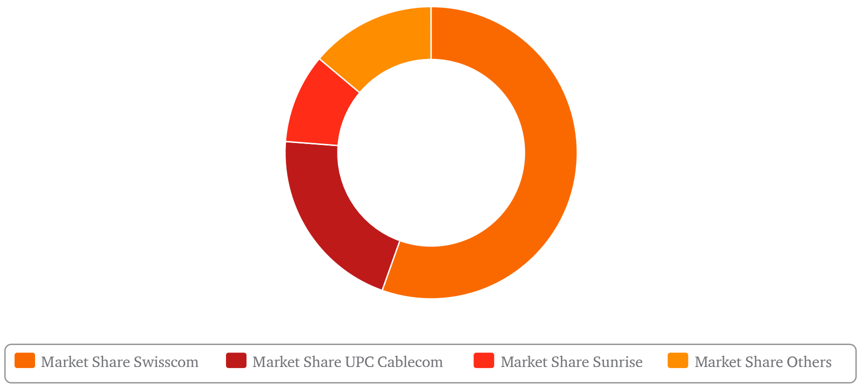
At the end of 2013, 68.4 per cent of Swiss broadband households were connected through xDSL, versus 31.6 per cent via cable. Since 2009, when it reached its peak at 72.4 per cent, xDSL use is on the decline. An explanation for this trend could be the higher download speed afforded by a cable modem and what in most cases are cheaper bundle-prices than xDSL.

The expansion of Switzerland's optic fibre network is progressing and more communities are gaining access to high-speed Internet. This rapid development of the domestic fibre network is also reflected in the country's high surfing-speed ranking: Switzerland occupies second place after the Netherlands. To build on this advantage the Swiss government and business representatives have agreed on a number of measures regarding the roll-out of FTTH. In June 2013, 6.71 per cent of all Internet users were already connected to the web via optic fibre. The EU 15 average is slightly higher, with 6.91 per cent of all users having an FTTH connection.

Swisscom is and will be the main driver for the development of the FTTH network in Switzerland, given that the building a fibre network requires substantial resources. In the first quarter of 2014, 770,000 customers of Swisscom had a FTTH connection. By 2020, Swisscom will enable 80 per cent of its customers to use ultra-broad band connectivity with download speeds in excess of 100 Mbit/s. Cablecom is countering Swisscom by upgrading its EuroDOCSIS 3.0 network to EuroDOCSIS 3.1 in order to provide even higher down- and upload speed. This new technology facilitates transmission speeds of up to 1 Gbit/s and is therefore a clear competitor to FTTH.

Broadband Internet Access

Market Shares in June 2014 (%)




Analysis by PwC

A recent study by Publisuisse reveals that smartphone penetration in Switzerland stood at 77 per cent in the spring of 2014. Already 45 per cent of the population own a tablet, and the amount of people who have access to such a device is projected to increase further: an additional 17 per cent intend to purchase a tablet within the next twelve months.

This high percentage of people using Internet-capable mobile devices fosters the need for mobile web access. That demand is also reflected in our forecast, which predicts the highest growth rates for mobile Internet of all web access segments.

***Internet access will generate more consumer spend than any other media product or service in the next five years.***

WWAN (Wireless Wide Area Network) is a new technology that offers Internet connection within a much broader radius than WLAN. This technology is a direct response to the growing demand for mobile Internet.

In recent years, competition in the market has increased significantly and therefore led to greater price pressure. Swisscom has recognised this trend and is continuously offering ever-higher bandwidth for the same price. Other Internet providers such as Sunrise and Cablecom have followed this strategy, so customers can expect steady prices but higher bandwidth capacities over the next few years.

***Mobile Internet revenues will overtake wired Internet access revenues in 2015.***

Another technology for high-speed mobile Internet access is LTE. Long Term Evolution (LTE) was first introduced in Switzerland in 2013. At the end of 2013, Swisscom had managed to expand its 4G network to a 91 per cent rate of coverage by population in just one year's time. To accomplish that, Swisscom made infrastructure investments of more than CHF 1 billion in 2013 alone. Sunrise and Orange also offer an LTE service but, with coverage rates of 50 and 84 per cent, respectively, they clearly fall short of Swisscom's population coverage. Cablecom, which recently entered the mobile Internet market, doesn't offer LTE mobile Internet thus far, preferring instead to promote public hotspots that are accessible for free.

Swisscom went even a step further by introducing LTE roaming in June 2013. Customers are now able to use their LTE connection in South Korea and seven other countries around the world.

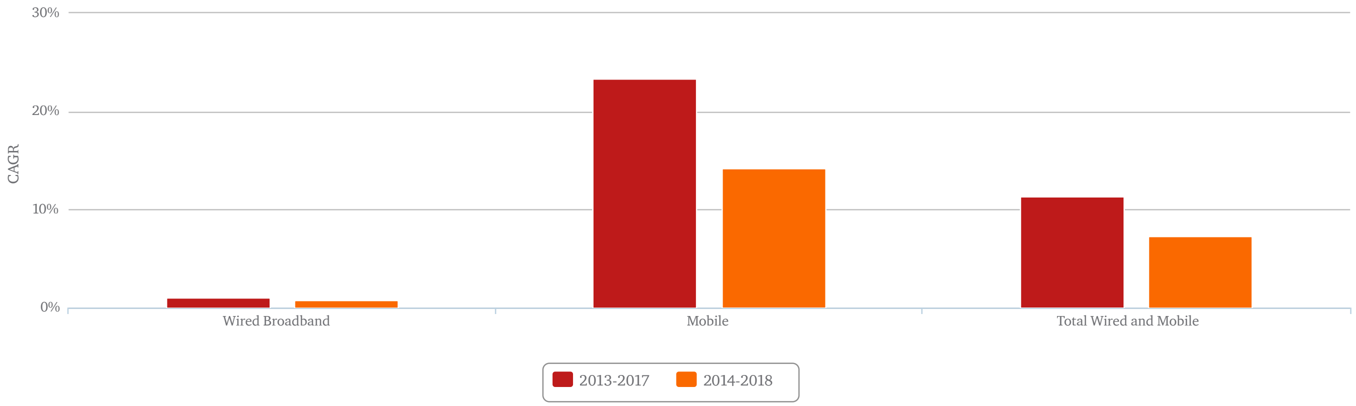
Another important development is the heightened attractiveness of bundled Internet access products. At the end of March 2014, more than 1.06 million customers were taking advantage of Swisscom's bundle offerings. During 2013, the bundle segment of Swisscom grew by 27 per cent. Cablecom has also accumulated a large base of bundle users. Roughly 58 per cent of its customers have subscribed to double, triple or even quadruple bundles, and this proportion is expected to increase. Internet providers are driving this shift by offering cheap bundle prices and high-performance connections.

## Market Growth

Most Internet service providers expanded their user base in 2013. Nonetheless, the growth rate is expected to decrease slightly over the next four years. This can be explained by the overall lower average revenue per user (ARPU) in the Internet access market as the result of price pressure. The ARPU of Sunrise, for example, decreased from 43.30 to 36.80 Swiss francs. The competitors of Sunrise are experiencing similar changes. This trend is due to the new bundle options which are significantly cheaper than the other products. The shift should soon be completed since most customers already have changed their subscription. Nevertheless, we assume that the total volume of the Swiss Internet access market will reach CHF 4.3 billion in 2018. Another important factor for the growth of the Internet access market is the penetration level in Switzerland. The percentage of Internet users in Switzerland is already high, and that diminishes the future market potential.

Comparison of CAGR

by Component (%)




Analysis by PwC

## *Principal drivers*

### *Competitive market situation*

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

### *Bundled offerings*

Customers want an all-in-one solution for Internet, TV and telephone (fixed network and mobile). Such bundles are attractive because the customer doesn't need to have three different contracts with three different companies. What's more, the Internet providers are propelling this trend by offering the bundles for low prices and thereby motivating customers to switch the contractual arrangement. However, as previously mentioned, this shift has the disadvantage of less revenue per customer.

### *Mobile Internet*

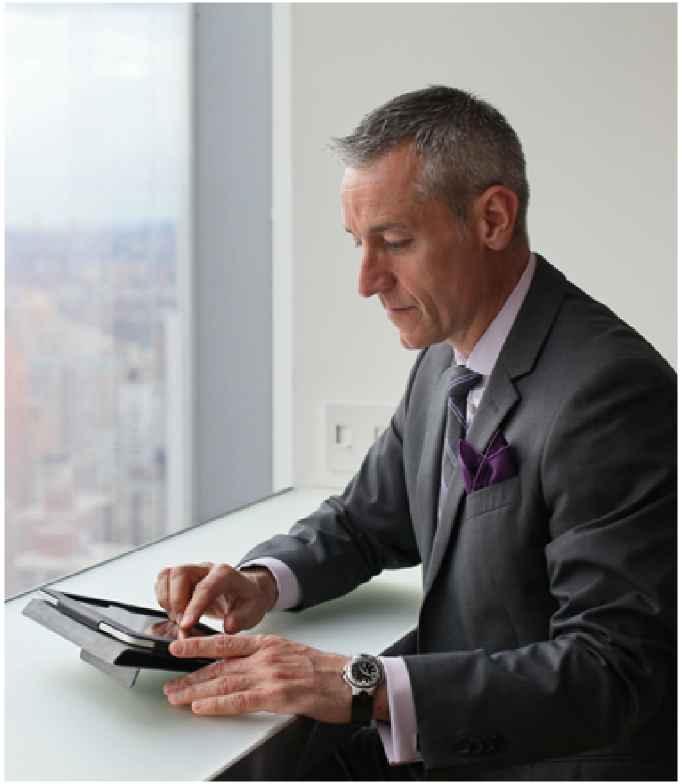
The mobile Internet access market is currently the fastest growing segment. Over the next ten years we expect the total revenue volume of the mobile access market to overtake that of the wired Internet access market. Moreover, the increasing number of smartphones will add to the need for mobile broadband Internet access.

### *Customer behaviour*

Another important factor for the strong growth of mobile Internet is the changed subscriber behaviour. Users want to be flexible and independent regardless of where they are. Mobile Internet accommodates this need by ensuring web connectivity anytime, anywhere.

### *Increasing data volume*

The quality of media content is constantly increasing, which results in a higher volume of data. A reciprocal effect is triggered in which the higher data volume causes Internet service providers to develop their network, and that in turn causes content providers to create media of even higher quality.



## *Business innovation*

Product bundles have become an important part of the Swiss Internet access market. In this section, the development of product bundles in Switzerland is illustrated by the example of Swisscom. In 2007, Swisscom already offered a product bundle combining mobile phone and Internet access. In 2009, Swisscom continued to improve their product bundles by offering a product exclusively in Zurich, which included a fast Internet connection (FTTH) and Voice-over-IP (VoIP). The main reason why Swisscom relied so heavily on bundles was because the comfort and simplicity of the products were significantly increased. Another factor that argues for bundling is the cost reduction which results out of the lower complexity costs.

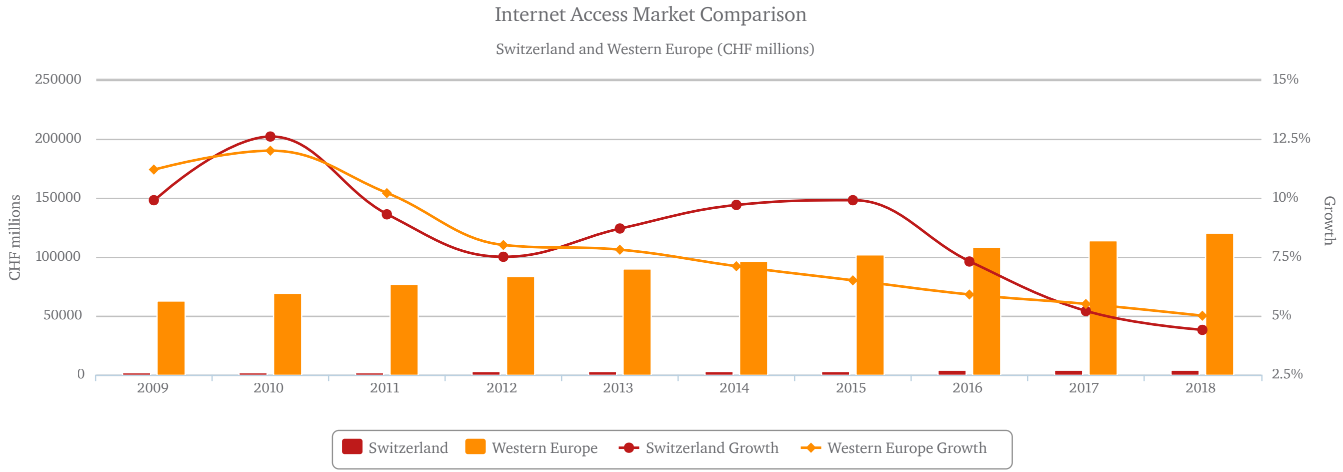
***Bundles are gaining further importance but increasing the risk of price erosion.***

Yet bundling also has a negative side effect: it fosters price erosion. Swisscom estimates the costs caused by price erosion in 2010 alone to be approximately CHF 525 million.

Nevertheless, the segment of product bundles is steadily growing. At the end of 2011, 572,000 private customers of Swisscom were using product bundles. By 2013, already one million customers had bought a Swisscom bundle product. The segment grew at approximately 75 per cent in this two-year period. In the first quarter of 2014, the volume of the bundle segment reached CHF 439 million, an increase of 25.8 per cent compared to last year.

This impressive business case shows clearly how important this type of Internet access product has become. Other players in the market such as UPC Cablecom and Sunrise also recognised this trend and offer similar bundles. Most providers now also offer the option to freely combine the different parts of bundles.

## *Comparison to Western Europe*

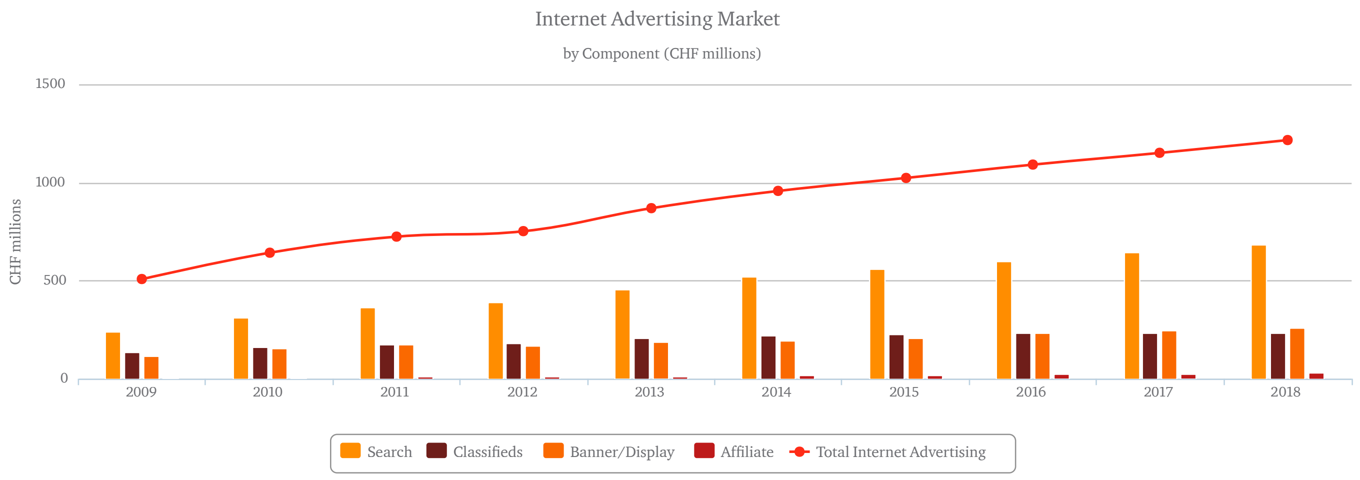



Analysis by PwC

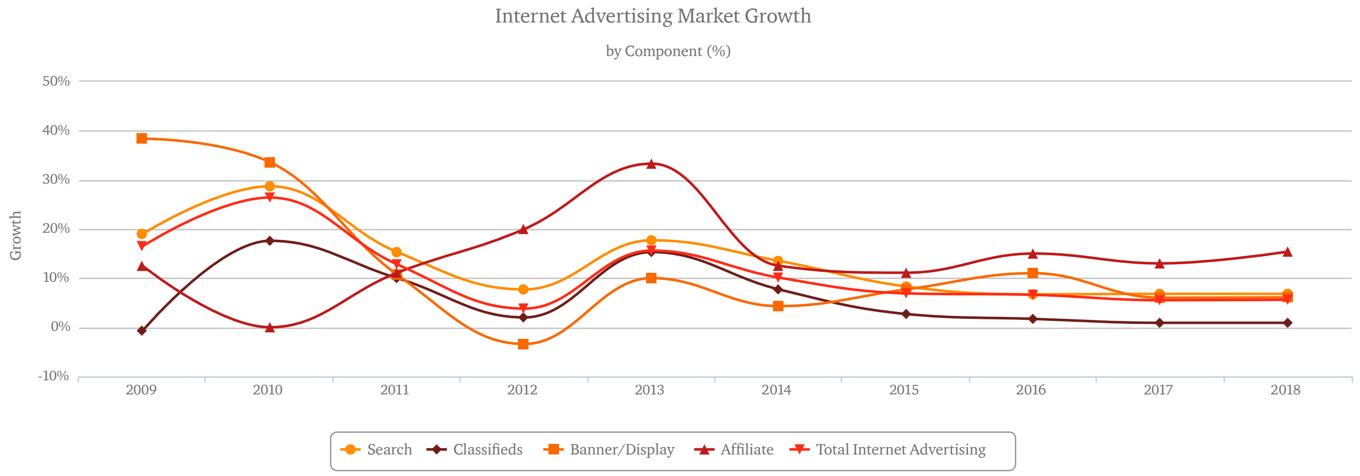
According to the OECD, Switzerland has the highest broadband penetration of all Western European countries (44.9 per cent in 2013). By way of comparison, the OECD average was 27 per cent at the end of 2013. The average Internet speed however is only 23,269 Mbit/s in Switzerland; the average for the OECD countries is almost twice as high (44,438 Mbit/s). This wide gap is caused by certain statistical anomalies (e.g. Sweden with its average of 136,284 Mbit/s, which is attributable to a high 38.25 per cent level of optic fibre penetration).

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

# Internet Advertising




Analysis by PwC




Analysis by PwC

## At a glance

### Segment definition

This segment addresses gross advertising spending by advertisers by means of wired Internet connection and mobile devices. It comprises advertising outlays for placements via paid search, classified, banner/display and "affiliate". Banner/display includes all rich media, sponsorship, lead generation and e-mail related advertising as well as in-stream and in-banner video advertising. "Affiliate" refers to a type of performance-based marketing in which a business rewards one or more affiliates for each visitor or customer brought to its website through the affiliate's own marketing efforts.

As was the case last year, we have excluded the segment "video", which encompasses online television and video-on-demand advertising, as this is already covered in the television advertising segment. In-stream and in-banner advertising have therefore been included in the banner/display category. Also, we eliminated the "mobile" as all other categories include wired and mobile advertising revenues.

## The Swiss Internet advertising market

### Market overview

In Switzerland, online advertising is still the fastest growing segment of the gross advertising market, whereby search advertisement is the largest segment in the Swiss online advertising market. Search ads account for more than half of the online advertising volume and in 2013 the related spending amounted to CHF 459 million. The large share that the search segment commands can be explained by the steadily growing search engine user base. There are indications that the growth rates of search engines such as Google could decline in the future, similarly to the slower growth of the Internet medium per se due to its already high level of penetration. Nevertheless, this segment is expected to steadily earn higher revenues over the medium term.

One reason for this is the increase in prices for Google Adwords in Switzerland, which has been spurred by continuously rising demand for this kind of online advertising. The limited ad space, coupled with ever-greater demand, logically leads to those higher prices. Equally spoken, we sense the market for paid searches is becoming saturated, given that some advertisers are expected to discontinue this form of online advertising due to the heightened competition, which in turn will result in a stabilisation of prices over the medium term.

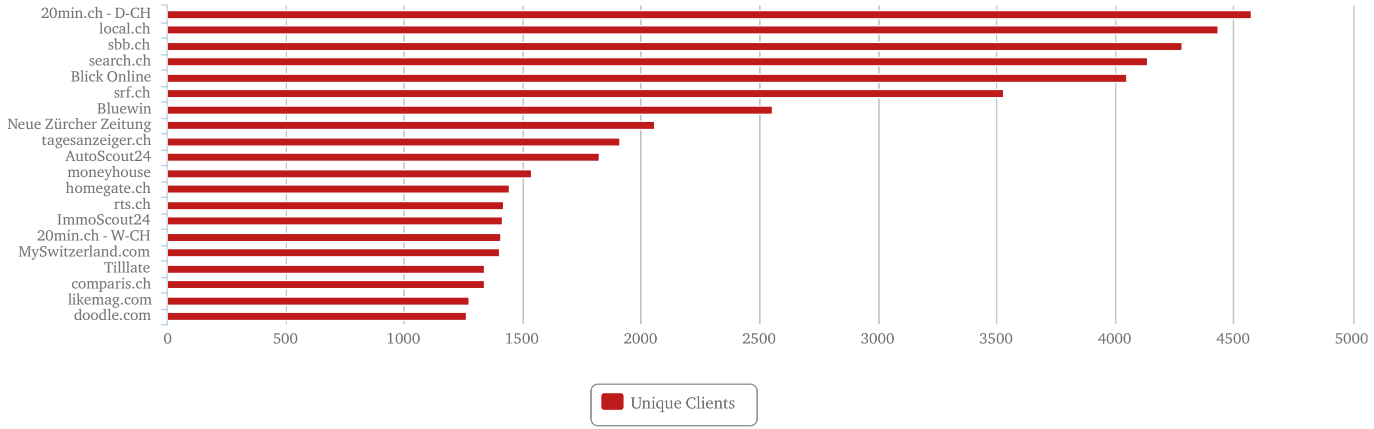
As last year, three industries dominate the search advertisement market. Services, catering & tourism and fashion & sports, which accounted for more than half of the total search advertisement volume at the beginning of 2014. We expect them to maintain the same proportion of volume for the rest of 2014.

This comparatively high share can be explained by the usefulness of search advertisements to the aforementioned industries. The services and retail sectors are placing Internet advertisements extensively since their products can be easily purchased or booked via the Internet.

The search advertisement market is very defragmented: less than 20 per cent of the businesses that use search advertisement account for 98 per cent of the market volume, while the remaining 80 per cent (comparatively small players with a limited budget of up to a thousand Swiss Francs) account for the residual two per cent of the advertising spend. Despite their small budget, these smaller companies are still able to advertise successfully. Crucial for the success of search advertisement is having the right keyword combination and a dedicated strategy that targets the right audience.

Top 20 Swiss Websites in August 2014

Measured by Unique Clients (in thousands)




Analysis by PwC

***The ongoing tracking of user behaviour is increasing the conversion rate of online advertisement.***

Classified advertisement is currently the second largest segment of the Swiss online advertising market. This type of ad accounts for 24 per cent of the overall market volume. Websites which use classified advertisement, e.g. 20min.ch, jobs.ch and homegate.ch, broadened their user base in the past year. However, the growth of the classified component of Internet advertisement is expected to decelerate over the next four years to just 0.9 per cent growth in 2018 due to the diminishing use of this type of advertisement and increasing price pressure in the segment as a whole.

Banner/display advertisement currently accounts for 22 per cent of Switzerland's total online advertisement market. The growth of this segment will remain stable at around seven per cent per year. This form of advertisement has become an essential part of any online advertising strategy. However, studies have revealed that excessive use of banner/display advertising could disturb users and cause a negative impression of the brand. This effect is called "banner blindness". Banner blindness can be counteracted by using display advertisement, where the viewer has to actively deal with the advertisement.

