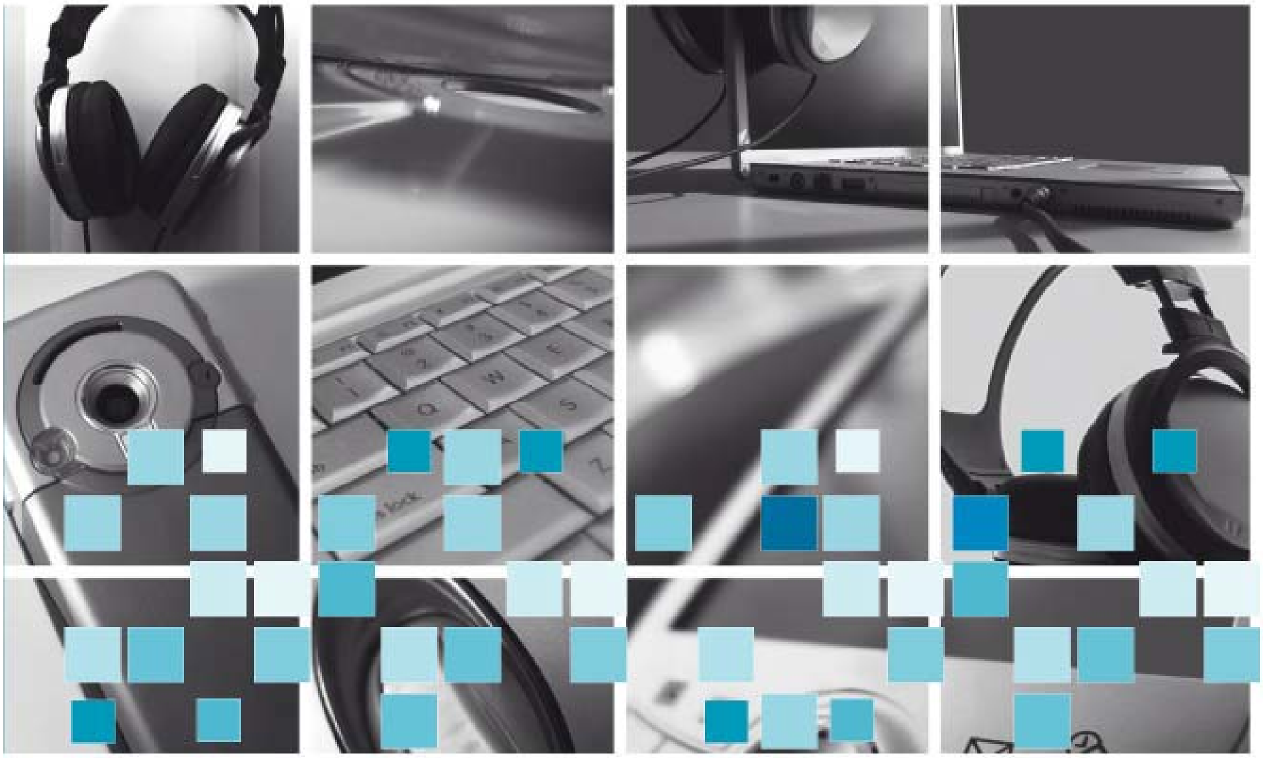
Annual Report on Digital Content in Spain 2009



GOBIERNO DE ESPAÑA

MINISTERIO DE INDUSTRIA, TURISMO Y COMERCIO

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2009 Annual Report on Digital Content in Spain

PREPARED BY:
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WITH THE ADVICE AND COLLABORATION OF:
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FOREWORD

Year by year, digital content is becoming more and more a component of the business fabric and is progressively being incorporated in the lives of citizens, playing an increasingly important role in the development of the Information Society.

This content, in a diverse range of forms: blogs, photos, music, electronic books, articles, reports, films, video clips, mini games, advertising, etc., accounts for a large portion of leisure activities in our society and it is rapidly being incorporated in professional and information spheres, as well as in public administrations.

The agents involved in the digital content production industry are aware of the important role they play in the development of this sector. Many of them, with great creativity and technological training, carry out numerous projects to implement improvement strategies that facilitate accessibility to the content.

In light of the challenges faced in this context, public institutions are key to establishing the regulatory frameworks and fostering measures that favour the development of this industry. The Spanish central government has considered the introduction of promotional incentives and promotion plans as a strategic priority and these are already fuelling sharp growth and strengthening the SME business fabric in this sector.

In 2008, the content