***Search will retain its dominant position within the segment.***

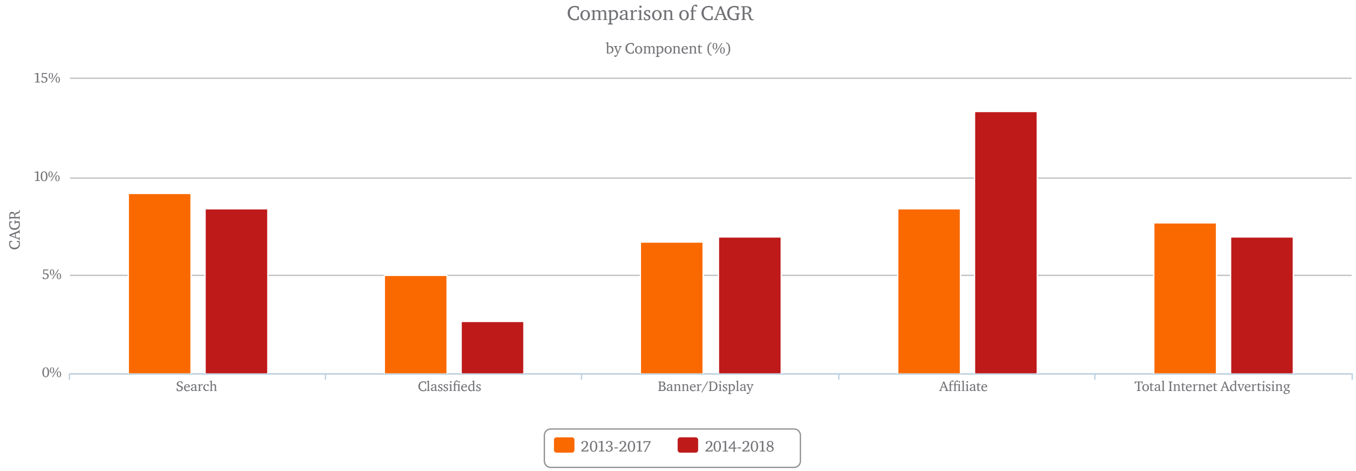
Banner/display advertising will be subject to new innovations in the years ahead. Future display advertisements will include a heightened degree of interactivity in order to gain the attention of the viewer. Another way of augmenting the advertisements is to use "rich media". Through additional optical and acoustical stimuli, the success of the display ad can be enhanced. A typical example of rich media is video advertising, which includes more high quality content from premium brands and thereby exposes the potential customer even more to the brand image. A study from eMarketeer suggests that the use of rich media will grow at a 40 per cent pace in 2015.

Even though the Internet coverage in Switzerland is already high, there is still potential for growth, particularly in the mobile Internet segment. The domestic trend in mobile device use is still strong, with 77 per cent of the Swiss populace already in possession of such so-called smart devices. That trend is projected to continue in the next several years. Especially the user base for tablets is growing rapidly and, according to a recent study by Publisuisse, is expected to increase from the current 45 per cent of the total population to 57 per cent in 2015.

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

## *Market growth*

The online advertising market is expected to keep growing by seven per cent annually over the next five years. Although all segments are likely to gain ground, we project that the growth rate for "affiliate" will stand out with an annual growth rate of 13.4 per cent. We estimate that search and banner/display advertising will grow at an annual 8.4 respectively seven per cent over the next five years. Classifieds, however, are expected to stagnate during the same time frame (only 0.9 per cent growth in 2018).




Analysis by PwC

## *Principal drivers*

### *Second screen*

The behaviour of Internet users has fundamentally changed. Many people are using different devices and screens simultaneously. A recent study by Anyweb GmbH comes to the conclusion that 84 per cent of the users between the age of 14 and 49 are surfing on the Internet while they watch TV. 49 per cent even use the second screen to search deliberately for information about the content they are consuming on TV. The widespread use of multiple devices with online connectivity fosters the time spent in the Internet and the amount of information consumed. Online advertising can benefit from this trend by tailoring the advertising to the content consumed on TV.

### *Customised advertisements*

Big data and analytics enable an increasing degree of customisation of online advertisement. The ongoing tracking of user behaviour, paired with more sophisticated algorithms, allow more accurate targeting. In consequence, it is more likely to increase the conversion rate of online advertising and online sales.

### *Optic fibre technologies*

Multiple cable operators and providers of telecommunication services are investing in new optic fibre technologies to enhance the bandwidth across Switzerland. The new technology will enable download speeds up to 1 Gbit/s (download) and the consumption of high definition content will be simplified as a result. Internet advertisement will benefit from enhanced bandwidths through the ability to stream bigger data packages to the users.

### *Advertisement blockers*

Ad-blockers, the deletion of cookies and anonymity options are easy ways to block all categories of online advertisement. Users take those measures in order to be not disturbed by unwanted ads. Experts estimate that currently one-fourth of online users make use of ad-blockers, but that this rate can be expected to increase. The blocking of advertisements causes losses of thousands of Swiss francs. To maintain the efficiency of online advertisement, the content should be made more interesting for the user, e.g. by using rich media or technical solutions to circumvent the use of ad-blockers.

***Huge risk: one-fourth of online users make use of ad blockers.***

### *ROI from online advertising*

A study by Digital Media Consortium came to the conclusion that the return on investment from online advertising is in fact much higher than anticipated. The ROI from Google search advertisements is reportedly underestimated by 39 per cent and that of Facebook advertisement by an even higher 48 percent. Today, many companies are still uncertain about the effectiveness of their Internet advertising campaigns, and that has led to a more cautious approach to this type of advertisement. So greater awareness of the value actually generated by online advertising will possibly lead to the increased use of it.

## Business innovation

Remarketing is a form of individualised online advertising. The goal of remarketing is always to lead the customer back to the original website, ideally driving up the conversion rate. What makes remarketing special is the detachment of the advertisement from a single website. If for example a potential customer visits a website for a specific product or service, the related advertisement will "pursue" the user after the original website has been left and be displayed as ad on the next websites the user visits.

***Remarketing detaches advertising from a single website and thereby follows the customer through the web.***

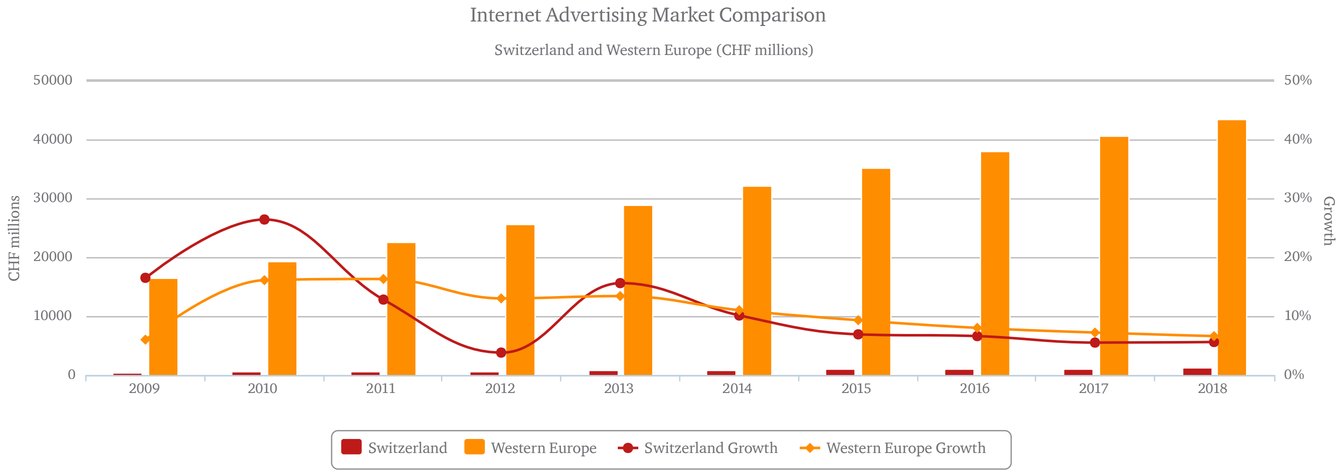
The remarketing routine will notice which content the customer is viewing on the website and then activates the software to display a specific advertisement based on the customer's interests. If the viewer is visiting the website of a clothing company, the software recognises that he is searching for a suit. Then on the next website he visits, a banner appears with offers for suits in order to convince him to come back to the original website. In the event that the customer actually does buy the suit, another use for the software is to promote the purchase of complementary products such as shirts.

The great advantage of remarketing is that a company's media spend is invested in customers who have already shown interest in the products of the advertiser. Normal Internet advertising also is visible to many people outside the target audience, which leads to money being wasted. A study from Adroll came to the conclusion that remarketing costs twenty per cent less than site-targeted campaigns on a cost-per-view basis, but is two times as effective.

## Comparison to Western Europe

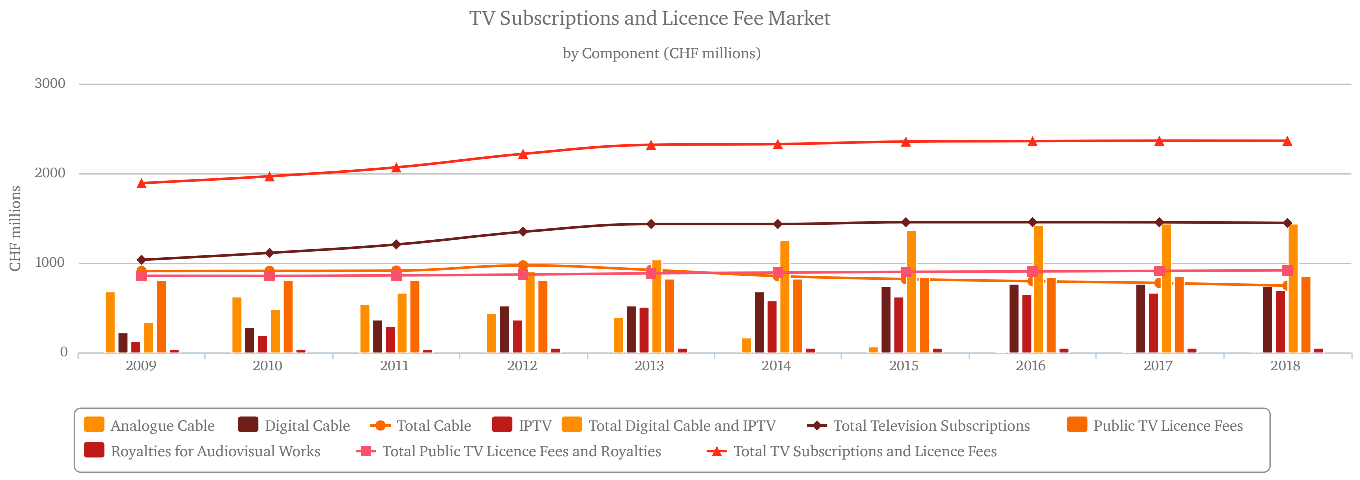
The Internet advertising market in Switzerland has caught up to or even exceeded the average growth rates seen in Western Europe over the past several years. We expect the growth rates of both Switzerland and Western Europe to converge as 2018 approaches. However, it is likely that Swiss GDP can grow at a faster rate than the GDP of Western European economies. A flourishing economy should give a boost to the online advertisement market as well as Switzerland's share of the overall Western European Internet advertising market.

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

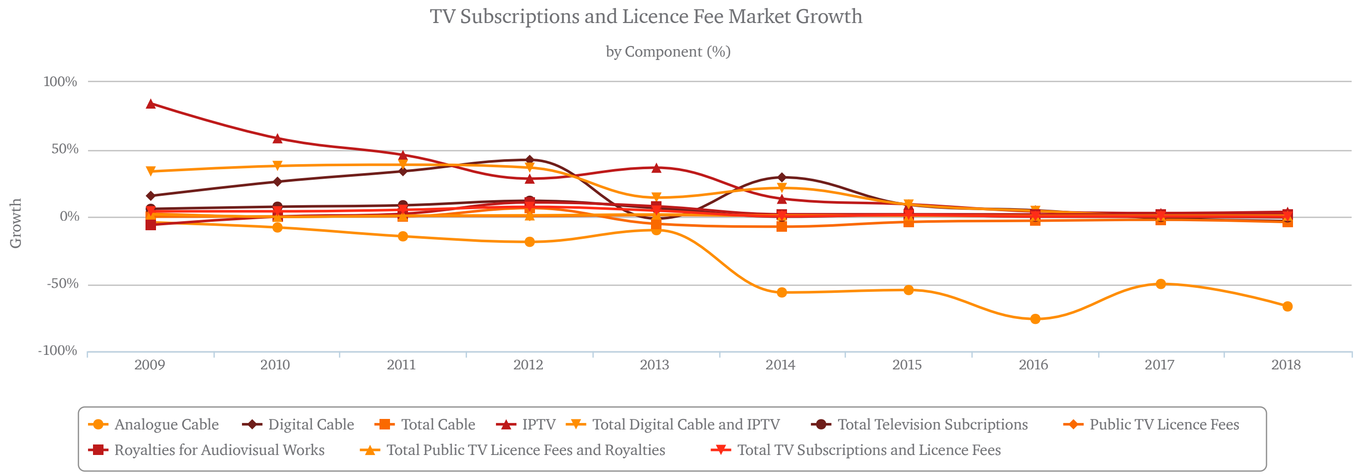



Analysis by PwC

# TV Subscriptions and Licence Fees




Analysis by PwC




Analysis by PwC

## At a glance

### Segment definition

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

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

## The Swiss television subscriptions and licence fee market

### Market overview

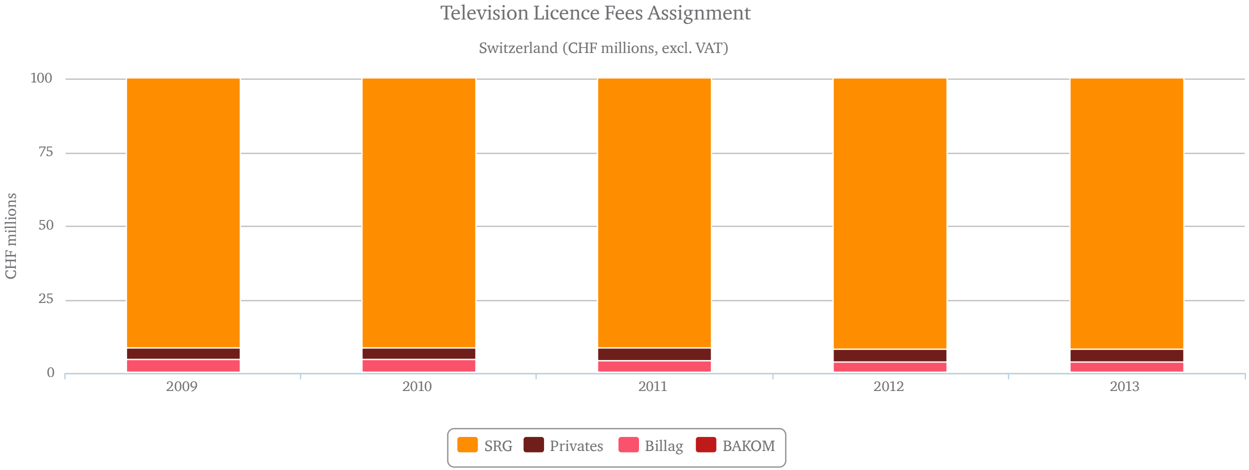
The Swiss television subscription market consists of cable TV, IPTV and mobile TV offerings. UPC Cablecom is Switzerland's largest cable TV vendor, whereas Swisscom leads the IPTV segment. As to Swiss licence fees, BILLAG is responsible for collecting the public TV licence fees and Suissimage ensures appropriate remuneration of the authors of audio-visual works.

On the Swiss TV market, free services such as free digital terrestrial television or free-to-air satellite services compete with subscription-based television services. In particular, the subscription market consists of cable television in analogue or digital format as well as Internet protocol television.

***IPTV will hold a 48 per cent market share of the Swiss TV subscription market by 2018.***


The cable sector is led by UPC Cablecom, Switzerland's largest cable network operator with a 38 per cent share of the total Swiss TV market, which comprised more than 1.4 million subscribers at the end of 2013. UPC is in a race to consolidate, upgrade and convert analogue homes to digital in the face of Swisscom's offensive but still lost 2.2 per cent of its customer base in 2013 compared to the previous year. It will seek to defend its market share through consolidation and has launched the top-end "Horizon" set-top box in the fall of 2013 and its own streaming platform "MyPrime" in September 2014.

***Subscription TV will not be daunted by the rise of OTT within the forecast period.***




Analysis by PwC

In order to push the propagation of digital TV, UPC Cablecom cancelled its basic encryption for digital TV offerings in November 2012. The company plans to stop its analogue programming by 2015 as it is no longer mandatory for cable providers to offer Swiss TV shows in analogue, as previously announced by the Federal Office of Communications (OFCOM). We expect this to happen within the next two years. Consequently, most cable networks are expected cease their analogue supply.

Swisscom dominates the Swiss IPTV market with a market share of over 27 per cent of the Swiss TV market in 2013. The amount of households using Swisscom TV grew by 21 per cent up to 1.1 million within a year's time, compared to 900,000 customers in June 2013. Over 70 per cent of the Swisscom TV subscribers were taking advantage of bundle offerings at the end of 2013. To further expand its subscriber base, Swisscom launched a cloud-based TV "Swisscom TV 2.0" offering in April 2014. It features a set-top box which allows the user to record any number of movies and replay the TV content within seven days. At the end of June 2014, already 77,000 customers were making use of this product. IPTV will be a growth area in the Swiss TV market, with an anticipated annual growth rate of 6.4 per cent through 2018.

Nevertheless, the largest private telecommunications provider in Switzerland, Sunrise, entered the IPTV market with its own IPTV offering called Sunrise TV at the beginning of 2012 and managed to more than double its customer base up to 74,'000 subscribers for IPTV service by the end of 2013. Currently, Sunrise offers more than 220 channels, of which 65 stations are in HD quality, compared to the more than 250 channels offered by Swisscom TV.

Competition in the Swiss TV market is intensifying as OTT providers steadily broaden their free TV offerings through new functionalities and with new business models aimed at expanding their customer base and enabling them to compete with the telephone companies and cable operators.

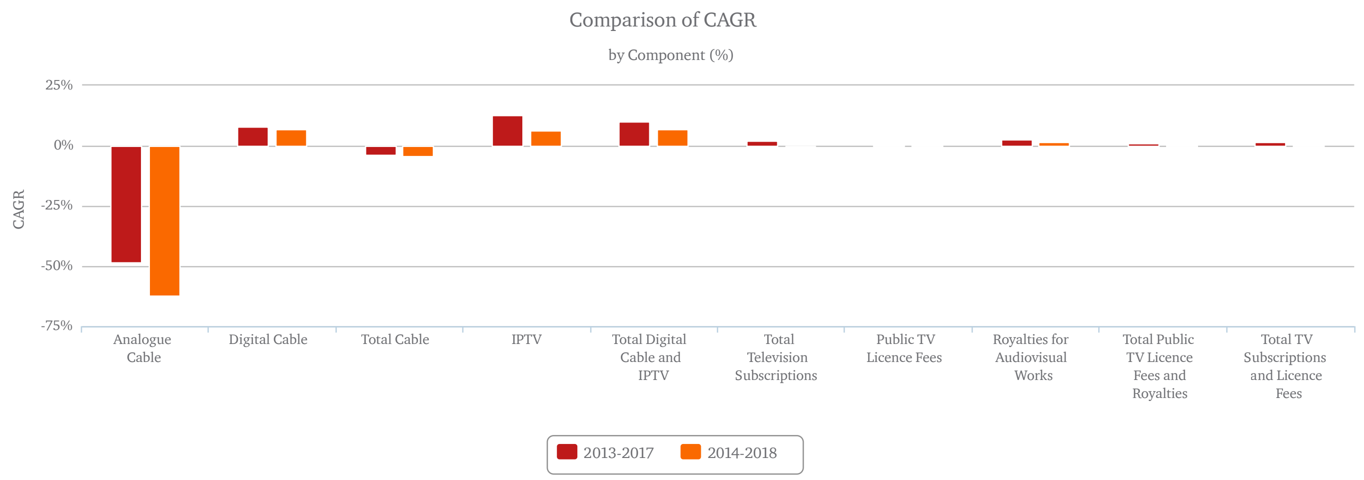
Over-the-top TV providers such as Wilmaa, Zattoo and Teleboy are successfully bringing low-priced digital TV services directly to the TV set in the living room. Teleboy and Zattoo released a TV app after they decided not to just attract users of computers, tablets and mobile devices with their television offering. Their app allows watching Internet-enabled TVs, mainly from Samsung.

Wilmaa is planning to offer a bundled service combining fibre optic television, Internet and telephony. Its Internet platform has more than 385,000 visitors monthly and offers cost-free use of a TV guide, time-shifted TV, live pause and a video-on-demand service which can be extended to a chargeable premium account that affords more benefits and less advertisement.

Another successful Swiss OTT provider, Zattoo, is heavily investing in B2B relationships with its Zattoo Solutions business in its move to provide TV solutions to cable TV operators, Internet service providers and mobile telephone companies.
Live TV Zattoo is accessible via computers, smart phones, Xbox consoles and tablets, and in July 2014 had recorded more than 1.1 million individual users. The programme offer already includes more than 200 TV channels.

Due to these efforts, the difference between the offerings from OTT providers and other digital TV providers is steadily shrinking, whereas the price of OTT services is lower in comparison to traditional digital TV.

***Bundled offerings are considered to be a key success factor in the market.***




Analysis by PwC

## *Market growth*

In that the TV subscription market is a crisis-resistant segment, we expect low but steady growth through 2018. This development will be driven by intense competition in the digital cable and IPTV market. We expect a boost in the digital cable and IPTV market in 2014 and 2015, driven by customers who switch from analogue TV and the availability of bundle offers.

In the long term, the TV market will remain a highly competitive market with IPTV and cable TV providers – mainly Swisscom and Cablecom - vying for new subscribers in an otherwise relatively saturated market. Cable TV lost around 60,000 subscribers in 2013 and is forecasted to lose further market share through 2018. IPTV will grow further and become a strong rival to cable with more than 1.5 million households at the end of 2018, up from 1.1 million at the end of 2013, representing a CAGR of 7.1 per cent. The growing subscriber base will be driven by the outstanding customer experience and Swisscom's marketing initiatives. The public licence fee and royalties market in Switzerland will remain relatively stable over the next five years, representing a CAGR of 0.7 per cent.

## *Principal drivers*

***Intense competition between IPTV and Cable TV providers to convert analogue TV customers***

The fact that the digital TV market in Switzerland is highly competitive reflects the increasing aggressiveness of promotional activities. In 2013, cable TV was still the market leader in terms of subscription households, but IPTV should gain market share within the next five years as the competition stiffens due to the abolishment of analogue TV. In 2013, around 12 per cent of all viewers watched television solely on an analogue basis. So cable TV and also IPTV providers keep trying to entice the remaining customers away from analogue TV with attractive offerings. The competition will foster innovations and engender strategies for customer loyalty.

***IPTV as the fastest-growing technology in the Swiss TV market***

Although the total number of cable TV subscriptions is decreasing modestly due to the intense competition of IPTV offerings, there were still more cable TV subscriptions than IPTV households in 2013, but this status might change by 2018. As IPTV is a fast-growing technology in Switzerland, a shift from cable TV to IPTV will continue over the next five years. One of the main reasons are double-, triple- and even quadruple-play packages, which could include mobile and landline telephony, Internet and TV, and make IPTV even more attractive as the customer ultimately pays less for a package with IPTV compared to booking each component separately. By the end of 2013, already almost 70 per cent of all IPTV subscriptions were offered as a bundle.

***Trend towards "TV everywhere services" and video-distribution networks***

Digital cable TV and IPTV operators frequently provide their pay TV customers access to video-distribution networks and the possibility to watch the content they subscribe to on additional devices via free mobile TV apps – including PCs, tablets and smartphones.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With these services, they can achieve the dual purposes of increasing the value of pay TV subscriptions and defending against the potentially disruptive threat of new OTT video players such as Netflix.

***Booming bundle offerings***

Bundled offerings are considered to be a key success factor in the market since offering the full range of products is more likely to ensure survival in today's highly competitive landscape. The latest bundles mostly offer a combination of mobile and landline telephony, broadband Internet access as well as TV access in order to serve all customers' needs via one provider. Particularly successful in these kinds of combined offerings is Swisscom, which is in step with the general market trend and has achieved an overall growth rate of 30 per cent in bundled services compared to the prior year on revenues of CHF 1.55 billion in 2013. The major advantage of these bundled offerings is the high loyalty of customers that is enabled by the lock-in effect. Additionally, these combined offerings make use of existing capacities that wouldn't be used otherwise, so the additional investment by the providers is relatively low.

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

The smart TV, which combines TV and online content on a TV screen with the aid of a hybrid box, will be pushed ahead in 2014. Last year, the UPC Cablecom TV app "Horizon" represented the starting shot. In addition, the SRG television company has switched to HbbTV. The cable networks support this development by transporting the corresponding signals and even offering their own HbbTV services to some extent. Special features of HbbTV are leading-edge services such as enhanced teletext catch-up services, video-on-demand, interactive advertising, personalisation, voting, games, social networking and other multimedia applications. However, hybrid TV in Switzerland is not well established at this point. The coming two years will show whether it corresponds to a real customer need.

## Business innovation

Linked television is a vision of future television consumption and represents a smart interlink between TV and Internet content. In other words, intelligent software scans the content of a TV programme and looks for content matches on the Internet even before the broadcast. The audience can find some additional information on objects, persons or events of pertinence to every TV appearance on the portal of "LinkedTV", parallel to the broadcast. For example, while watching the news, a viewer obtains background information on the stories, or when a viewer sees a painting in a TV programme, there is the opportunity to identify the artist and the museum where it is exhibited. This can be enabled through an open data cloud that develops applications for the search in videos. Furthermore, viewers can filter content according to specific criteria in order to get only selected content which meets one's range of interests.

***Linked TV: Television linked to the Internet.***

LinkedTV is an innovation developed by the Fraunhofer IAIS and a further evolution of the second-screen principle. Through use of the second screen, Fraunhofer IAIS succeeded in bringing viewer actions into the same digital environment as the content owner. This retains the connection with the audience and simultaneously can control the information that is being linked with their media. The innovation has a lot of future potential in the TV market as viewers have always been interested in additional information about what they are watching. To sum up, Linked TV makes TV more instructional and informative by uncovering the hidden knowledge in every single video frame.

## Comparison to Western Europe

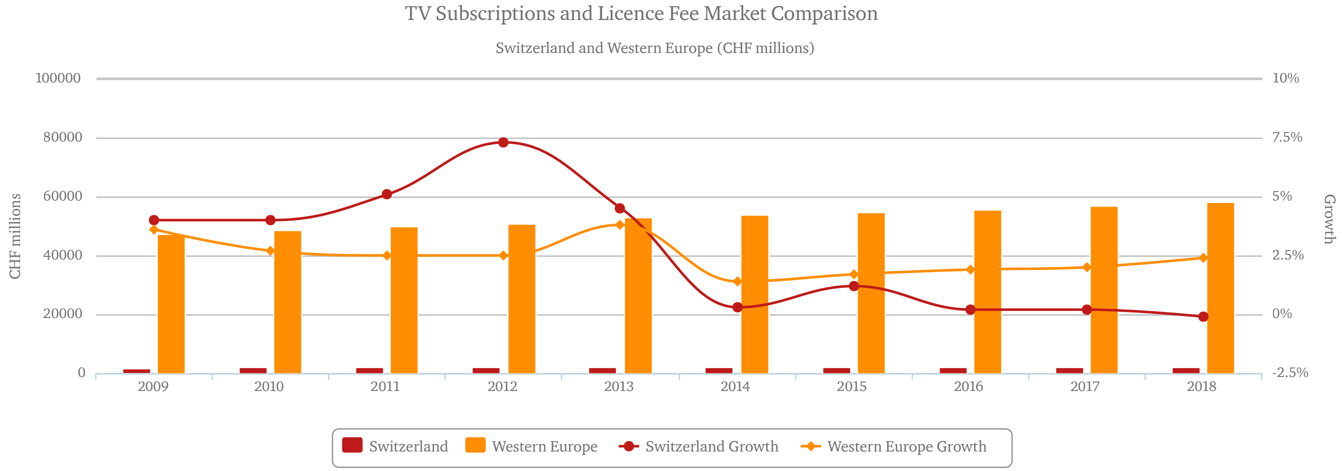
As is the case in the Swiss market, many other Western European TV markets are reaching maturity and their leading TV operators are adapting their strategies to retain customers, extract maximum value from them and appeal to new market segments. Also, new low-priced OTT services will be a key trend to monitor in Western Europe, with operators seeking to compete more effectively with the likes of Netflix but, at the same time, putting their core subscriptions at risk of cannibalisation with lower-cost alternatives to their traditional pay-TV offerings.

With the Swiss TV subscription and licence fees market nearly at full maturity and highly competitive, the anticipated compound annual growth rate of 0.4 per cent is below the average of 1.9 per cent in Western Europe over the forecast period.

Of the two constituent parts, European subscription TV revenues will grow at a CAGR of 2.0 per cent to reach 35 billion in 2018, while licence-fee revenues will grow from 27 billion in 2013 to 29 billion in 2018, a CAGR of 1.4 per cent.

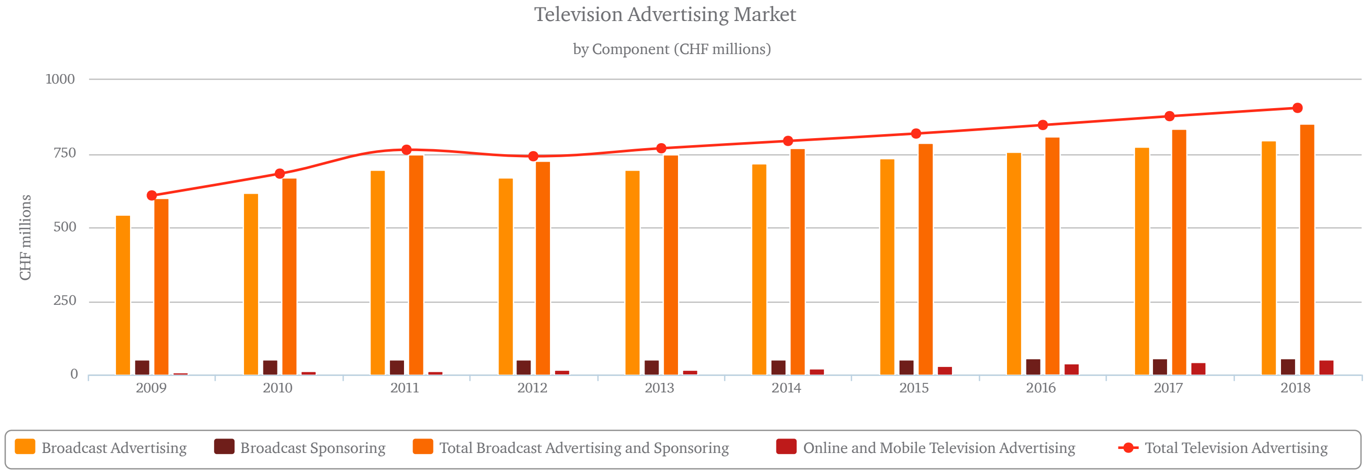
In absolute numbers, Germany is Western Europe's largest cable market, but operators are finding it difficult to convince subscribers to upgrade from analogue to digital services. This reluctance will restrict the sector from achieving faster growth.

As in Switzerland, the main beneficiary of cable's decline will be IPTV, which should grow at a CAGR of 6.9 per cent to reach 22.6mn Western European households by the end of 2018, up from the end-2013 reading of 16.2mn. France, Europe's largest IPTV market, will continue to drive Western European growth for this technology.




Analysis by PwC

# Television Advertising

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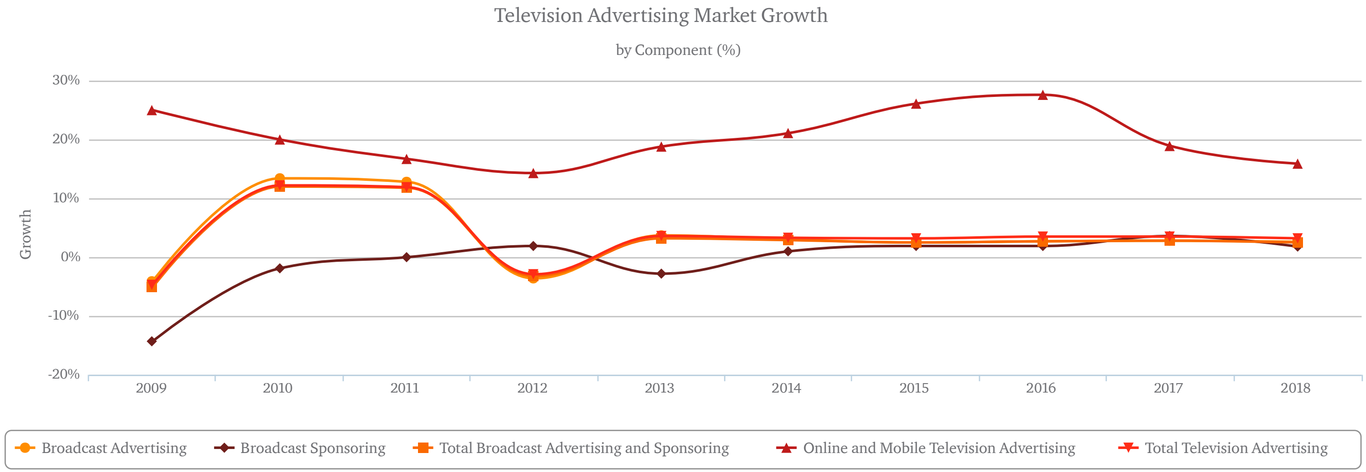



Analysis by PwC

## At a glance

### Segment definition

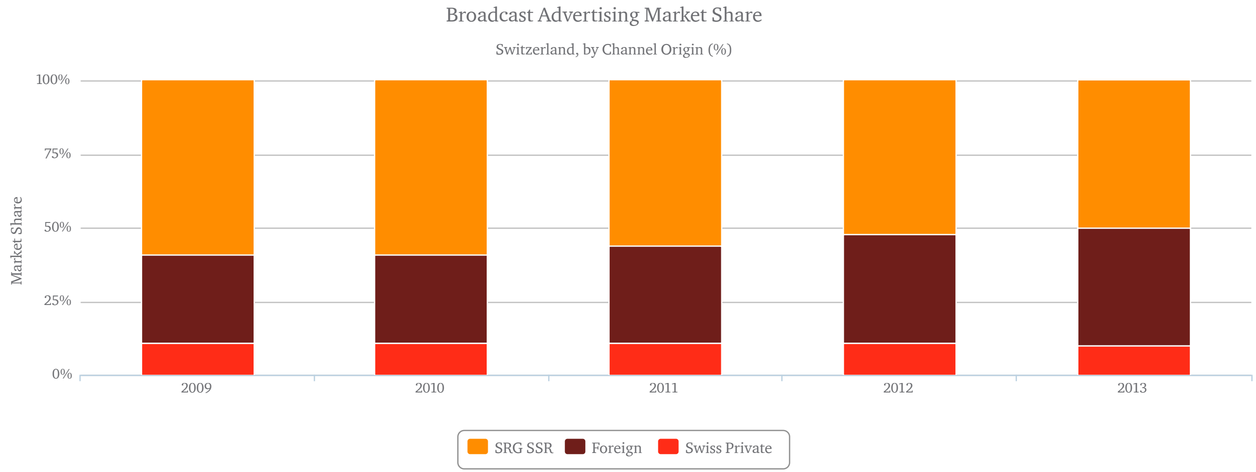
The television advertising market encompasses all advertising spending via broadcast or online television within, before and after TV programmes. Broadcast advertising comprises revenues generated by free-to-air networks (terrestrial), cable, satellite, Internet Protocol TV (IPTV) and other distribution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

## The Swiss television advertising market

### Market overview

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

Broadcast TV advertising revenues were reported by 42 channels in 2013. Half of the revenues were generated by TV channels under public law (SRG SSR). In 2013, private foreign channels held a strong position: they increased their market share of revenues from TV advertising to 40 per cent and continued to limit the potential of private Swiss channels (current market share of ten per cent).




Analysis by PwC

Two players – Goldbach Media and Publisuisse – dominate the Swiss TV advertising market. The former established itself as the marketer for all Swiss advertising windows of private TV stations; the latter markets the advertising space for SRG. Number three in the market, Ringier, entered the Swiss TV advertising market in 2011 and markets the Swiss advertising windows of France's TF1.

TV advertising and sponsoring revenues are continuing to grow in Switzerland and will expand by an average annual rate of 2.7 and 2.0 per cent respectively until 2018. In total, revenues of CHF 696 million were generated in the Swiss TV advertising market in 2013, up from CHF 671 million in 2012, whereas the growth was mainly driven by private foreign channels. In contrast, the Swiss TV sponsoring market declined slightly to 53 million in 2013, a 2.8 per cent drop. In 2013, Publisuisse held a market share of about 41 per cent in the Swiss TV advertising market with net revenues of CHF 285 million, a decrease of three per cent compared to the previous year.

The main competitor of Publisuisse, Goldbach Media, managed to increase its TV advertising revenues by 11.5 million to a total of 310.5 million in 2013, representing a growth rate of almost four per cent, despite their migration to the new TV panel. Ringier managed again to strengthen the Swiss TV advertising window of France's TF1.

Changes in the way viewers consume TV content – e.g. the growth of online TV viewing, the fragmentation of audiences across an increasing number of channels and the growing demand from viewers to access content where and when they desire it – pose challenges to the Swiss TV advertising and sponsoring market. Traditional TV services have been required to adapt to some significant changes and alter their existing business model. More and more, advertisers are taking advantage of the upward trend and improvements in online TV and the fragmentation of audiences across an increasing number of channels, though TV remains the advertising platform of choice.

New technology is both a major opportunity but also a threat to TV advertisers. The proliferation of set-top boxes is increasing and will continue to do so over the forecast period. The advertising industry is becoming concerned about viewers being given the option to fast-forward through or skip advertisements. In 2013, 40 per cent out of the roughly one million Swisscom TV subscribers were already making use of the replay functionality with the possibility to skip advertisements.

Advertisers will have to develop distribution platforms that prevent skipping commercials as well as seek new avenues for their expenditures, including programme sponsorship, product placement and more interactive experiences. Through the use of second-screen devices, advertisers have the possibility to offer more personalised, targeted and interactive advertising formats. When doing so, it is absolutely essential for advertisers that data analytics are available so they can understand consumer behaviour and the users' specific needs.

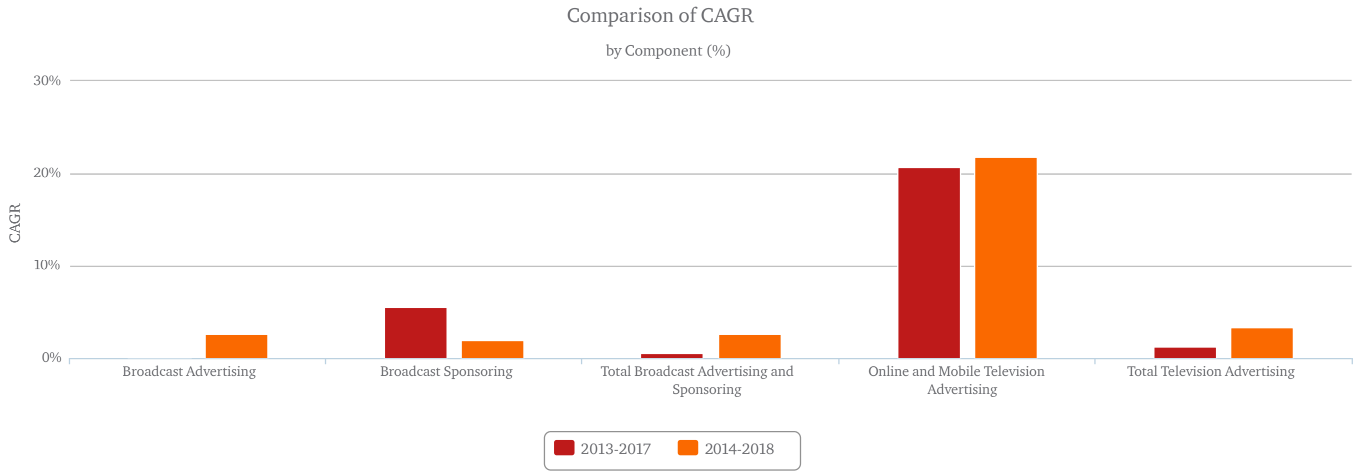
***New technology as a treat – over 40 percent of IPTV subscribers are already making use of the replay functionality.***

Thus when it comes to new technology, of great concern to advertisers is the fact that they lose control over when their adverts are actually viewed, with time-shifted and on-demand content becoming increasingly popular. In response to this ongoing process, Mediapulse replaced the Telecontrol television audience software by deploying an electronic measuring system from Kantar Media in January 2013. Especially due to its measuring and recording device "PeopleMeter", it represents the new point of reference for data on TV programme consumption. One of the latest innovative methods is the measurement of time-shifted TV viewing of households as well as TV use on computers, which is measured by the Kantar Media "PeopleMeter". In addition, MediaWizard was introduced to the market as the new benchmark TV advertising tool.

## *Market growth*

The dynamics of the television advertising market remain high, so it is indeed difficult to arrive at a forecast for the next four years. Broadcast advertisement will grow at a solid rate as it is strongly correlated to the general economic trend, which is expected to be stable until 2016 and thereafter experience no sharp decline until 2018. In 2013 Swiss broadcast advertising grew by 3.7 per cent, contrary to our prediction last year of a 3.6 per cent decrease and despite upcoming online TV ads.

The main advertisers were able to embrace new audience measurement metrics to attract broadcast advertisements and therefore absorb losses in the market. Online and mobile television advertising is expected to grow at a CAGR of 21.8 per cent due to the many improved functions and qualities of online TV providers, but its market share should stay below ten per cent through 2018.




Analysis by PwC

***Online and mobile TV advertising will double its share of total TV advertising revenue in the next five years.***

## *Principal drivers*

***Changing customer behaviour is heavily affecting the market***

Time-shifted TV consumption over multiple devices is gaining importance, which in turn forces broadcasters and advertisers to embrace new audience measurement metrics in order to track how audiences consume their content. The adoption of new digital metrics will drive the TV advertising market in the long term as digital metrics gain ground over the next five years.

***Online TV is driving the TV advertising market and will double its share of total TV advertising revenue in the next five years***

Despite traditional TV being considered the first choice when it comes to advertising, there is a strong move towards online TV advertising as online TV offerings are improving in the TV market. Zattoo, as the leading online TV provider in Europe, is a competent partner for broadcasters/advertisers and offers wide coverage. With more than 1.1 million users and 20 million video views per month, OTT providers such as Zattoo are an interesting medium for online TV advertising in Switzerland.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***Interactive TV ads will become the new norm within the next five years***

With smarter TV devices and HbbTV (hybrid broadcasting broadband TV) as the new interaction platform, the viewer will progressively evolve from a consumer to a user. He or she can use the device to request additional information interactively, call up offers or make direct purchases. Publisuisse is following the trend and recently started a pilot project in cooperation with OTT providers (Zattoo, Teleboy and Wilmaa). The Internet platforms will show a "blue button" during any advertising block of SRG SSR channels. By clicking the "blue button", additional information, special offers and competitions related to the advertised products can be requested.

***Despite the new digital media, TV advertising remains the place to be.***

***TV will remain a mass medium in Switzerland***

Despite the growth of digital media, TV advertising is still the place to be. TV advertising revenue is successfully responding to the rise of newer forms of digital media. Revenue will grow at a CAGR of 3.4 per cent over the next five years, confirming TV as the platform of choice for advertisers looking to reach large audiences with high viewer engagement, persuasiveness and credibility.

## *Business innovation*

In a pilot experiment, traditional Swiss television advertisements are made clickable and thereby become interactive. In cooperation with one of the leading Swiss TV marketers, Publisuisse, the Zurich-based company Filmwords launched the "Blue Button" which takes television advertising to an entirely new dimension. Filmwords' solution, called "Adtracks", is being tested on the online TV services Cineman, Zattoo and Wilmaa. With this innovation, a blue button is displayed on some of the commercials SRG SSR channels. Similar to the "Red Button" on HbbTV, this "Blue Button" activates additional information, special offers and competitions for the products currently advertised on the screen. In addition, the viewer is given the opportunity to rate the TV spots and share them on social networks.

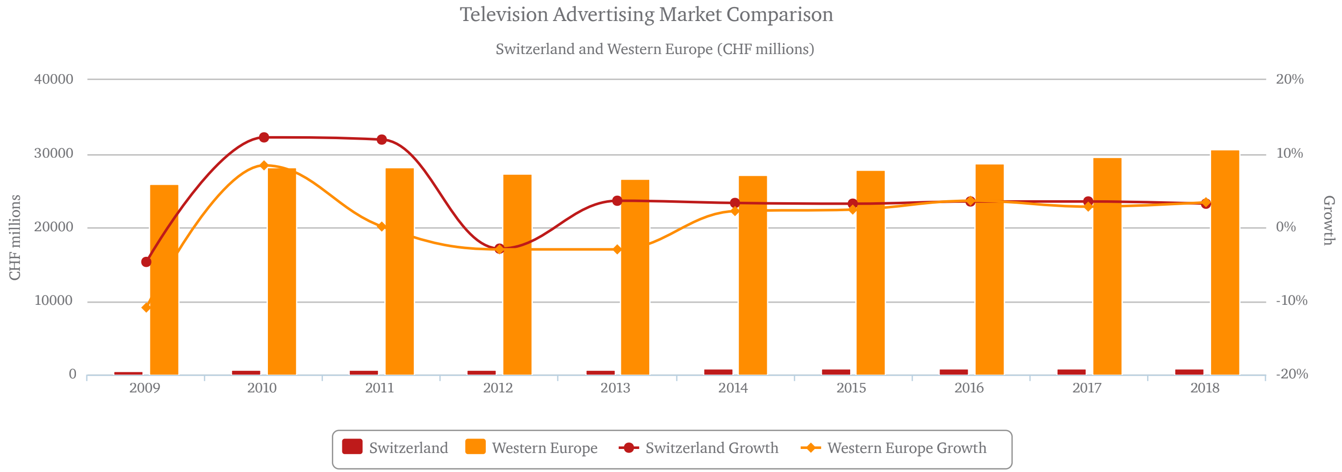
***Start-up company Filmwords is launching the "Blue Button" in the Swiss TV market while Shazam interacts with the viewer via a second screen.***

Shazam is another example of how interaction and additional information on products can be accessed by the viewer. This mobile application by a British company offers the user a music identification service, enabled by the so-called "acoustic fingerprint" of the song. In 2011, the company expanded its service offerings and made it possible to not only tag and identify songs, but also TV shows and advertisements in order to provide additional information to the audience. By doing so, Shazam is following the general trend towards more interactive advertisements and in particular enhancing the user's experience by bringing it to a second screen.

Shazam is unveiling a new television advertising assessment metric, the Shazam Engagement Rate, which shows brand owners when and where their ad is – or is not – resonating with their target audience and provides an invaluable, exclusive service to their customers. With its innovative service, Shazam is able to help brand marketers measure the impact of their ad campaigns using powerful data-driven insights never available before, thereby enabling companies to optimise their ad spend, make second-screen campaigns increasingly effective and measure the impact of those ad campaigns. The engagement metric will tell brand owners not just how many times their commercial was "tagged", but also how large the audience was at the time. Shazam cooperates with advertisers and motivates consumers to use their smart devices to engage with the ads.

There are currently 250 ad campaigns that can be tagged on Shazam and the new metric is available only to those campaigns partnering with the company. The data are presented to brand owners in the form of PowerPoint slides with bar charts that track the time of day, programs and location. With this innovation, Shazam is able to measure how millions of consumers around the world engage with TV advertising.

## Comparison to Western Europe




Analysis by PwC

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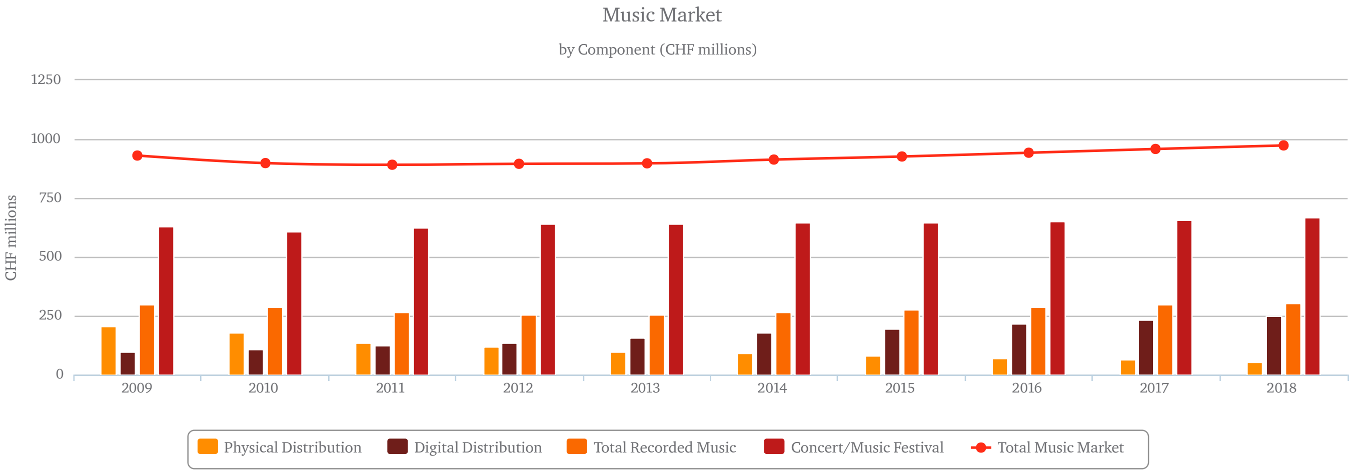
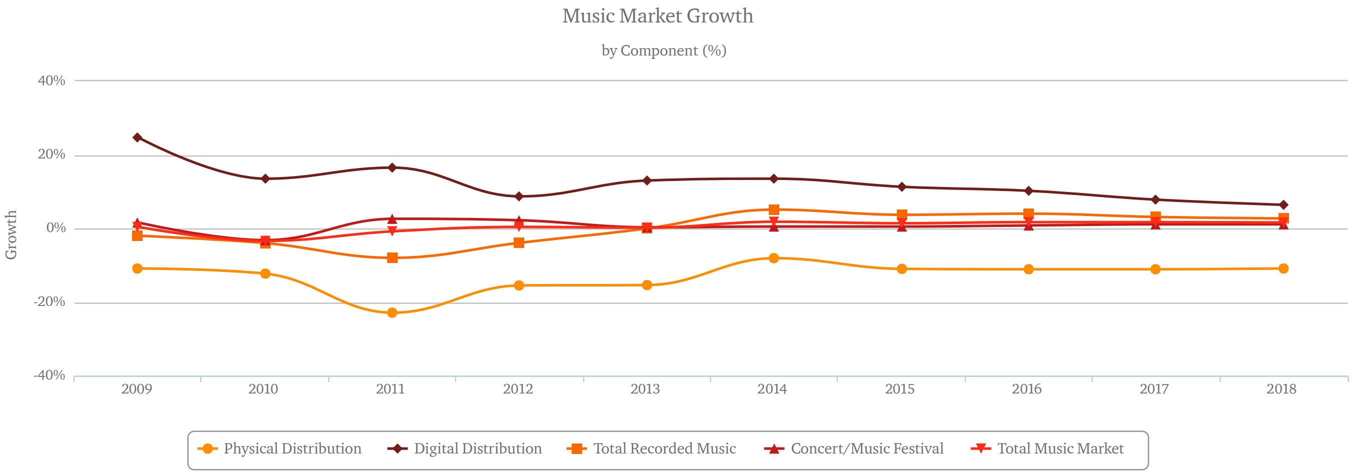
The television broadcast advertising market in Europe is quite stable as TV brings to the table both credibility and a strong bond with the audience. In contrast, the growth rates in the online TV advertising sector vary more among European countries but are generally high, mainly above 20 per cent. Europe-wide, online TV advertising will become an increasingly important medium in the future. At present, the given economic circumstances represent one of the key influences on the European TV advertising market. Thus under the generally held assumption that the economy will remain stable, the TV ad market should witness steady growth. In 2018, revenues generated by online TV ads will more than double their share of the total TV advertising spend in Europe, up from 2.5 per cent in 2013. In absolute numbers, Swiss TV advertising revenues are approximately at the same level as those in Sweden and Austria.

# Music




Analysis by PwC




Analysis by PwC


## *At a glance*

### *Segment definition*

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

Recorded music does not include subscription fees or advertising generated by internet radio services, nor does it cover revenues from music publishing. As to live music, merchandise is not included. All consumer spend is measured at retail, which can be substantially higher than the wholesale or trade revenues that are often reported.

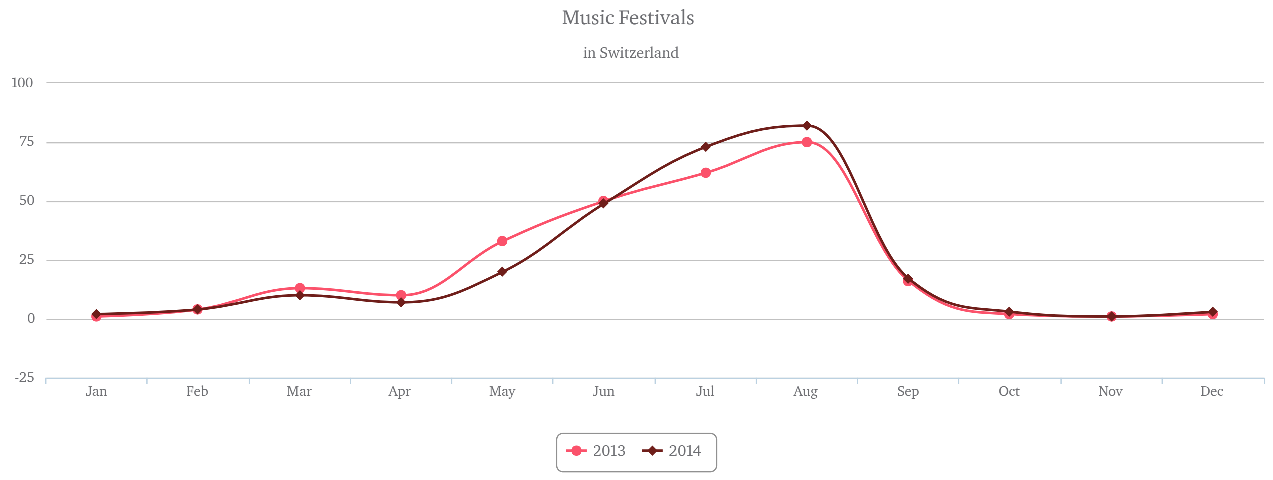
# The Swiss music market

## Market overview

The trend towards digital distribution and consumption of music continues. New streaming and downloading services with higher customer friendliness are driving this shift. Streaming services have managed to grow even faster than download services, which can be seen as a second wave of digitalisation and a new way of consumption where customers subscribe to a pool of content instead of purchasing particular items. This shift from download to streaming services does not happen exclusively in the music segment, but can be observed in the other media segments as well, for example the filmed entertainment sector. The reason for this move will be discussed later in this chapter. Meanwhile, the physical distribution of music is decreasing and will constitute only 18.6 per cent of recorded music by 2018 as the result of multiple factors.

The number of retailers selling music on physical media is steadily declining; the strength of the Swiss franc is another important reason why many customers buy their music abroad. The International Federation of the Phonographic Industry (IFPI) estimates that the net value of these parallel imports represents more than one-fourth of the total imports from Swiss music labels.

The concert and music festivals segment is the most important in the Swiss music industry. This importance is also reflected by the top-class artists who perform at these various festivals. According to Yourope, a European festival union, the density of festivals in Switzerland is the highest in Europe. Since 2010, the festival market has been constantly growing, with the number of festivals reaching 271 in 2014, an all-time-high for Switzerland.




Analysis by PwC

Established streaming services like Spotify are now confronted by new competitors in this segment of the music market, such as Amazon and Pandora. Beats Music is another music streaming service which was launched this year and was recently acquired by Apple for USD three billion. Its partnership with AT&T, an American multinational telecommunications corporation, may be a game-changing factor. The new streaming service will be marketed by AT&T as a family-bundle which allows up to five persons to use it. A bundle of this nature, plus a big company like AT&T putting the streaming service on the market, may be the key success factors. As result, the overall number of subscribers is likely to increase, but simultaneously the pricing pressure on the other providers of these services will grow as well.

***New market players in the streaming segment intensify the competition.***

This may be an explanation for the modest 6.1 per cent growth of music streaming in 2013 compared to digital distribution as a whole. Nevertheless, streaming services are expected to grow and eventually replace the download services. An important factor for the success of streaming services is the application of a different pricing model than that for download services. Spotify for example allows the user to stream music for free, interrupted by advertisements that are played in between the songs, mainly for Spotify's premium service itself. For additional features like offline functionality and ad-free listening, users must pay CHF 12.95 for a premium membership. Download services like iTunes have yet to apply such a subscription model and instead demand money for single songs or albums. A recent study from Generator Research predicts that the customer base for music streaming services will grow from 767 million users in 2013 to 1.8 billion in 2017.

Compared to other countries, the amount of illegal music downloads in Switzerland is very high. Members of the music industry, such as IFPI, claim that the legal framework in Switzerland is not strict enough. Sympathisers of this harsher approach believe that through more repression, the music providers could become profitable again. The implementation of such a strict legal framework is being criticised from multiple political parties on the contention that people will find other ways to illegally consume music; instead, the music industry needs new business models.

An example of how new business models could look is crowd sourcing for the production of music. The crowd-sourcing business model allows willing customers to pay an artist in advance to produce a song or an album. Via a website, the so-called "backers" can give a certain amount of money to the artist. The artist then produces the song or album which the backers will receive as soon as it is released.

Compared to the classic approach, the advantage here is that customer loyalty is high right from the start thanks to the invested money. Another advantage for the artist is the option to operate without a big record label because the crowd sourcing allows the artist to anticipate the demand for his product. If the demand is high, the artist no longer needs a record label to promote his product. Nevertheless, the Federal Council wants to tighten the copyright laws to protect the music industry.

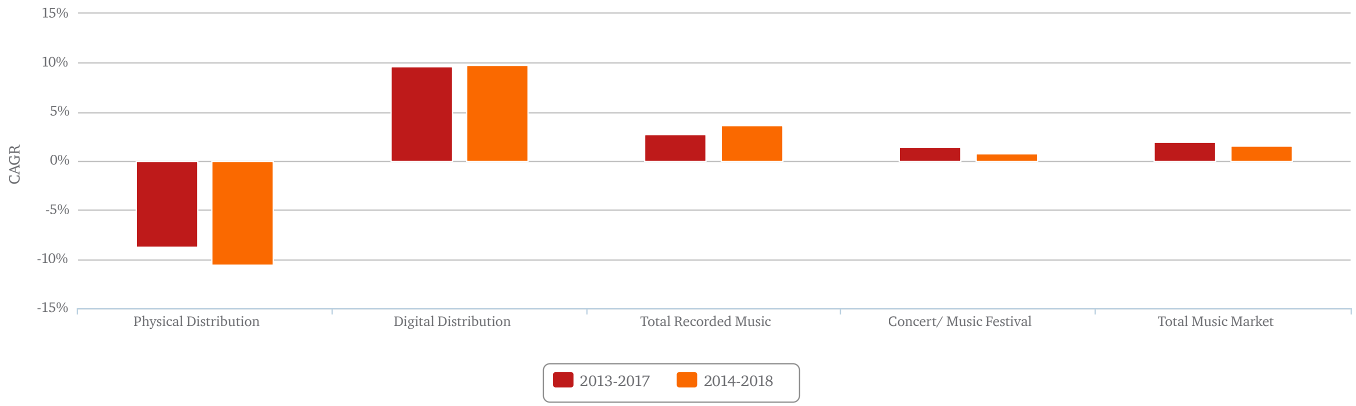
## *Market growth*

The music market is still facing a difficult environment. The growth rates of all segments are smaller than the rates we predicted last year. For example, the growth rate for the concert and festival market has been adjusted from 1.5 per cent last year to a current estimate of 0.8 per cent due to the increasing number of music festivals and a slight decrease in the number of participants per festival as a result of the many offerings. But there are still major events such as the "Openair Frauenfeld", one of the biggest music festivals in Switzerland, which nevertheless recorded increased attendance in 2013.

In any case, the physical distribution segment is restraining growth in the overall music market. The market for physical distribution is expected to shrink by approximately ten per cent over the next five years. Meanwhile, digital distribution will record modest growth and completely compensate the drop in physical distribution. The concert and music festival market is also witnessing small but steady growth. The low rate of growth in the otherwise prospering and solid overall music market can be explained by the saturated market for concerts and festivals in Switzerland.

Comparison of CAGR

by Component (%)




Analysis by PwC

## Principal drivers

### *New streaming services*

Digital distribution continues to be an integral part of music distribution as a whole. Streaming customers in particular are increasing at a very high rate. New players in the market such as Microsoft Xbox Music, Beats Music, Pandora and Google Play will heighten the competition, which in turn could lead to a decrease in prices. Customers no longer crave physical media, and that powers the trend towards streaming services. "The availability of music has become more important than the actual ownership." says Martin Stiksel, co-founder of Last.fm.

### *More stringent legal framework*

The Federal Council has commissioned a panel (AGUR 12) to draw up possibilities for revising copyright legislation. Downloads will remain unpunished, but in future it will be possible to lock the network platforms that distribute the illegal content. This could give an additional boost to the legal distribution and consumption of music. However, the chance of success for this approach is rather questionable since many people are already legally consuming music for free, mainly through services such as Last.fm and Spotify.

### *Mobile consumption of music*

The availability of affordable consumer electronics for an array of digital music formats is driving the ongoing digitalisation and consumption of music. New technologies like connected homes and cloud services also power this trend by making music available regardless of where the customer is. The availability of music anytime, anywhere, will cause a sharp increase in the mobile consumption of music. Especially streaming services such as Spotify will be able to benefit from this trend because their product is well-suited for this kind of music consumption.

### *Convergence of content and platforms*

One of the major trends in the entertainment and media industry is the ongoing convergence of the channels. In future, there will be a tendency towards more aggregated content offerings from different channels and providers on a single platform: for example news combined with music. Consequently, existing platforms such as Spotify should pay attention to customers' needs and constantly re-innovate their service offering in order to remain successful since the segment borders are blurring and competition will increase.

## Business innovation

Wahwah's innovation makes it possible to broadcast your own song list to the public and thus become your own mobile radio station.

> ***«Have you ever gone jogging and did not know what to listen to? Well, with Wahwah you can see who else is jogging around you, and even around the world, and tune in to their station to listen to the music together.»***
>
> *Senzari Inc.*

The developers try to connect users with other people and at the same time discover their taste in music. The different radio stations can be commented on or be reviewed via emoticons, thereby merging music consumption and social media into one experience. Other services such as Pandora, Beats Music and Last.fm lack this kind of combination. Although all the latter services offer elaborate recommendation algorithms, none of them tries to connect the users with each other while, as opposed to Wahwah which focuses on cross-linking its users.

The creators of the application recognised an important trend in the music industry. The market is shifting away from big players like the traditional radio stations and is moving in the direction of a decentralised form of music production and consumption. Since people have a vast array of different tastes in music, this form of music consumption accommodates those needs much better than traditional radio stations do. Wahwah also takes the fact in account that people frequently listen to music together. This "personal radio station" which the user can share creates the impression of a common music experience.

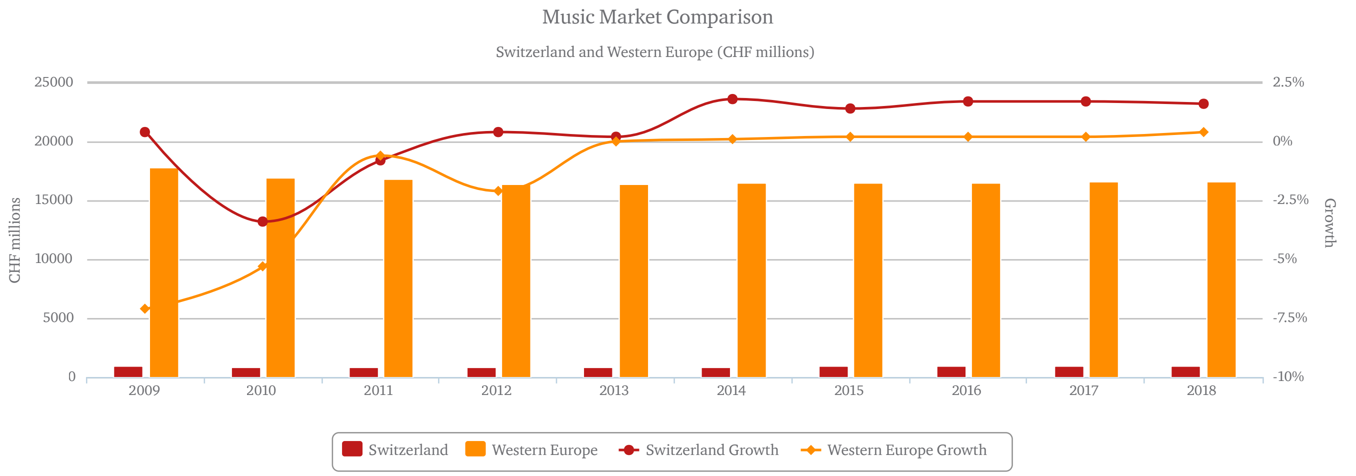
Other players in the music industry should pay close attention to this new way of music consumption. It is making new kinds of business models possible and can potentially help the struggling music industry to find new sources of revenue. For instance, an innovative business model could take advantage of this social aspect by using the collective power of social media platforms. Instead of paying with money in exchange for a song, the customer could tweet about it or post it on Facebook. The attention these tweets and posts create will eventually increase awareness of the artist. That awareness could be monetised through the placement of advertisements on the artist's website or by creating a large base of fans who will attend future concerts.

> ***The music industry is starting to use "Big Data" to better engage with consumers.***

Another interesting approach to the use of music and social networks is the collaboration between music producers and consumers in the actual production of the music. The consumers submit their own music creations to a website hosted by the artist. A selection of these contributions is then used by the artist to create a new song. A real-life example of this kind of collaboration was the Avicii x You music experiment. Avicii, a famous DJ and music producer with more than 17 million fans on Facebook, conducted this experiment and collected over 12,850 sounds from 4,200 users all over the world. In February 2015, a single using some of these sounds will be released.

> ***The pricing model is a key success factor in the digital music market.***

## *Comparison to Western Europe*




Analysis by PwC

Both the European and Swiss music market have recovered from the financial crisis and the general digital disruption seen in the past few years. In 2013, the European music industry recorded a marginal growth, a positive reading for the first time in four years and a trend which should also benefit the Swiss music industry. We expect the Swiss music market to represent 5.1 per cent of the overall Western European music market in 2018. This is a slight increase from 5 per cent in 2014. The growth of the Swedish and Norwegian music markets stands out compared to the rest of Europe.

The Norwegian music market is expected to grow 15 per cent over the next four years, while the Swedish music market is expected to grow at an even faster pace of approximately 18 per cent during the same time frame. In both countries, the digital streaming segment is accountable for the high growth rates. According to Swedish musician Mikeal Strömberg, one of the reasons for that rapid growth is the absorption of illegal downloads by streaming services. These new customers then boost the revenues of streaming services such as Spotify, who rely on a large customer base. However, at the bottom of the Western European scale, the Portuguese music market is expected to shrink by an annual 3.8 per cent through 2018. This projected decline is mostly due to decreasing turnover in the recorded music segment, which presumably will contract by 11 per cent per year in the foreseeable future. This decline can be explained by the massive downturn the local economy had to face during the economic crisis in Europe.

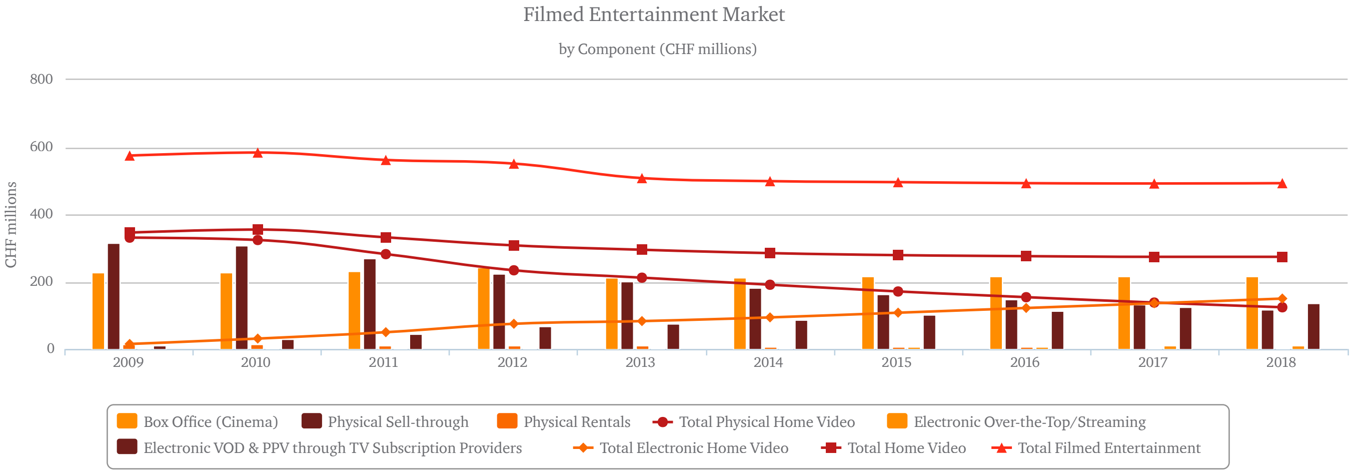
The large share of live music in the total Swiss music market is striking compared to the rest of Europe. While concerts and music festivals only accounted for 64 per cent of the total volume of the European music industry in 2013, in Switzerland they represented an 81 per cent share last year. In both areas, the digital streaming


segment was responsible for the growth. In 2013, the largest market for music in Europe was Germany with a market volume equivalent to 4 billion Swiss francs.

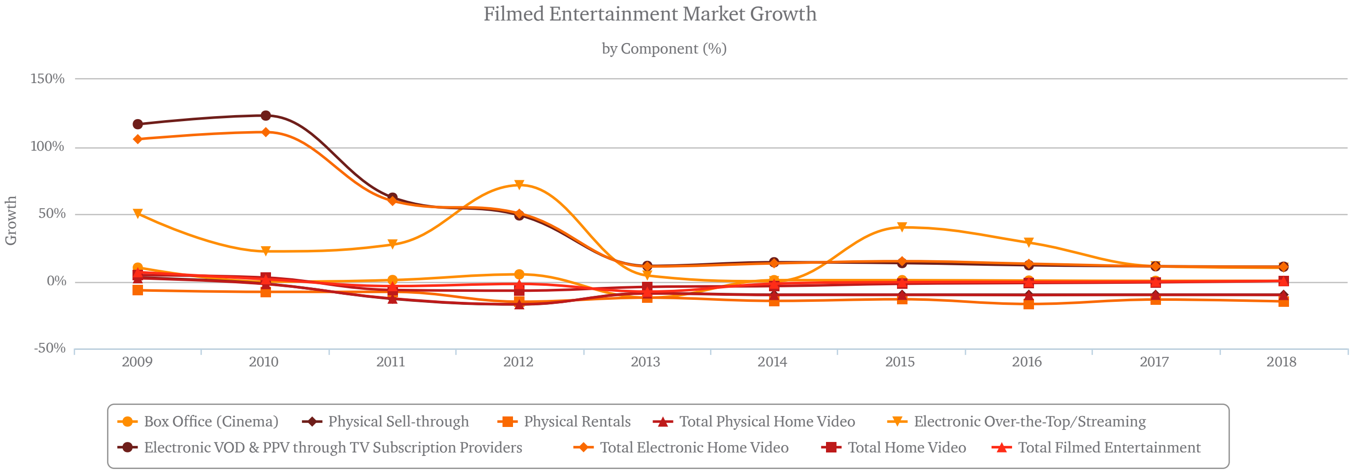
From 2014 onwards, we expect the Swiss music market to record higher growth rates than in Western Europe. This is due to various country-specific factors, namely the generally very strong domestic festival market which also attracts visitors from abroad and a higher willingness to pay for premium services, which stems from the higher purchasing power in Switzerland relative to its neighbouring countries.

Swiss artists still have difficulties to become successful on an international level. One reason for this is the limited pool of exposed talent in Switzerland, so the mere size of the country is a limiting factor. Another aspect is the great diversity of languages within the country. This diversity divides the music market into many small segments, which have to compete with regions using the same language, namely Germany, France and Italy. In earlier years, artists were increasingly successful abroad, fostered by social media and the progressing globalisation. Meanwhile, the reason for the success of Swiss artists in Switzerland itself is their strong ties to certain regions of the country. Another reason is the fact that the artists often sing in Swiss German, which also increases the involvement of the Swiss customer. Ultimately, their success on a national level can be traced back to a certain degree of local patriotism.

# Filmed Entertainment




Analysis by PwC




Analysis by PwC

## At a glance

### Segment definition

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

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

The figures do not include music videos. They also do not reflect ancillary revenues earned by cinemas, such as cinema advertising and sales of snacks and beverages or accessory sales (e.g. 3D glasses).

# The Swiss filmed entertainment market

## Market overview

The physical sell-through and box office market still generates the largest proportion of revenues for the Swiss filmed entertainment industry, this despite ongoing digitalisation and growing digital consumption. In 2013, the physical sell-through accounted for 69 per cent of the overall home video market.

Like in the previous year, the volume of DVD sales decreased significantly. In 2013, DVD sales declined by 14 per cent to CHF 155.7 million compared to the previous year (2012: CHF 181.8 million). In contrast to last year, sales of Blue-ray remained stable at CHF 56.7 million but did not compensate for the drop in DVD sales. Overall, the physical sell-through volume decreased by 9 per cent, thereby confirming our prior-year assumption which projected an ongoing decrease for the coming years. Taking the development of the overall Swiss filmed entertainment market into consideration, a shift to digital consumption (e.g. video-on-demand) will lead to a further decline in physical sell-through volume.

***Increasing access to digital home video continues to disrupt the Swiss market.***

Digital video consumption is continuing to gain importance and has significant growth potential due to the increasing number of digital and Internet-connected TVs as well as the steadily increasing penetration of broadband in Switzerland. Emerging OTT services such as Apple TV, Netflix and Amazon are entering the market and, in combination with the increasing offerings of telephone companies as well as TV subscription services (e.g. Swisscom TV and Cablecom) that enable video-on-demand or pay-per-view, will boost digital distribution over the forecast horizon.

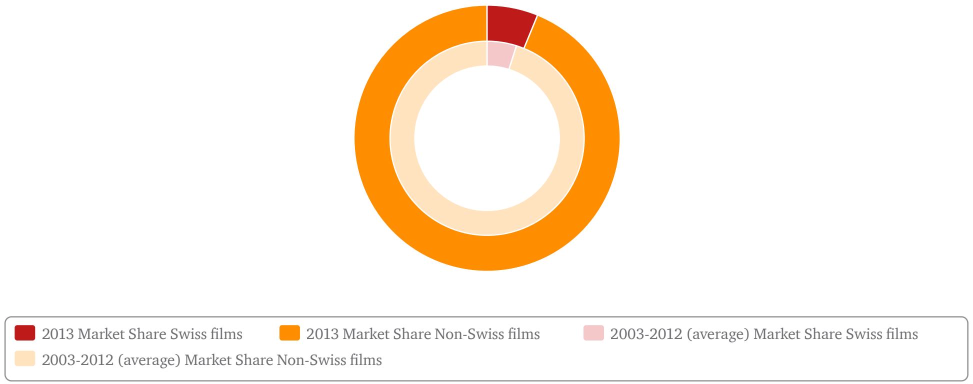
Looking at the Swiss OTT market, Netflix, an internationally formidable OTT provider, announced it will enter the Swiss market despite last year's statement. Traditional players are being pressured to respond to this development.

Swisscom is planning to introduce a flat rate for its Teleclub service. Also Cablecom recently announced it will do the same and additionally put stronger emphasis on the expansion of its high-speed infrastructure that serves the increasing need for greater bandwidth. Whereas other established network-independent OTT service providers like Apple TV or HollyStar are gaining market share and managing to increase their sales volume, new players such as Samsung and Amazon are entering the market and thereby increasing the competition, which in turn has led to a price drop that benefits customers.

The range of videos viewable via VOD services is still growing. There is still significant growth potential in this segment due to the ongoing expansion of the digital TV household universe. In that 88 per cent of all Swiss households are connected to high-speed Internet, the access to VOD services becomes progressively easier and prices decline. Moreover, improved user-friendliness and the increased film offerings in all national languages suggest that the electronic home video segment will become the market-leading service by 2016.

Market Share of Swiss Films

in per cent



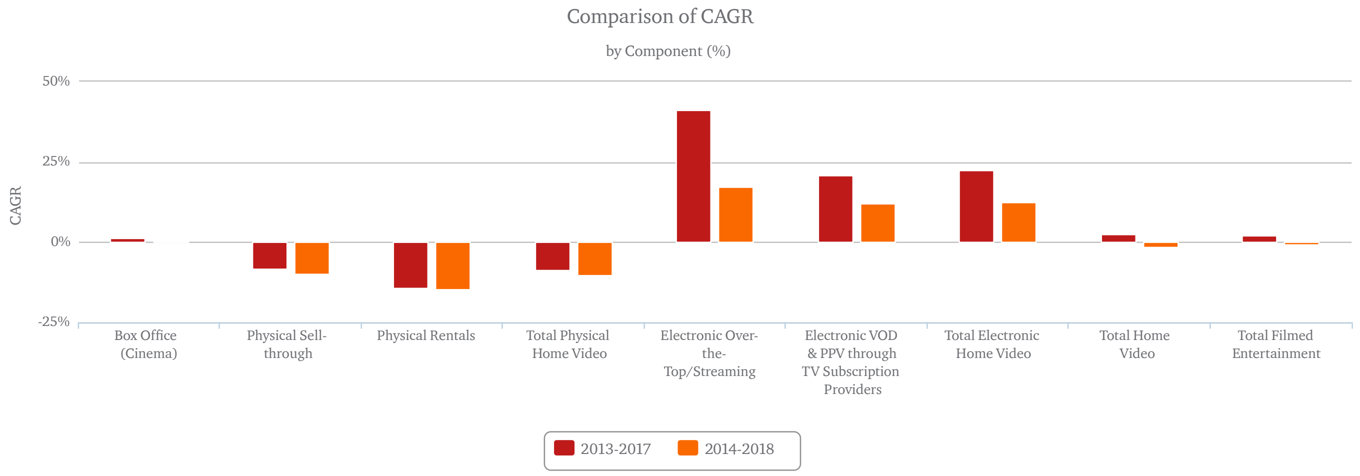

Analysis by PwC

***Traditional Swiss market players are forced to change their business models in order to survive.***

In 2013, box office spending decreased by 12.2 per cent and this despite a 13 per cent increase in the number of admissions. At the same time, the number of cinemas, screens and seats decreased in 2013. After a further rise in number of digital screens, 98 per cent of all theatres are now equipped with digital screens, of which 52 per cent are additionally equipped with 3-D technology. It is important to note here that an additional revenue stream for cinemas is the sale of snacks and beverages as well as accessories such as 3D glasses, which are not reflected in the figures.

The market share for Swiss films – measured by admissions – increased to 6.2 per cent in 2013, a 13 per cent jump. The most successful Swiss film in 2013 was "Achtung, Fertig, WK", which recorded 174,171 admissions and accounted for 28.5 per cent of all admissions to Swiss movies last year.

## Market growth




Analysis by PwC

The digital home video market continues to grow significantly and is the major driver in this segment. However, more intense price pressure due to new revenue models such as flat rates and the heightened competition posed by new market entrants, as well as the increased use of replay functions, have led to an adjustment of the anticipated growth over the coming years. As in the previous year, over-the-top services are the major growth area; the compound annual growth rates are at lower levels than last year's outlook but remain high at a CAGR of 17.1 per cent through 2018.

Physical home video will, as in the past, continue to suffer the steepest decline, with revenues dropping by a CAGR of -10.2 per cent until 2018. Box office sales are predicted remain stable with a CAGR of 0.5 per cent over the coming four years.

## Principal drivers

***Digital media access is the major growth driver in the segment***

The main driver of the Swiss entertainment and media industry in 2013 was again the digital business. The increased availability of high-quality movies via legal Internet platforms is attractive for customers who are willing to pay for such services, but increasing competition from domestic market entrants will put further pressure on prices.

***New players are introducing innovative business models and intensifying competition***

Growth in the electronic home video market is being powered by the wider access to broadband Internet as well as the larger number of market players. Whereas in the past Swisscom and Cablecom were the major players, competitors such as Apple, Amazon and Netflix are exploiting their infrastructure to enter the market, which ultimately leads to price pressure and cannibalisation.

***Despite the digital trend, box office will not vanish and remain the backbone of the industry.***

***Internet-connected devices and fast mobile Internet pushes the individual customer experience***

The availability of video content on tablets and other devices as well as Internet smart TVs will foster growth in the OTT market. This trend is further propelled by the increasing availability of fast Internet access via mobile phone providers. We continue to predict a persisting uptrend in consumers' desire to access and view content on-demand and at their convenience – whenever, wherever and on whatever device they choose.

***Box office bucks the home entertainment trend by improving its quality***

As to the box office market, moderate price growth combined with the expansion of available 3-D screens will keep the revenue flow on a slight uptrend in the future. Some cinemas will transform their business model to create a world of experience, offering additional services for the whole family. Equally spoken, the increased availability of home video entertainment and improved home media infrastructure might have an unpredictable future effect on the box office market.

## *Business innovation*

Netflix is currently the world's largest online television network, operating in more than 40 countries and serving more than 40 million users. Netflix is an example of a company that has leveraged growing digital economies to its advantage and made use of the latest technology to improve the services and experience it delivers to customers.

***How Netflix uses Big Data to create a unique customer experience.***

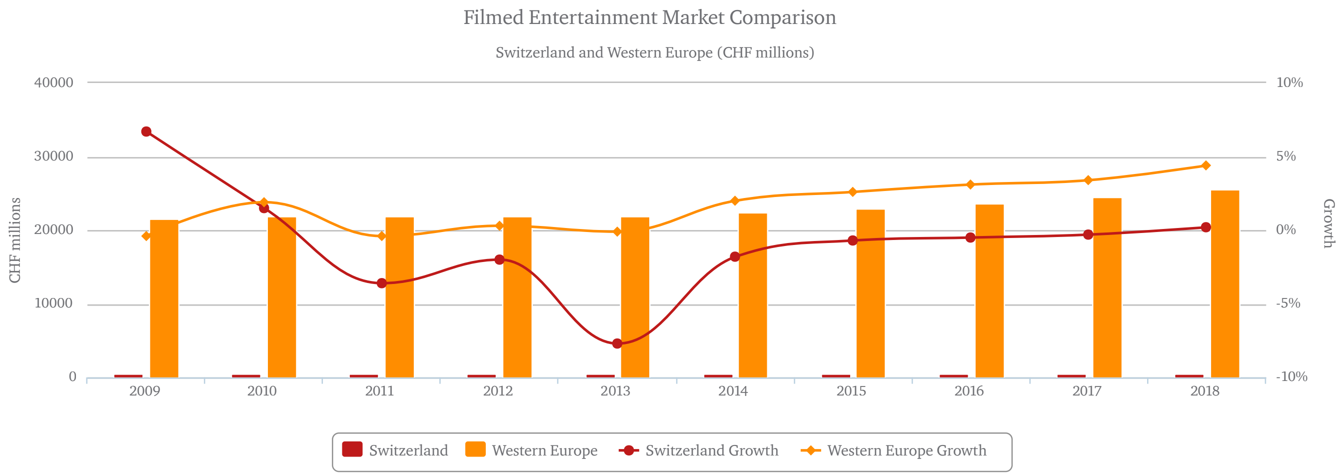
Netflix changes the rules of the game – not only by entering the market through the use of a new business model and thereby cannibalising the traditional TV business, but also by using Big Data to find out what consumers want and turning those findings into new products. Netflix uses data-visualisation tools on a continuous basis and routinely analyses data to tweak algorithms, garner new insights and solve pressing business issues. According to Jeff Magnusson, platform architecture manager at Netflix, "at the heart of our business lie some of the most sophisticated Big Data tools on the planet, including no shortage of dataviz applications." Through Big Data and Data Visualisation, Netflix seamlessly delivers mind-boggling personalisation to each customer: Are certain customers trending towards specific types of covers? If so, should personalised recommendations automatically change? Which title colours appeal to which customers? Is there an ideal cover for an original series? Or should different colours be used for different audiences?

Offering certain TV productions exclusively while also generating new TV experiences through use of information about the customers' behaviour to ensure success, is a new approach that will transform the business model of the film industry significantly. Netflix is one of the first movers in this area and, again, sets trends by using digital innovation to disrupt the global film industry.

## *Comparison to Western Europe*

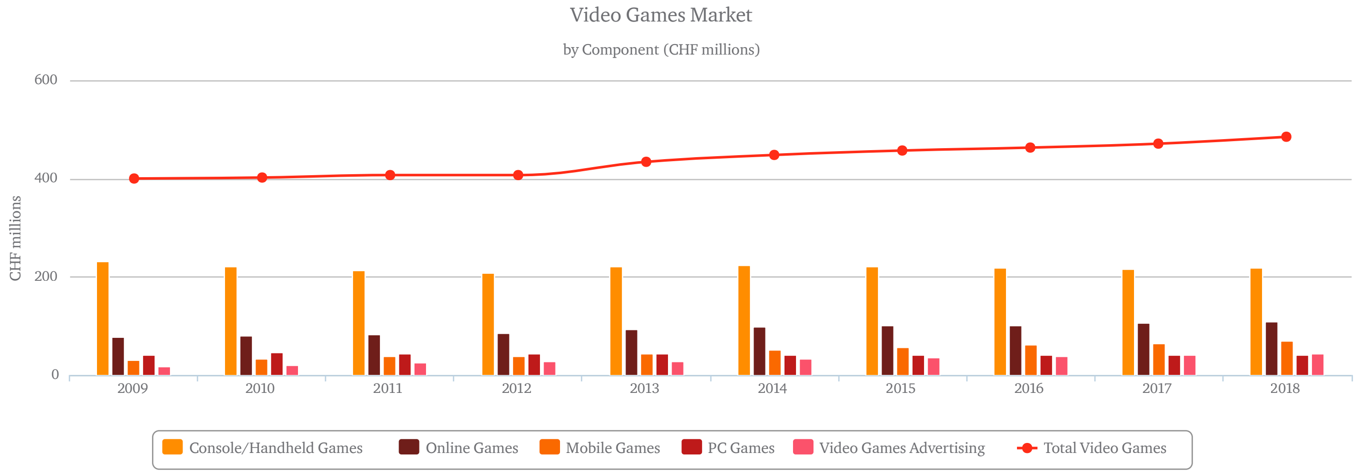
Western Europe is a mature market where the biggest growth will come from over-the-top streaming services. Switzerland currently represents two per cent of the overall Western European market for filmed entertainment.

The size of the Swiss filmed entertainment market is roughly the same as the markets in Nordic countries such as Sweden and Norway. The United Kingdom is the largest market in the region, at CHF 6.1 billion in 2013, and will continue to be the leading entertainment market in Europe, with revenues reaching CHF 7.1 billion in 2018. The top five territories – the UK, followed by France, Germany, Italy and Spain – were collectively accountable for approximately 76 per cent of the filmed entertainment spending in Western Europe in 2013.




Analysis by PwC

# Video Games

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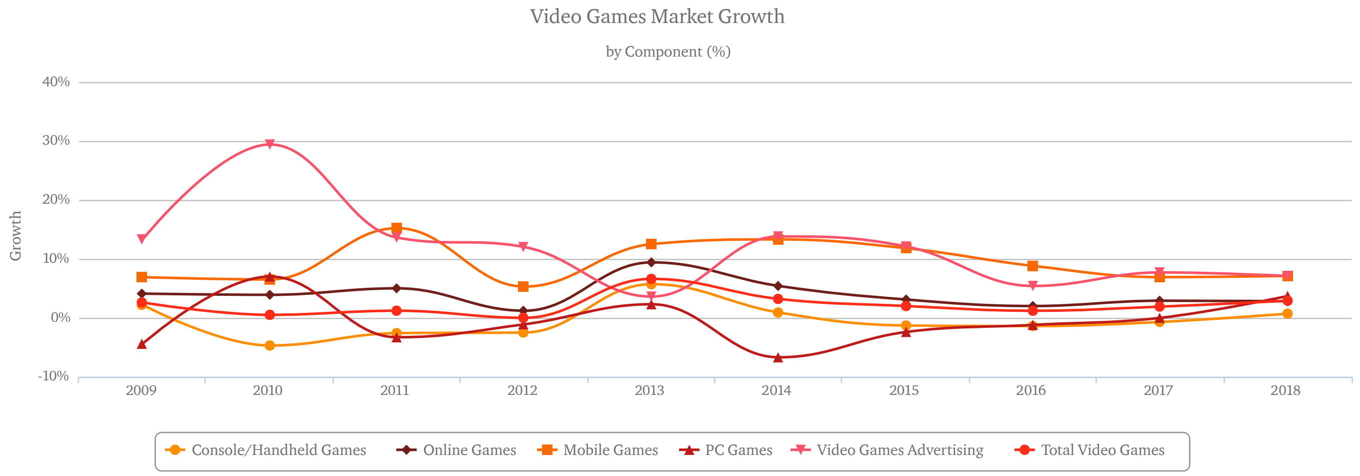



Analysis by PwC

## At a glance

### Segment definition

The video games market comprises consumer spending on console games (including handheld console games), PC games, online games, apps for mobile games as well as video game advertising revenues. It excludes spending on the hardware and accessories used to play the games. Sales revenues from retail, digital download stores and subscription services are included either in the PC or home and handheld console game categories. Revenues from console and PC games are split into physical and digital.

Mobile gaming covers all revenues from game-playing on a mobile device (e.g. tablets, mobile phones) as well as from digital game sales, subscription services and associated virtual items. Online gaming includes games played on a PC that requires an Internet connection. It covers subscription online games, free-to-play games, casual games and social games. Video game advertising covers all revenues generated from advertising on any game platform and access type, including in-game and console-dashboard.

## The Swiss video games market

### Market overview

The Swiss video games market continues to be a dynamic segment in the entertainment and media industry as total video games revenue in Switzerland is expected to grow at an annual rate of 2.2 per cent in the next five years from CHF 434 million in 2013 to CHF 485 million in 2018. The principal market drivers are games for mobile phones, digital PC games and online games.

Recent market developments show that game apps for smartphones are booming. According to the Swiss Interactive Entertainment Association (SIEA), smartphones are the most popular gaming device: one out of five adults play video games on a weekly basis. Mobile is spawning a new generation of gamers who play more often and shorter in order to bridge daily waiting times.

The availability of low-cost or “freemium” games on a device which is always at the user’s disposal is a considerably better value proposition than purchasing much more expensive games for a separate device. Mobile devices, especially smartphones, stand out as one of the most frequently used means for gaming in Switzerland. The revenues generated from mobile gaming continue to increase as the country’s smartphone penetration grows, together with the range of games offered. The increase in smartphone penetration to 77 per cent as of March 2014 enables more people to have access to mobile games and fosters innovation in gaming and business models.

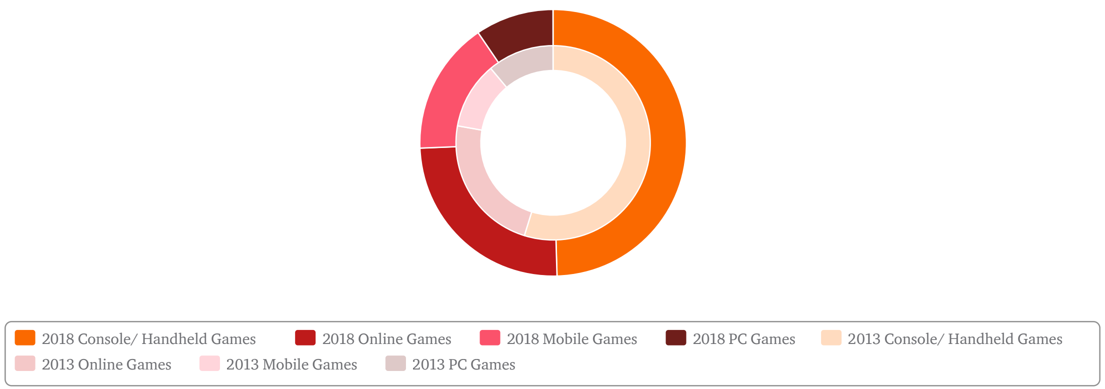
Mobile game revenues in Switzerland are anticipated to increase from CHF 45 million in 2013 to CHF 71 million within the next five years. Moreover, the mobile and online games market boosts the global market, whereby America takes the lead with its duopoly of the iOS and Android operating systems. A global study by investment bank Digi-Capital on mobile games contends that mobile gaming is growing so fast that it will overtake the traditional video game market by a wide margin.

***Online and mobile are the main drivers in the video games segment.***

The mobile market has severely damaged the handheld gaming console market. The market for handheld games is facing growing competition from the rapidly increasing capabilities of smartphones and tablets. Fewer people are willing to pay the relatively high price for handheld consoles and games when they can purchase much cheaper games for their smartphones. In order to compete with mobile and online games, the console gaming experience is likely to be enhanced by auxiliary equipment. Console ownership is continuing to grow, driven by the latest introduction of the eighth generation of video game consoles and many more Internet-capable gaming consoles. Nintendo, Microsoft and Sony are the dominant market players for consoles in the Swiss gaming market. Furthermore, several vendors such as Ouya and Nvidia have presented new game console concepts that are based on the open source software technology of Android. Compared to the consoles of the market leaders, these microconsoles are less powerful yet smaller and cheaper, and games are published at a far lower price in the companies’ own integrated online stores. Consequently, none of these consoles aims to compete with the well-known console providers to reach the top. One of the best known representatives of microconsoles is Ouya, which was financed by “Kickstarter” with the aid of a crowdfunding campaign that raised USD 7.5 million within only a month’s time in 2012.

Video Games Revenue

Market Share by Devices in Switzerland (%)




Analysis by PwC


Sony has launched a handheld game console called PlayStation Vita, which is equipped with second-screen technology. The PS Vita microconsole enables users to project games on other devices than TV (e.g. tablets). In addition, Nvidia released the innovative Nvidia Shield Tablet in August 2014. In terms of technology, it is said to be at the same level as the latest generation consoles. Games can be bought via a built-in game store on the tablet and optionally streamed on TV. Another formidable market player, Valve, entered the market by launching the SteamOS box. It enables users to beam their Mac or Windows PC games to their SteamOS box that is connected to the TV. Steam brings to gamers the very latest information on new releases and updates and enables them to share content and connect with each other. Games can be downloaded via the integrated online sales platform. Moreover, there are rumours that Google, Apple and Amazon are also planning to enter the console market, which would severely disrupt the current power constellation. Needless to say, the entry of Google and Apple would intensify competition and thereby cause price pressure on the current major players. Also Facebook, which is gaining ever-more importance in the video games sector due the constantly increasing popularity of social and micro games on its social media platform, recently entered the video games market by acquiring Oculus. The new Oculus Rift virtual reality glasses provide stereoscopic 3D view and will be released at the end of 2014.

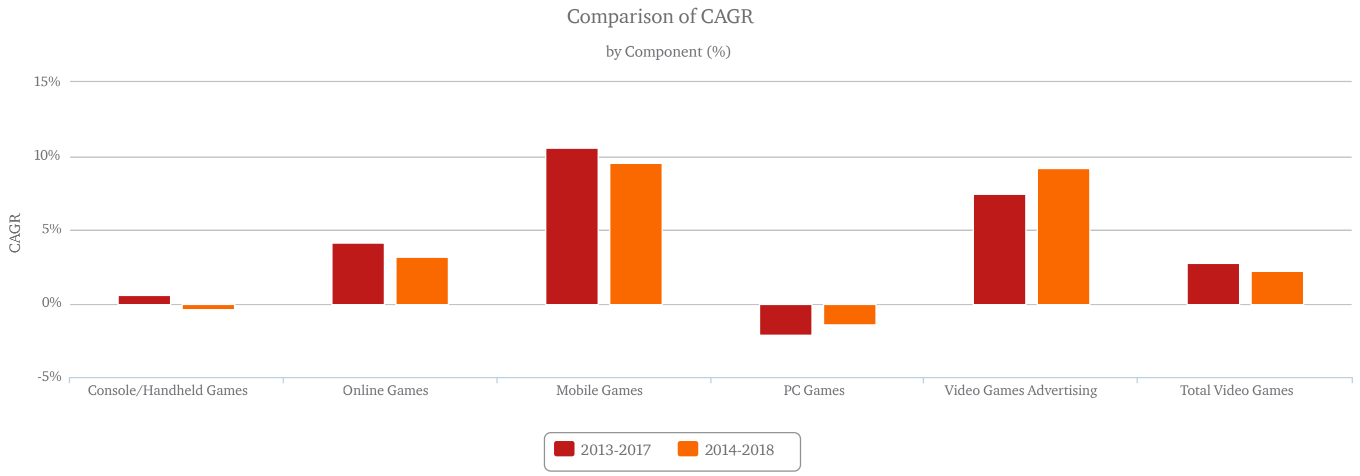
***The 8th console generation will re-energise the flagging console market for the next two years.***

The online games market is constantly in motion and revenues are projected to increase from CHF 93 million to CHF 109 million between 2013 and 2018. Due to low entry barriers, the shift to free-to-play business models of online games is also increasing the number of players and hence the market size. The online game market includes a lot of companies that make use of the "freemium" business model through which games are provided for free and developers earn revenues through micro transactions as well as via advertising. This approach is also a means of combatting piracy. Casual games, devised for instance by the American game developer Zynga, are also growing in popularity. The company is one of the top market players in the social network games area and has become extremely successful with betting for a player community on social networks such as Facebook. Zynga generated revenue of USD 873 million in 2013 primarily from the sale of virtual items, for example the farm simulation game "Farmville". Social games in particular are of greater appeal to a wider spectrum of the Swiss population than the traditional PC and console games do, as social and casual gaming continues to attract previous non-gamers. However, the sector is and will remain difficult to monetise, with the majority of players wanting to play for free and the games themselves lacking longevity. So a hot topic is still the question as to how producers can monetise the games in order to offset the costs and be profitable.

## Market growth

There is a clear uptrend in digital distribution of video games. We expect the CAGR of Swiss mobile games to be three times as high as the CAGR of the online game market during the forecast period. The increasing variety of mobile games available for downloading via mobile app stores is expected to generate considerable growth rates in the mobile games market over the forecast period. The mobile games market should grow without causing a significant loss in some other gaming market as many non-gamers become players of mobile games. Nonetheless, there will be a continuing decrease in physical console and physical PC games distribution as a result of the exodus of gamers from physical games to online gaming for free. In the PC games market, the increase in digital distribution offsets the decrease in physical distribution. In keeping with last year's prognosis, PC games can be expected to decline at a CAGR of 1.4 per cent as new innovations such as the SteamOS Box and social platforms promote digital PC games but fail to compensate for the drop in physical sales. The Swiss physical handheld console market is expected to decline slightly over the forecast period, but the physical and digital handheld markets are still being driven by next-generation consoles and new games that take advantage of advanced technologies.

In general, the digital distribution of content is advancing further in the games market. In sum, the shift to online and wireless games will have a slightly negative impact on the physical handheld console and PC games markets, but as there might be a significant gain in new mobile consumers, of which 40 per cent will be women, the mobile market is predicted to increase by almost ten per cent per year within the forecast period. On the whole, the video games market is predicted to remain dynamic with an average annual growth rate 2.2 per cent between 2014 and 2018, with the main drivers being mobile games and video games advertising in the digital distribution of games across all sub-segments.




Analysis by PwC

## Principal drivers

### *Internet-enabled consoles*

In the short term, growth in the console market will be driven by renewed interest in consoles due to the release of the new Internet-capable console generation that takes advantage of the latest technologies. As a result, the opportunity to sell gamers digital content through Wii U, Xbox One and PS4 online will enable storefronts to grow substantially during the next two years.

New features should sustain interest in console gaming and technical innovations will broaden the spectrum of opportunities. Interconnected devices such as the SteamOS Box and Nvidia Shield Tablet could boost the video game market over the long term, but people first need to get used to these innovations.

### *Freemium models*

Online video games will be driven by the increasing sophistication of the free-to-play model, with micro transactions as the main revenue driver. Micro transactions are boosting gaming participation as they represent a business model that enables the offering of services that match the users' individual willingness to pay.

### *Online video games*

Online gaming continues to cannibalise PC revenues as online games are often for free. Computers still are one of the most frequently used devices for gaming, and consequently the users do not have to change the device or invest in new hardware when switching from PC to online games. However, the market is mainly driven by quality and cost when those users choose between the two options.

### *Mobile games and advertising*

Mobile is creating a new generation of gamers by converting non-gamers into new customers and increasing the client base. Smartphone penetration is a major driver for this sector and already reached a 77 per cent share in 2014. Mobile gaming will also be a major force behind spending on video games advertising as mobile gamers are significantly more tolerant of advertising, especially in free games. Going forward, game designers as well as advertisers will place greater focus on designing mobile games. An increase in video games advertising will be mainly driven by the increasing consumption of online and mobile video games. Applying online measurement tools which enable specialised targeting heightens the advertising effectiveness by zeroing-in on specific demographic groups.

***Mobile gaming is delivering a new generation of gamers.***

## Business innovation

Back in 2009, Gbanga, a Zurich-based game development company, released a mixed-reality mobile games platform that brings together the actual location of the user and a virtual gaming world where players can also interact with each other by using the social and chat functions that are built into the games.

The aim of the games is to collect virtual items by changing their actual location or to solve tasks such as puzzles and other mini games in order to receive virtual points. The first game published on the platform in 2009 was "Gbanga Zooh", which was developed in cooperation with Zurich Zoo. Gbanga also used crowd-funding to develop its most recent sequel game, mainly as a means of remaining less dependent on traditional publishers.

There is huge potential in the linkage of the real world with the virtual gaming world. Since users have to actually move around, this is again an example of how new gaming models attract a customer base of non-gamers and turns them into gamers.

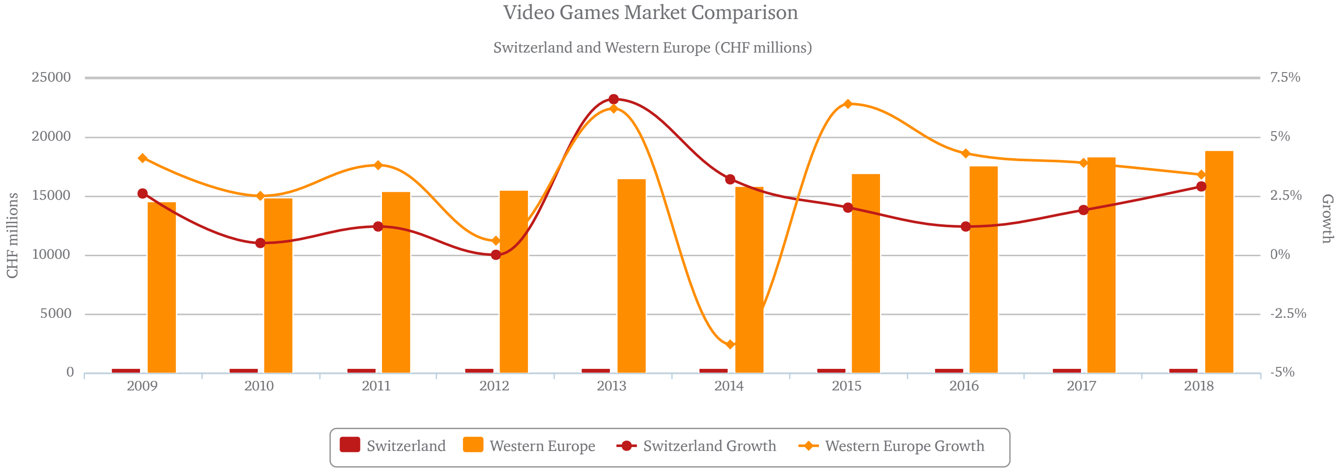
Even more important is the fact that gamification is very relevant to all dimensions of business, not just in terms of the video games industry. Gamification has turned out to be one of the major drivers within the process of digital transformation in business: it stimulates a basic human need and thereby influences behaviour as well as reinforces interactions, be they in online games or in other areas. The potential of using gamification elements not only on websites and applications, but also internally at companies, has yet to be fully exploited.

***Gbanga – mixed-reality and social gaming platform***

If companies like Gbanga focus on their core competency to further develop these kinds of platforms, their opportunities will not lie solely in the development of online games for end customers, but also in various other fields such as website and application development as well as business consulting. This market is growing, not only in regard to the user base, but also as an increasingly common communication and marketing tool for companies. According to Matthias Sala, co-founder of Millform Inc., the parent entity of Gbanga, companies in all industries should pose themselves the question as to how they can integrate gaming into their organisation's DNA.

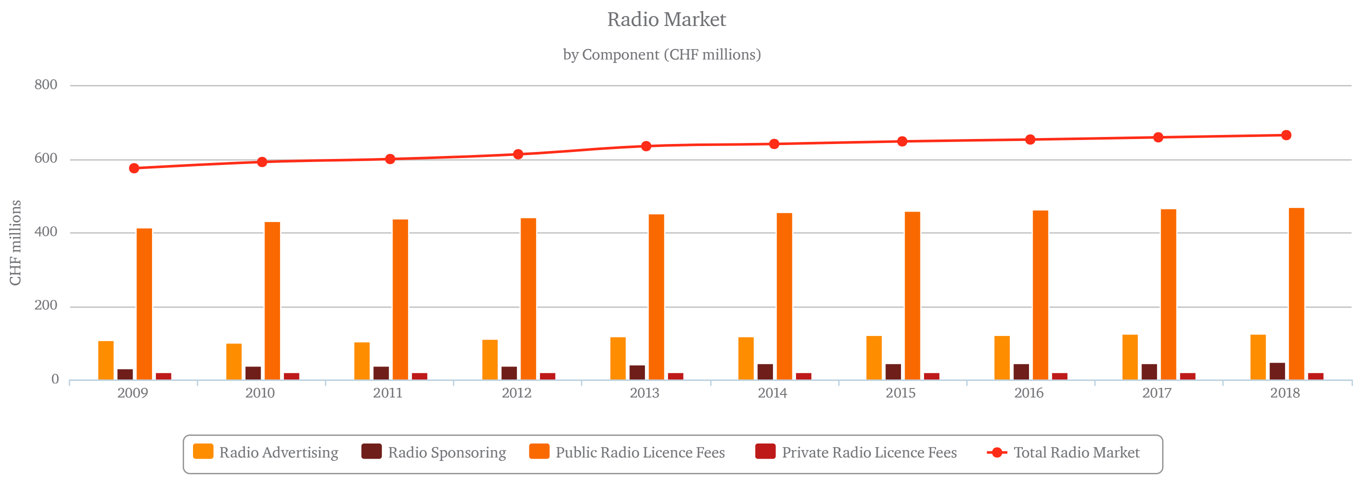
## Comparison to Western Europe

Switzerland accounted for approximately 2.6 per cent of the overall Western Europe video games market in 2013. The Swiss market will grow at a slightly slower pace with a CAGR of 2.2 per cent compared to the Western European market's average growth rate of just three per cent during the forecast period. Similar to the Swiss video games market, the expansion of the Western European video games market will be largely driven by online and mobile games.


Analysis by PwC

# Radio

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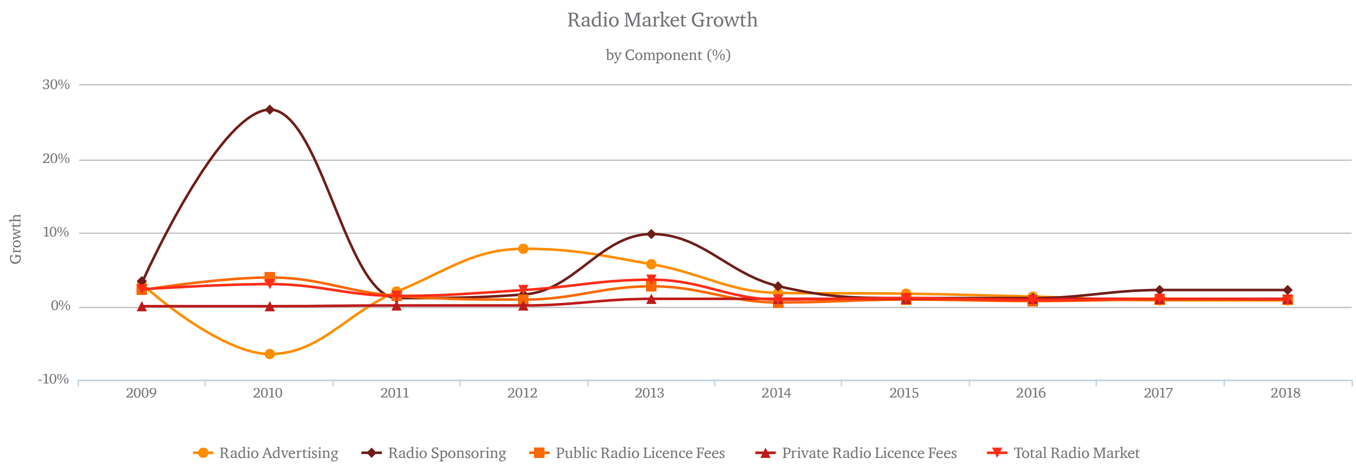



Analysis by PwC

## At a glance

### Segment definition

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

## The Swiss radio market

### Market overview

The radio market in Switzerland is governed by the Swiss Federal Act on Radio and Television (RTVA). All radio stations in Switzerland are either registered with the Federal Office of Communication (OFCOM) or hold a licence in order to broadcast their programmes. The Swiss radio market is a dual broadcasting system, consisting of the public service broadcasting institution SRG SSR and private stations.

The market share of advertising on the Swiss radio market is 18.5 per cent of total advertising revenues. The dominant player in the Swiss public radio advertising market and private radio stations is Goldbach Media. In 2013, Goldbach Media recorded advertising revenue growth of 2.1 per cent, representing 4.6 per cent of the total advertising market in Switzerland. The 10.4 per cent drop in advertising revenues in the first half of 2013 was attributable to extraordinary revenues from acquisition activities in 2011 and 2012. In response to the decline, Goldbach Media agreed on the re-establishment of Swiss Radioworld AG to bundle relevant competencies and expertise. As a result Radiocircus, a web radio platform for more than twenty private radio stations, was launched by Swiss Radioworld AG. The added value of this radio platform is the high attention gain through pre-roll spots and rectangle banners.

People can also combine the Internet radio platform with Spotify, the growing music streaming service provider. In sum the project led, amongst other drivers, to positive growth in radio advertising revenues for Goldbach Media in 2013.

By law, radio advertising revenues can only be generated by private radio stations, meaning that SRG SSR is limited to broadcast advertisements. SRG SSR is still by far the largest player in the Swiss radio market with its share of 64.6 per cent of total radio revenues in the German-speaking region in 2013. The market shares of private channels increased, whereas the public radio share shrank country-wide versus the prior year.

The total radio market is dominated by public radio licence fees which accounted for 71 per cent of total radio revenue in 2013. Swiss radio revenues increased over the past five years from CHF 547 million in 2009 to CHF 634 million in 2013. Licence fees for radios are collected by Billag AG, which is a subsidiary of Swisscom. The Federal Council sets the level of the fee.

The majority of the revenue finances the "service publique" of radio and television programmes. Private radio and television broadcasters also receive a smaller part of around four to five per cent of the fee revenue in order to fulfil a performance mandate. Furthermore, fees go to the promotion of new technologies, research and to cover costs of the Federal Office of Communications (OFCOM) and Billag AG.

Although Switzerland is the country with the highest charges for radio and television in Europe, there are several reasons to justify the high charges. The high costs result from elaborate programming for channels in specific regions with a wide variety of languages and different cultures, stiff competition from abroad, as well as enabling reception in many mountain valleys. The significant role of public-sector funding has helped to protect Switzerland from the global economic downturn in the past several years.

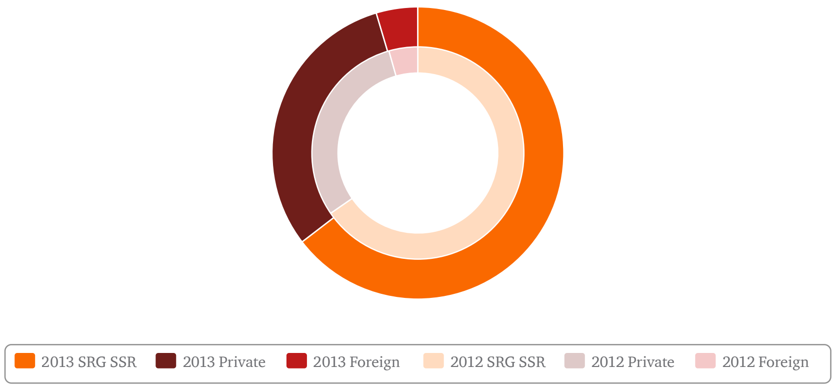
***Private channels gradually gained market share throughout Switzerland in 2013.***

Switzerland started broadcasting DAB in 1999 and currently has 99 per cent coverage by population. Many of its DAB transmissions were already switched to DAB+ in 2012. The proportion of DAB+ radios in terms of total radio sales was approximately 64 percent in 2013. In comparison to the global radio market, Switzerland has a relatively high rate of DAB+ coverage. The analogue VHF frequencies are expected to continue to operate until 2019 in Switzerland.

The total linear radio use has slightly declined during the last few years, also due to changed behaviour in the way music is consumed, namely individual radio and music streaming services. On average, people listened 122.5 minutes per day in 2013, a slight decline compared to the preceding years. By far, the most popular channel of Swiss German people outside the greater Zurich area is SRF 1 with a market share of 31.7 per cent, one percentage point less versus the prior year. In contrast to public channels, there is a broader distribution of audience for private channels. The most widely listened private channel is Radio 24 with a market share of 3 per cent, followed by Energy Zürich with 2.3 per cent. The Swiss Energy radios could reach a higher audience rate in the coming years once they have been certified under the ISO quality standard. Additionally, the Federal Government adopted a number of measures that give private radio stations greater flexibility and make licensing procedures simpler.

Market Share of Radio Listening

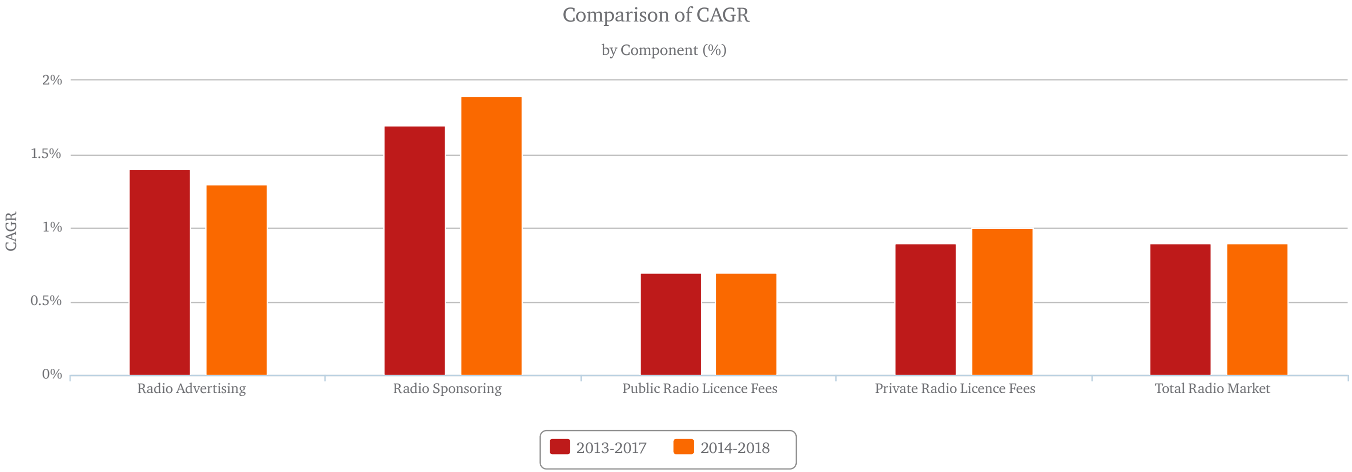
German-speaking part of Switzerland (%)




Analysis by PwC

## *Market growth*

The CAGR of the overall Swiss radio market increased in comparison to last year. In 2013, the prediction was a low CAGR in advertising as media companies complained about customers having a lower advertising budget due to economic factors. Modest growth is forecasted for the upcoming five years. Total radio market revenues are set to rise at a CAGR of 0.9 per cent to a total market volume of CHF 664 million by 2018. The licence fee market in Switzerland should grow at a stable pace.




Analysis by PwC


## *Principal drivers*

### *Economy and tradition*

Despite the fragile financial situation in the eurozone and a lower level of exports than expected, the future of the Swiss radio market is only marginally influenced by the economy. Nevertheless, no other communication medium in Switzerland has a broader range of users than radio. Radio remains the most popular information and entertainment platform and therefore keeps its attractiveness in the advertising business. Although economic circumstances often have an effect on advertising spending, the radio market in Switzerland is predicted to be relatively stable in the upcoming five years.

***Broadcasters are at risk – free music streaming has implications for radio advertising revenue.***

### *Streaming platforms*

The ongoing success of streaming platforms has put pressure on the radio market. Free music has no implications for the main revenue stream of licence fees as the fee is fixed by the Federal Council. But streaming platforms could impair radio advertising revenues as services launch free-to-consumer mobile offerings in order to compete directly for radio advertising revenue. Despite the fact that music streaming providers are attracting globally more and more users, there was still growth of 5.7 per cent in Swiss radio advertising revenue in 2013. But the new business models of music streaming services still create an uncertainty for the future of the medium.

**_The new smart radio is RadioDNS, combining radio broadcasting and Internet Protocol._**

***Internet-based radio portals***

The new age of personalised radios was introduced by RadioDNS. It is a concept that combines radio broadcasting and Internet protocol. Free radio portals such as "Radio Play" offer the possibility to listen to all Swiss radio stations live on the Internet. The smart radio brings many benefits to the radio market. Internet protocol has a universal standard and can therefore be used worldwide, both stand-alone and in combination with terrestrial analogue and digital radio broadcasting. With the help of IP-based radio and some upcoming technology options, there are possibilities to create an individual radio agenda on an Internet-based platform. As a result of RadioDNS's growth, the future of radio could take the form of a more social audio network. Also, we expect that the interest in IP-based radio will grow as more people listen to radio on their computers, tablets or mobile phones. IP-based radio brings many benefits since people can listen to Swiss radio channels from abroad, a need that has its origin in the ongoing move towards globalisation. This increase will have an influence on radio advertising spending; in particular, it could compensate the possible decline in radio advertising growth caused by streaming platforms.

***Universal radio and television fee***

The revised Federal Act on Radio and Television (RTVA) will replace the current reception fee of CHF 462 with a new universal radio and television fee of around CHF 400 for radio and TV reception per household and year, but it will not take effect until 2015. In addition, the Swiss Federal Government plans to introduce a device-independent fee which has to be paid by every household and business and will be slightly lower. Presumably, it will be introduced in 2019 at the earliest. The reduced reception fee could be offset by revenues from the obligation fee charged to every household, so the public licence revenue is predicted to grow at a stable rate.

***Digital transmission technology***

A Digital Migration working group called DigiMig was established by OFCOM in the spring of 2013 and aims to develop an industry-wide solution for the transition of existing radio stations from the current analogue VHF to digital DAB+ technology. In addition, SwissMediaCast AG established a new digital radio transmitter network. In 2013, SwissMediaCast began to operate their regional-language DAB+ network through a regional platform that can broadcast to a much wider swath of the country. In July 2014, already 26 private radio channels offered DAB+ transmissions.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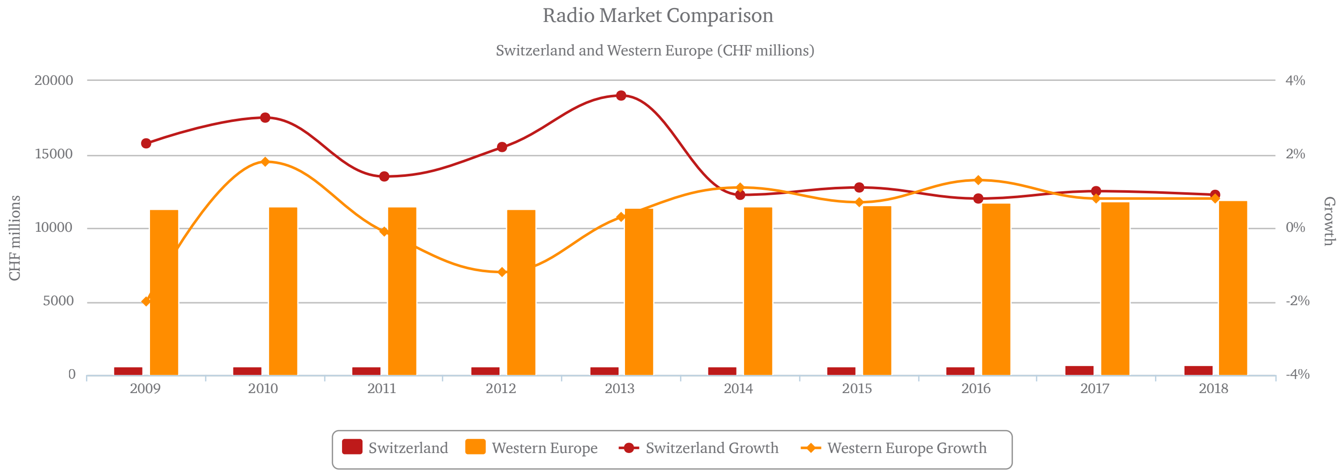
## Business innovation

The US radio station National Public Radio (NPR) sends voice-controlled advertising via a smartphone application. Previously, users had to wake up their smartphone and use the screen to respond to an advertisement when listening to radio on a mobile device. In contrast, this business innovation represents a new, technology-driven audio format in which the user only needs to respond. At the end of news articles, there is a 15-second spot that calls on the user to say "download now" or "learn more". Subsequently, the advertising is expanded to additional video or audio content on the user's device. With this concept, NPR wants to maximise its return rates. Interactive audio advertising for Internet radio stations is provided by XAPPmedia. The company raised USD 3 million from private investors and commenced business earlier this year with NPR as its first customer.

**_Radio stations with voice-activated advertising_**

Since the competition in the radio advertising market is expected to increase as a result of streaming platforms and other new market players, radio stations should pay close attention to these innovative advertising concepts. The market share of radio advertising is projected to slightly grow from 18.5 per cent in 2013 to 18.8 per cent in 2018 and thereby gain even more importance for the segment.

# *Comparison to Western Europe*



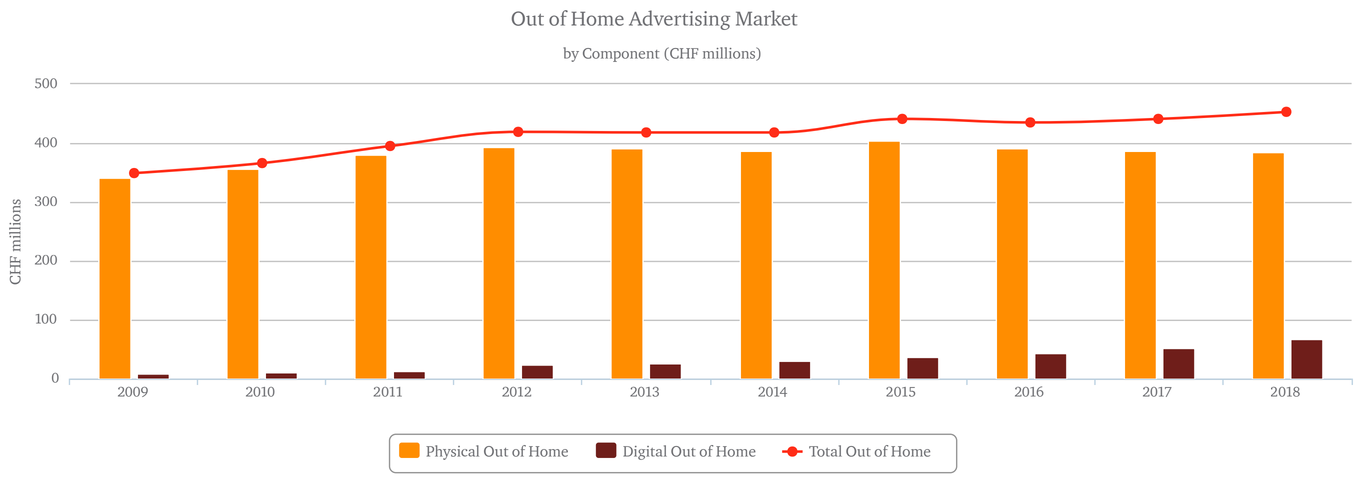

Analysis by PwC

In Western Europe, Switzerland represents one of the leading countries in terms of DAB+ digital radio coverage, which underscores the maturity of the Swiss radio market. The Western European radio licence fee market is expected to grow at an average annual rate of 0.2 per cent through 2018, which lags the projected 0.7 per cent growth rate for radio licence fees in Switzerland.

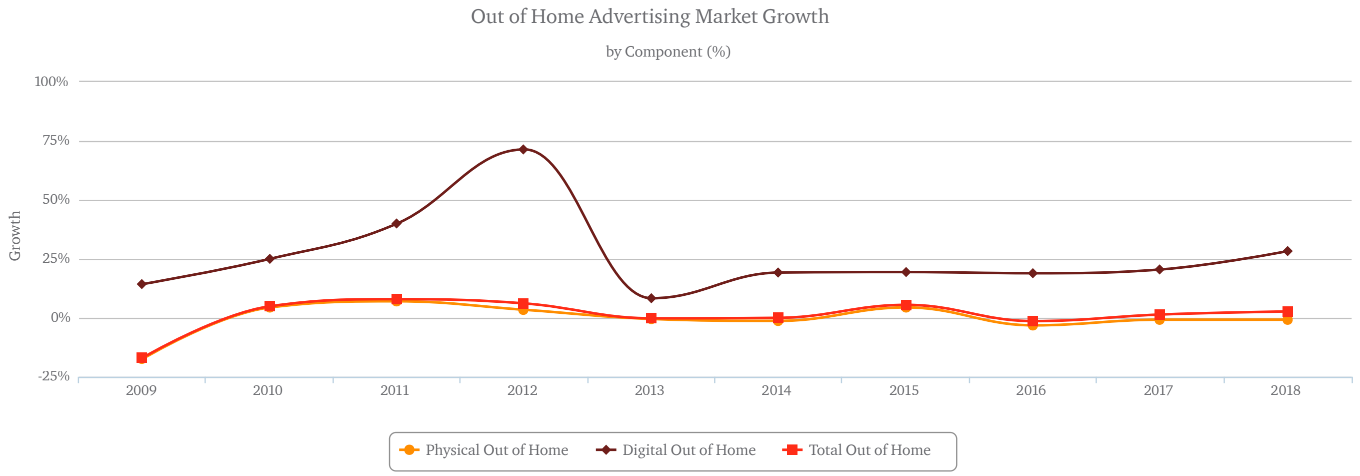
In 2013, the Swiss radio advertising market accounted for only 2.1 per cent of the total radio advertising revenues in Western Europe. In absolute numbers, France and Germany were the biggest contributors in 2013, representing 18.2 and 16.7 per cent, respectively, of the total advertising spend in Western Europe.

Radio advertising in Switzerland is expected to grow at a 1.3 per cent annual rate through 2018. In Western Europe, total radio advertising market growth of 1.7 per cent per annum is anticipated through 2018. The comparatively higher rate in Switzerland can be explained by the maturity of the Swiss market.

# Out of Home




Analysis by PwC

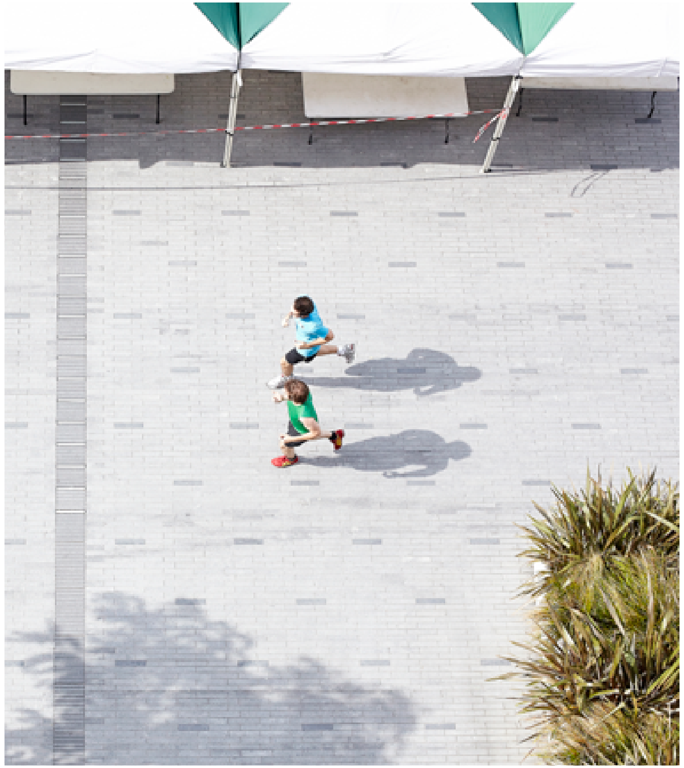



Analysis by PwC

## At a glance

### Segment definition

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



# The Swiss out of home market

## Market overview

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

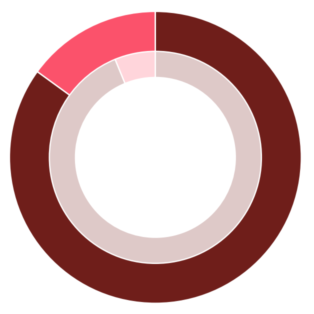
The entry barrier for new participants is high due to the significant investments and time involved in establishing a meaningful network. The further development of the market is therefore heavily dependent on the market leaders' investment capabilities.

The great advantage of DOOH, or digital signage, is that it allows individual solutions per screen and time of day, whilst ensuring real-time display flexibility. This is especially appealing to advertisers who want to attract distinct groups of consumers at different times of the day, for example at airports and train stations. Other opportunities are to change billboards depending on the weather, e.g. from umbrellas and gloves to sunglasses or ice cream. The advertisers prefer booking campaigns with certain coverage across regions to benefit from scaling effects. The current networks allow this only to a certain (for example train stations) but growing extent.

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

Spending on Digital and Physical Advertising

by Component (%)




Analysis by PwC

DOOH's attractiveness is increasing. Beside its ability to make use of streaming video as an alternative to television, there are also online and cinema advertising formats. The only constraint is that DOOH usually cannot make use of sound, a disadvantage compared to the other formats. However, the current DOOH screens are used with limits to stream video broadcasts rather than to allow more frequent board rotations and "light animated" images. Light animation, such as certain movement in a picture, appears less disturbing to the public and therefore might face lower regulatory restrictions.

***The Swiss non-digital OOH market is dominated by two major players.***

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

***Digital OOH has immense potential but will supress non-digital OOH spending.***

The measurement and reporting of OOH is highly developed through mobility tracking of the audience. The information helps advertisers to evaluate the impact of purchases by making comparisons with other media and facilitating the incorporation of OOH as a part of advertising and marketing campaigns. Improved audience measurement is generally associated with increased spending, both in total and as a way of justifying price premiums.

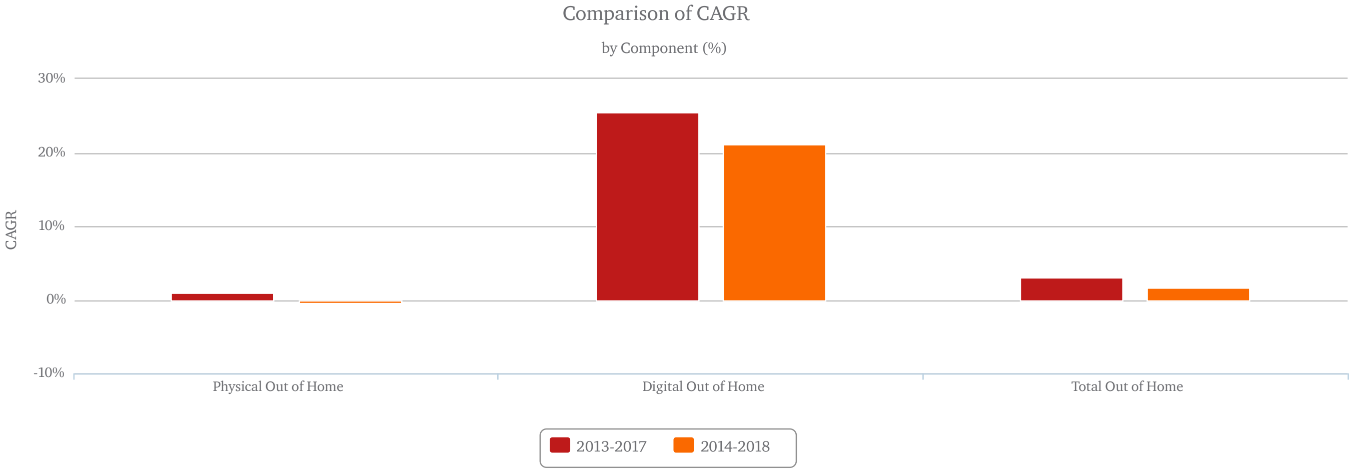
## *Market growth*

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

We expect lower growth rates in the non-digital OOH market compared to last year. Price pressure due to high capacities, changes in the market mix and replacements to digital products are the main impacts. Certain effects, such as national elections in 2015 and 2019, will occasionally result in higher spending. We believe that the transportation market will remain stable, supported by increasing passenger volumes and the time spent commuting. Non-digital growth will be slightly negative.

***Growth in OOH advertising is strongly dependent on regulatory challenges regarding billboards.***

We expect DOOH advertising to show strong annual growth rates but at a slightly slower pace than last year. The regulatory restrictions, cost-intensive trial periods and related investments will result in slower growth than originally expected. However, the transformation from non-digital and the exploration of new opportunities support the strong growth.




Analysis by PwC

## *Principal drivers*

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

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

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

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

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

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

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

## *Business innovation*

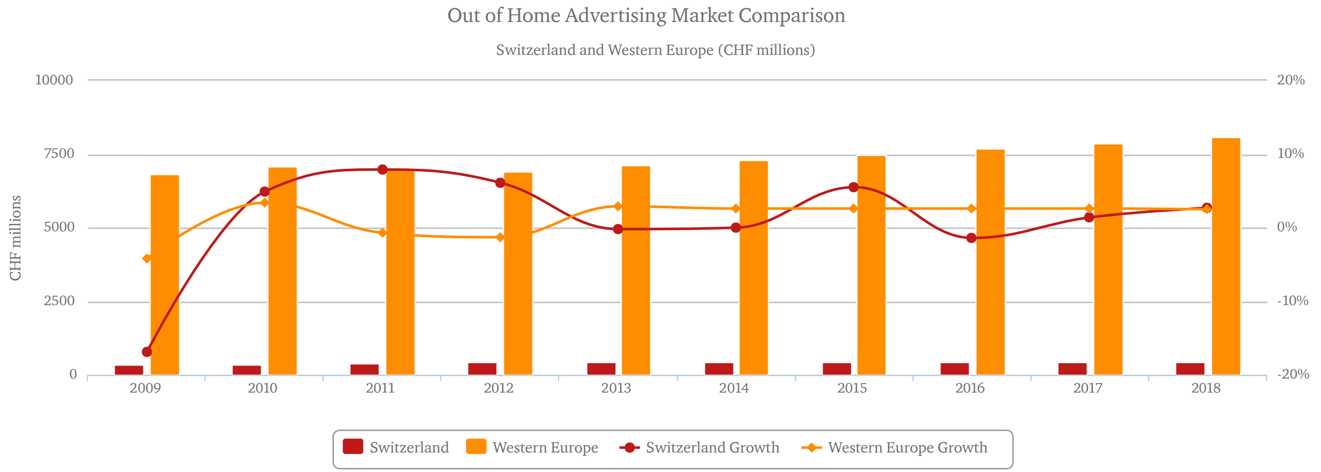
DOOH's power is immense if one considers that the powerful adverts from TV and cinema can be brought to the streets. However, the next step is bringing about a fusion of reality and fiction that will give the medium increased muscle.

***Inspiring DOOH billboards: Pepsi promotes its unbelievable taste of Pepsi Max in London***

The beverage company Pepsi has surprised people on London's Oxford Street with augmented-reality billboards.

The waiting passengers felt they were standing behind a transparent glass window. Actually it was an HD screen showing a realtime stream of the area behind. The scenes were enhanced with a life-size tiger, UFOs attacking London's core or monsters climbing up from the next sewer. The passers-by were seriously confused, entertained and started taking selfies. This innovative demonstration of the unbelievable taste of Pepsi Max hit London's streets in February 2014.

# *Comparison to Western Europe*



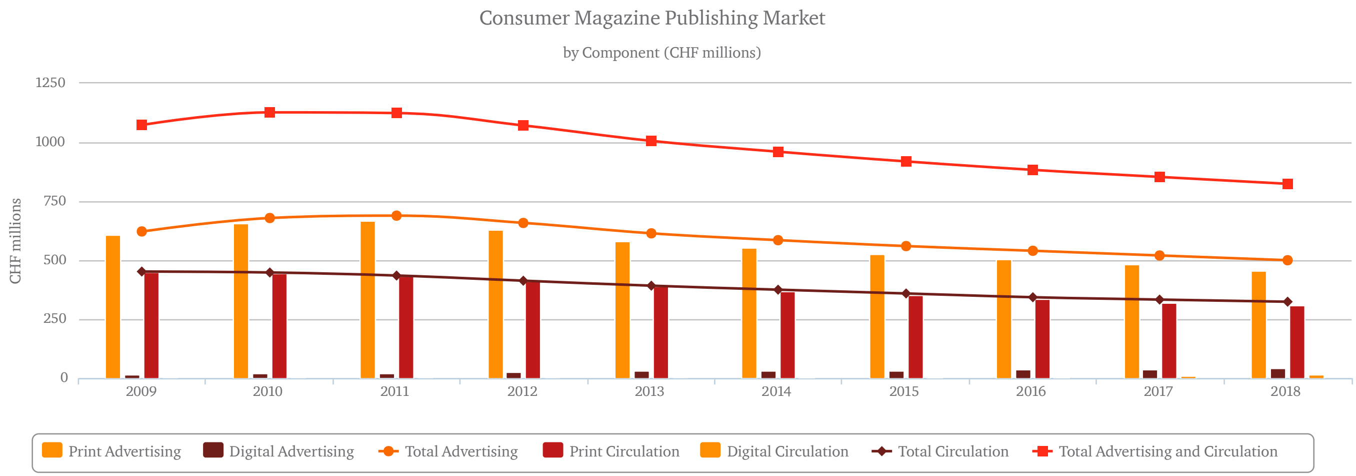

Analysis by PwC

The Swiss OOH market is highly developed and represents the fourth largest market in Western Europe. Today, OOH advertising boasts a relative market share of 11 per cent of the total advertising mix. This exceeds European averages that generally range from 5-10 per cent. It is expected that Switzerland will show lower annual growth rates compared to Western Europe.

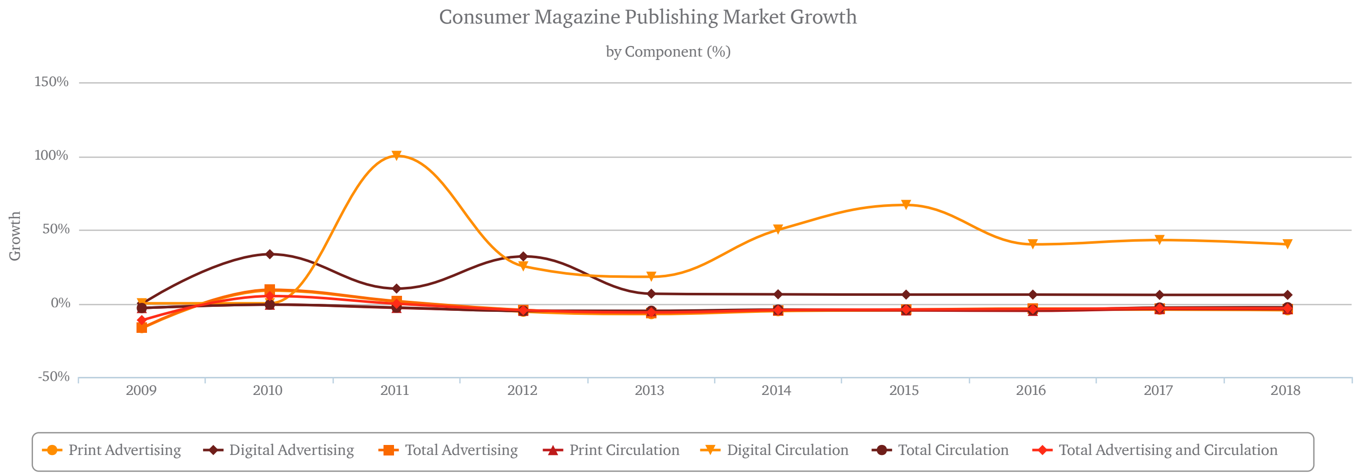
France is the largest market in Western Europe, with OOH revenues of CHF 1.6 billion, followed by the UK with CHF 1.5 billion. The UK is the leading market for DOOH advertising in Western Europe and is expected to continue its expansion of digital signage, which will boost growth and should make the country the largest market in Western Europe by 2015.

Germany, the third-largest market in Western Europe, is expected to increase at a 2.2 per cent compound annual rate to CHF 1.3 billion by 2018. Ströer, the market leader, is continuing to expand its network across the country.

# Consumer Magazine Publishing




Analysis by PwC




Analysis by PwC

## At a glance

### Segment definition

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

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

***Despite the ongoing trend in digital – print will remain the major source of income.***

## The Swiss consumer magazine publishing market

### Market overview

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

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

***Publishing companies are diversifying their activities.***

Despite the current economic circumstances, Ringier has made some progress in the traditional print magazine area. For example, “LandLiebe”, which was launched in April 2011, has managed to constantly gain readership. For this reason, Ringier launched in 2014 “LandLiebe TV” and “LandLiebe Radio”, both based on the same concept as the magazine.

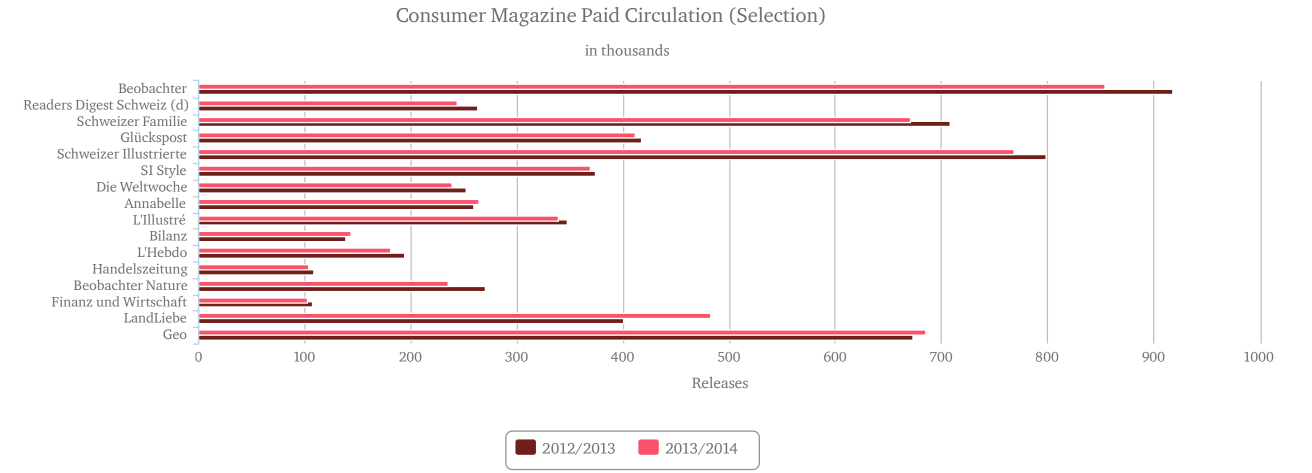
At present, 77 per cent of the Swiss population own a smartphone; 39 per cent own a tablet. The rising penetration of smart devices has a strong impact on consumer magazine publishers. They have to rethink their traditional business model so that profitability can be ensured in the emerging digital era. For that reason, both Ringier and Tamedia have invested in the digitalisation of print magazines.

For example, since mid-2012 all of Ringier’s consumer magazines are accessible online via tablet or smartphone. However, as many consumers are not yet willing to pay for online magazine content, publishers are seeking other opportunities in the digital sector to generate further revenues. Therefore, Ringier in 2014 cemented a partnership with KKR, a world-leading investor, by selling KKR a 49 per cent interest in its Scout24 Schweiz AG and Omnimedia AG subsidiaries. The aim of this partnership is to improve the digital business through KKR’s ample knowledge of the media and technology industries as well as its worldwide network. In order generate higher digital revenues, Tamedia actually introduced an advisory board which is charged with advising management and the board of directors on matters of digital business. Tamedia has also implemented a fund for the realisation of innovative ideas conceived by its employees.

In the first half of 2014, most of the titles of the popular, financial and economic press lost readership compared t0 the previous half-year. However, there were some magazines that managed to gain additional readership, for example LandLiebe (+ 82,000 readers), Annabelle (+ 5,000) and Geo (+ 12,000).

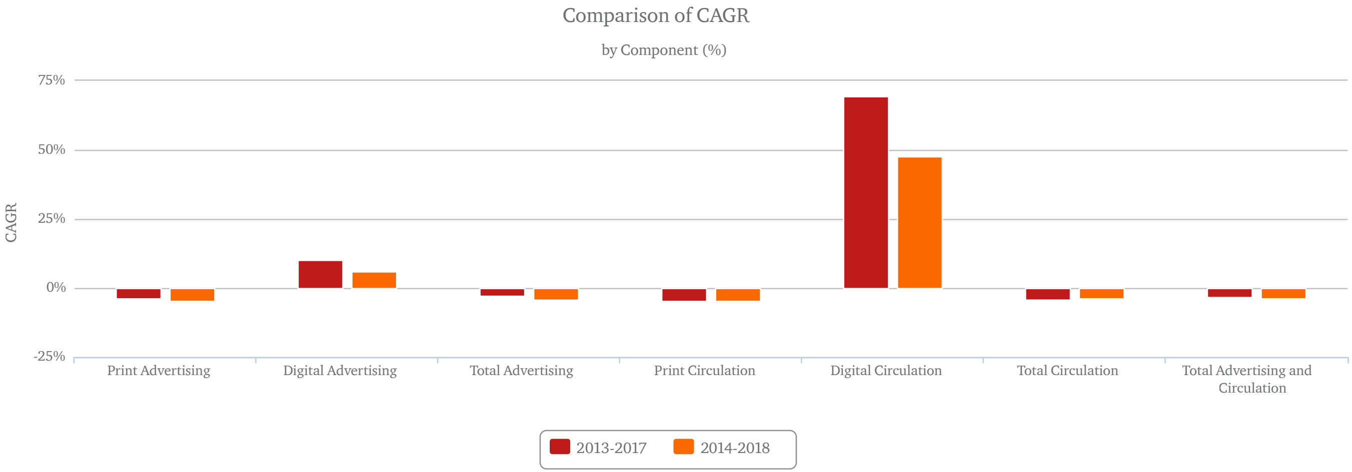
***The main market players are heavily investing in the digitalisation of print magazines.***

Advertising revenues from consumer magazines and newspapers account for about 40 per cent of total advertising revenues in Switzerland. In 2013, the major contributors to “consumer magazine print” gross advertising revenues were the nutrition sector with 13.7 per cent, the cosmetics area with 10.3 per cent and the fashion/sports business with 10.1 per cent. The latter overtook the retail business, which only accounted for 9.8 per cent in 2013.




Analysis by PwC

## Market growth




Analysis by PwC

We assume that the overall decline in the consumer magazine publishing market will be more accentuated than assumed in our prior-year projection. Last year's assumptions were slightly too optimistic and we will have to adjust our assessment of the trend for the upcoming period. We expect that the print advertising market will decline at a slower pace over the next several years. The structural downturn in the consumer magazine advertising market has decelerated.

Another reason for the decline is the increased use of smart devices and future possibilities for advertisers in the digital segment. This leads to an additional boost in digital advertising spending as well as in digital circulation spending. We would like to point out that the digital business will not replace the income from the print business in the consumer magazine market in the near future.

We expect a slowdown in the digital advertising business and the digital circulation market as the readership of consumer magazines in Switzerland is more print-oriented.

## Principal drivers

***Revenues from digital circulation will not fully offset the losses in print circulation***

Increasing broadband penetration and the ownership of smart devices will result in increased consumption of digital content. Print readership and subscriptions will be progressively supplanted by digital. With mobile apps and web pages, people can access digital content whenever and wherever they like, which in turn boosts the readership of digital consumer magazine offerings. The bad news is that revenues from digital circulation will not fully offset the losses in print circulation because digital content is often provided for free. In consequence, publishers need to devise new revenue models in order to fill that gap.

***Introduction of subscription fees for digital offerings***

Making online content accessible free of charge will gradually become an exception rather than a rule. More and more magazine publishers such as Tamedia are introducing a subscription fee for digital offerings. Specialised titles in particular often provide photography and content that cannot be found on the Internet at no cost, so that should spur the introduction of subscription fees.

***Also the 50+ generation has started to use tablets***

Generally, the ageing of the Swiss population is considered beneficial to the printed consumer magazine market. But in contrast, recent studies show that tablet ownership amongst the 55 to 69 age group has grown by 44 per cent within the last year and now accounts for about one-quarter of the total tablet ownership in Switzerland. Consequently, overall print circulation is declining as consumers progressively look to smart devices for gathering news and information.

***Despite the rising income in digital advertising, print advertising will remain the major source of income for consumer magazine publishers***

There are several reasons why digital advertising is on the rise. Firstly, as digital content is attracting an ever-increasing readership, it makes it possible to reach a wider range of potential customers. Secondly, advertisers have the opportunity to enhance traditional ads with links to social networks or online shops that encourage interactive activities. And thirdly, it is possible to place video ads which have a stronger impact on people than display ads. Despite this trend, we believe that print advertising will remain the leading source of revenues for consumer magazine publishers through 2018.


## Business innovation

The newspaper industry has been hit the hardest by digitalisation and even major players have had trouble developing business models that responded appropriately to these changes. Attempts to generate revenue by using a paywall were, with a few exceptions, mostly unsuccessful.

**How WIRED magazine discovers new sources of revenue for publishers**

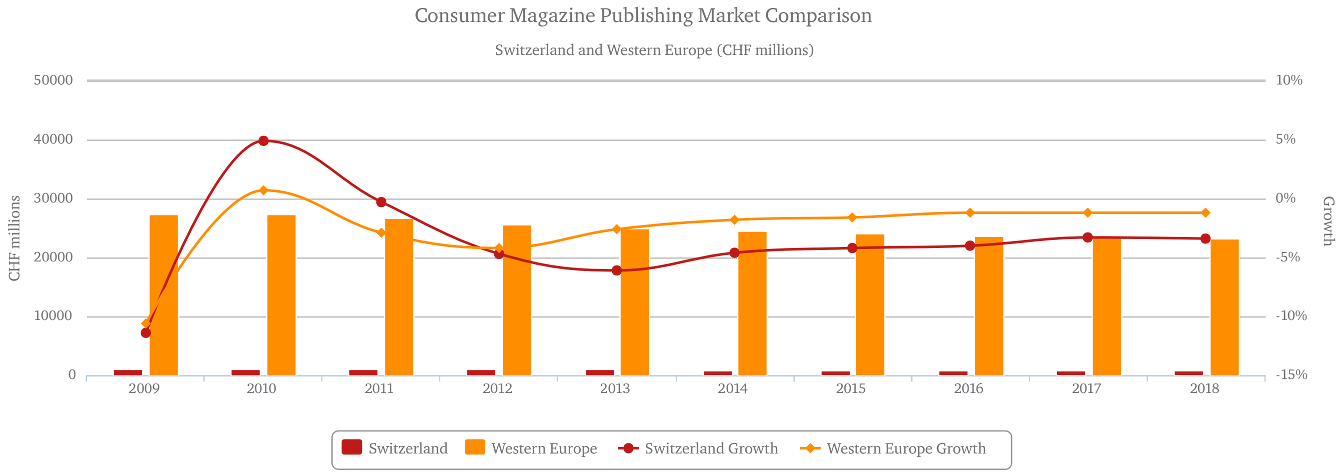
However, this shift also opened up opportunities for new innovative revenue models. The WIRED magazine is an example of such an innovative player with its successful implementation of a game-changing new revenue source. Instead of merely promoting different goods in the magazine itself, the company decided to sell them directly via their e-magazine as well. Thus the publishers diversified their business model as a way of increasing their share of the entire value chain.

The WIRED App allows customers to purchase goods recommended by the editors, called "Editor's Pick", an element that exists in various consumer magazines, mainly in the lifestyle section. Before this platform was introduced, customers who found an interesting product in a magazine had to switch channels to a commerce platform. This represents one of the advantages of such an e-commerce solution: the customer is able to benefit from an enhanced shopping experience and an easier decision-making process, enabled also by an incredibly easy check out procedure which does not require the user to leave the application. The e-magazine can thereby generate revenues by affiliate linking or even realise margin gains by setting up its own online store. The result is a win-win situation for both publisher and producer, and possibly a new way for magazine publishers to generate revenues.

## *Comparison to Western Europe*

The same trends in the media and entertainment business as in Switzerland can be observed in other Western European countries: publishing companies are diversifying their activities. In Germany for example, Axel Springer SE purchased N24 Media GmbH, which operates the news channel N24.

In terms of the consumer magazine market, France and Germany were by far the largest contributors in 2013, representing 23 and 18 per cent, respectively, of the total advertising spend in Western Europe and a share of 27 and 20 per cent of the total circulation market.

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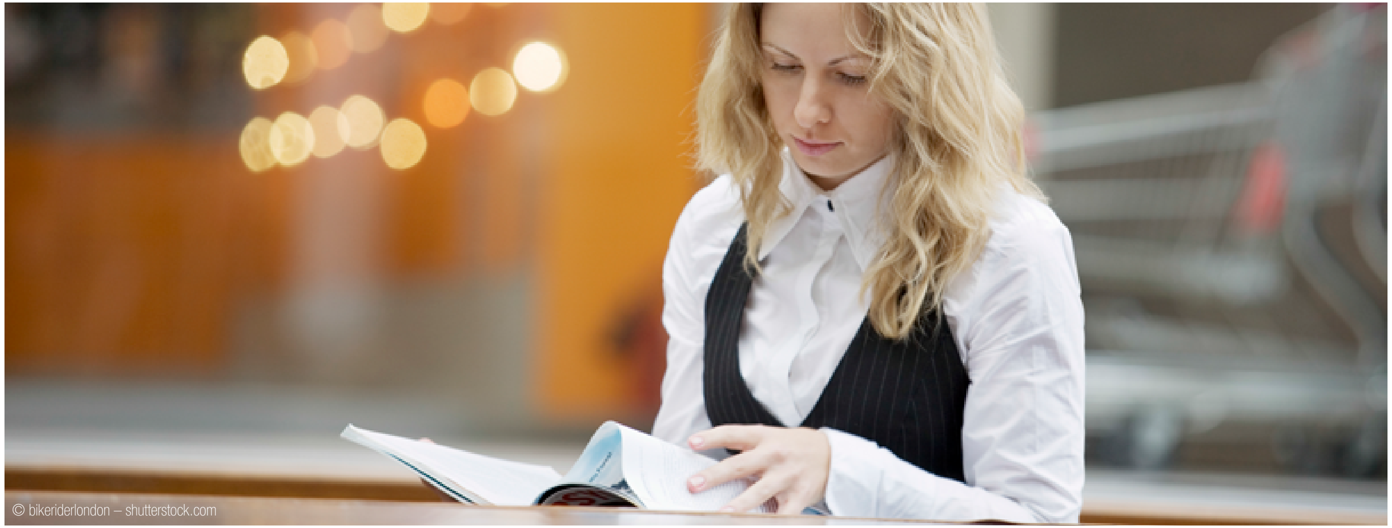
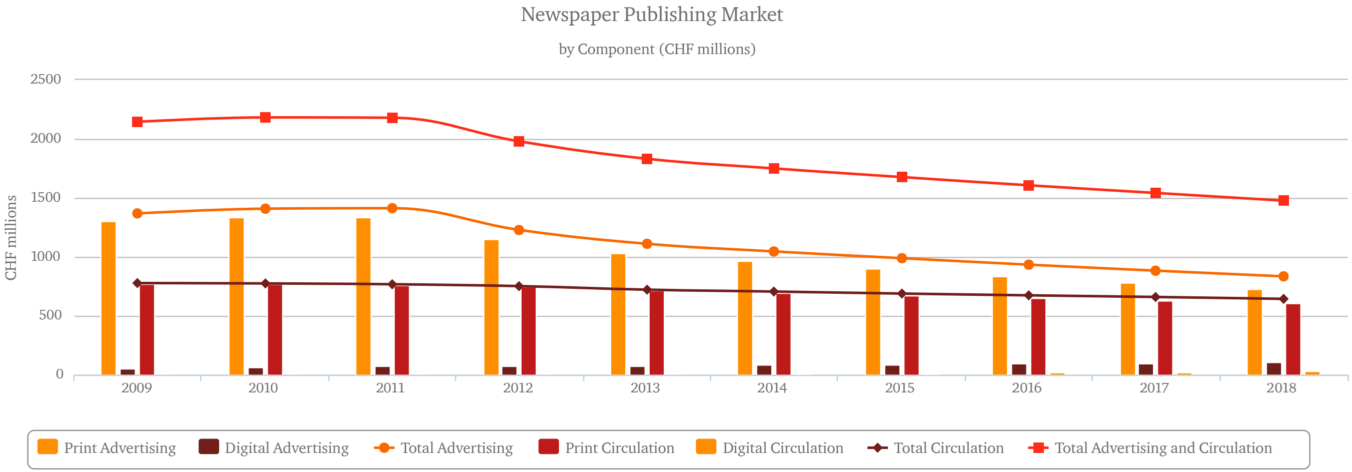
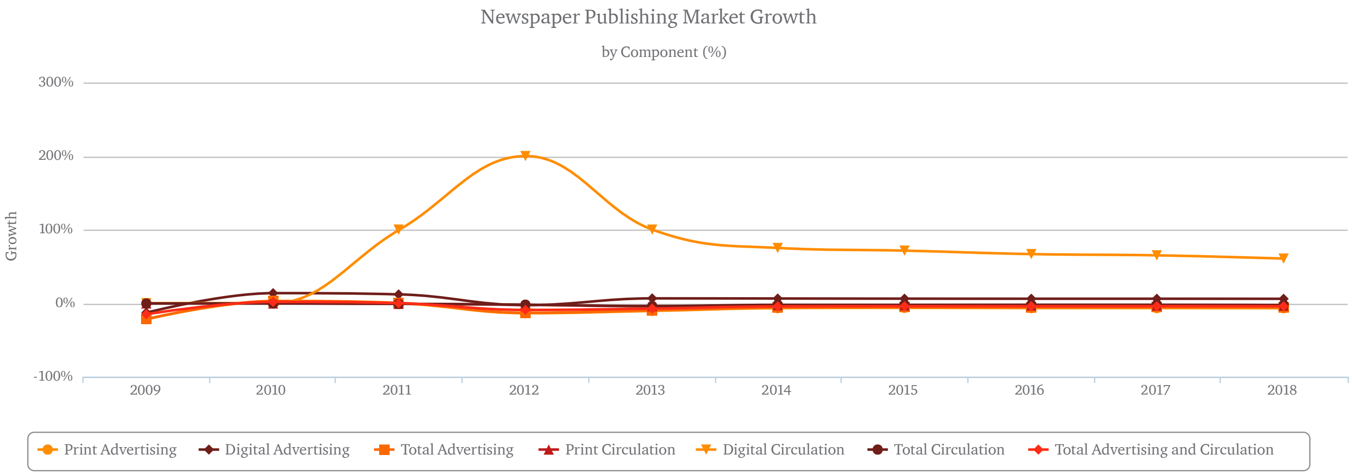


# Newspaper Publishing




Analysis by PwC




Analysis by PwC

## At a glance

### Segment definition

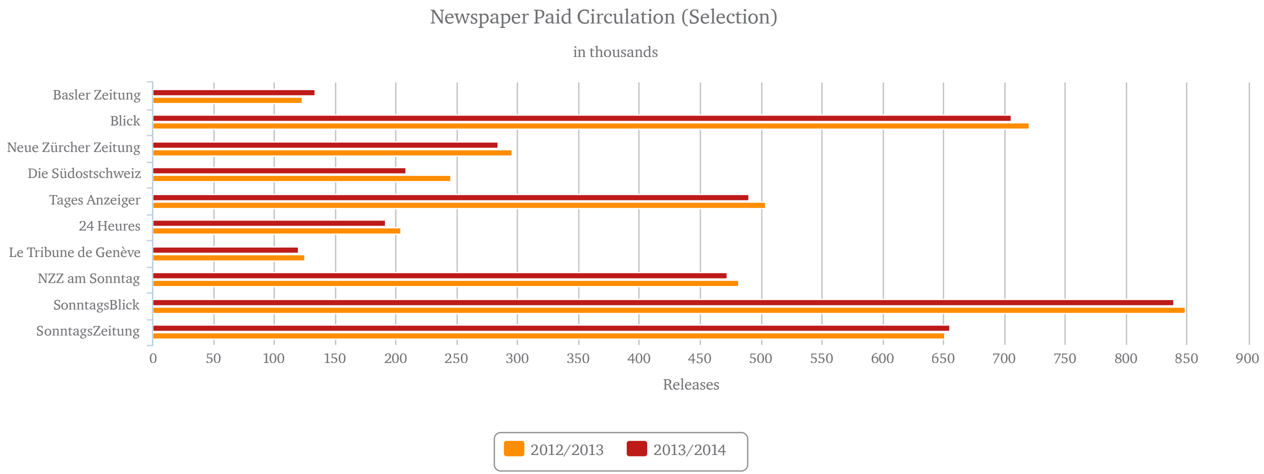
The newspaper publishing market comprises spending on daily print newspapers by advertisers and readers as well as digital advertising on newspaper websites and within mobile applications. Spending by readers includes newsstand and kiosk purchases, subscriptions, payments for newspapers delivered to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

Circulation numbers exclude free daily newspapers and weekend editions, unless otherwise stated.

## The Swiss newspaper publishing market

### Market overview

The Swiss newspaper publishing market is small compared to the neighbouring markets in Germany, France and Italy. The market is not only characterised by its size, but also by its distinct geographical and linguistic boundaries as well as the influence of the Swiss political system of direct democracy, where most decisions are taken at local or regional level. This gives local and regional news an important function within the political landscape.




Analysis by PwC


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

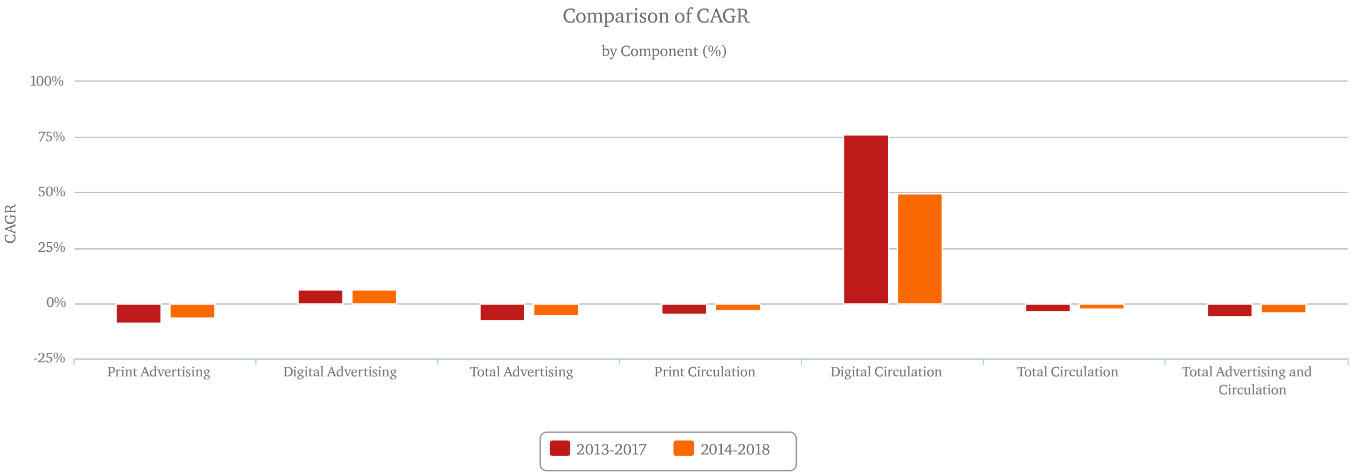
The strain on the market observed in previous years continues. However, it is noteworthy that the print advertising market declined slightly less than predicted in 2013. The decline was most severely felt by the daily circulators, while the Sunday papers lost the least and, for the first time, free titles lost more than paid publications. Despite its decline, print media advertising remains a cornerstone of the Swiss advertising landscape; however, it is apparent that publishers are beginning to view spending by readers as an equally important source of revenue.

Declining print advertising revenues have driven a process of diversification in the Swiss publishing market. This has largely taken place through the continued acquisition of non-publishing businesses. January 2014 saw Ringier acquire Scout24 with the aim of becoming better positioned in the digital classifieds market; and in order to advance its digital business; a 49 per cent stake was subsequently sold-on to the global private equity firm KKR. In May, Tamedia announced plans to integrate its search.ch business into a joint venture subsidiary co-owned by Swisscom, only to follow up in August by acquiring a significant stake in the online financial advisory platform MoneyPark. Similarly, NZZ-Mediengruppe acquired itonex AG, operator of the online commercial data repository Moneyhouse, thereby strengthening their position as a leading provider of digital business information.

***The newspaper industry has been hit the hardest by the digitalisation.***

As a result of the decline in traditional print advertising revenues, digital service expansion and monetisation continues. Mobile and tablet editions are now developed features in the Swiss market, and a number of publishers have introduced "paywall" systems to monetise these offerings. The vast majority of those systems are "metered", i.e. they allow access to a limited number of articles free of charge. It is likely that these free offerings will diminish over time as market players seek to further monetise their digital platforms: indeed, the past year saw NZZ's free offering reduced by 50 per cent.

## *Market growth*




Analysis by PwC

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

A number of key factors are responsible for the deceleration of the negative tendency within this market, most notably a lessening of the structural downturn in the print advertising market. This may be a consequence of intensive print promotions launched by the Swiss Media Association and the publishers themselves.

While publishers may be beginning to view reader spending as equally important as print advertising, the latter will remain the most dominant source of income during the forecast period. However, publishers will likely see greater growth in revenues arising from their digital offerings than in previous years.

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

***The digital business will not replace print revenues in the near future.***

Elections this year may boost short-term revenues for some regional papers, and over the longer term reduced competition may be beneficial for innovative players.

## *Principal drivers*

***Improved economic conditions are not the principal driver in the newspaper publishing market***

We assume that improved economic conditions in 2014 will have a positive impact on both advertising and circulation spending, even though we noted in 2013 that a more upbeat economy is not the principal driver in the newspaper publishing market. Despite the GDP increase recorded in 2013, the newspaper market declined. We assume that the favourable overall conditions will still result in a decrease in the newspaper publishing market in 2014 and thereafter.

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

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

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***Price increases can only compensate for decreasing circulation in the short term***
Price increases compensate in the short term for declines in circulation but changes in consumer behaviour mean they cannot be counted on going forward. Therefore, we expect that print circulation revenue will fall further and only be partially offset by digital circulation.

***"Digital first" is becoming the norm for newspaper publishers.***

***Publishers have to find the right way to adapt their IT infrastructure and make digital applications attractive***
Mobile devices, such as tablets and smartphones, represent an important avenue for circulation and the generation of related advertising revenues. The extent of increases in digital circulation is largely dependent on how publishers handle adapted IT infrastructure (fully paywall, metered paywall, etc.) and how they generate the optimal utility and attractiveness of such applications for their readership. Regional players will need to approach this issue in a different way than their national counterparts, given the regional population's current preference for print media.

***Publishers have to focus on the needs of their readership and develop new income channels***
Swiss publishers will need to continue thinking about new revenue sources outside the publishing market in order to compensate for the decline in their traditional market. Furthermore, they must carefully consider what their readership really wants (i.e. concentration more on local news instead of national and international news, publishing the latest headlines in the morning, reducing the news content and focusing instead on specific topics with more background information).


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## *Business innovation*

Social media platforms have become an increasingly important source of news and information. Often, crowd intelligence is distributing news much faster than newspapers. However, a major disadvantage of social platforms is the lack of quality control. Since every user can spread news of any nature, the objectivity of this news is no longer assured.

The application Prismatic provides a way to combine the relevance of social platforms with classic news. Prismatic pulls articles from the Internet and matches them to discussions on social platforms about the same topic. The articles are downloaded from the publicly accessible Internet pages of newspapers. Then the software searches the social platforms for discussions that match the topic from the original newspaper article and merges them.

***How Prismatic combines traditional news with aspects of social platforms***

The Prismatic application opens up totally new approaches to the distribution of information. In a situation where many conflicting messages are circulating, this swarm intelligence could help to establish the objectivity again. Users could also complement the lack of knowledge of the authors of the news articles and enable more comprehensive reporting on the topic.

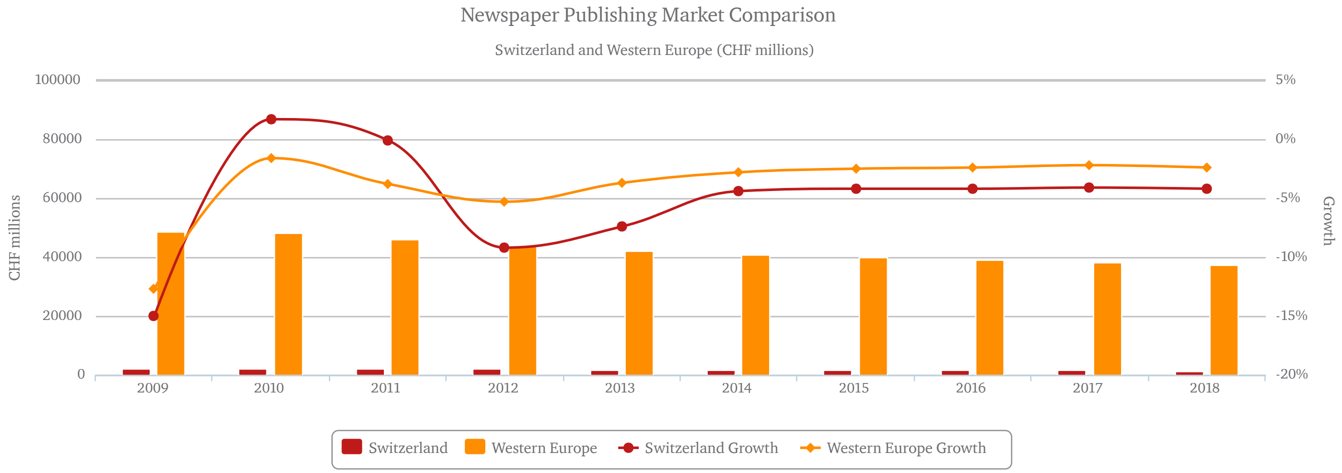
However, the emphasis of Prismatic still is focused squarely on the social aspect. This is illustrated in particular by the structure of the application. The comments from social platforms are displayed above the article and are therefore clearly in the foreground. Prismatic is still not a perfect app, but provides the basis for future innovations in the area of linking social media, mobile and newspapers.

## *Comparison to Western Europe*

The Swiss newspaper market is similar in size to those of Austria, Belgium, the Netherlands and Sweden. A decline in the print advertising market is expected in all Western European countries with the exception of Finland. Conversely, the digital advertising market is expected to grow everywhere in Western Europe with the exception of Ireland.

We expect that the degree of decline within Switzerland's print advertising market will be similar to that expected in other Western European countries. However, when compared with the similar-sized markets mentioned above, the Swiss decline has been more pronounced.

Digital newspaper circulations are expected to increase considerably across Western Europe, but not to such an extent that their rise will be able to compensate for the losses experienced in the print market. As a result, overall revenues within the newspaper publishing market are expected to decline throughout Western Europe and thus also in Switzerland.

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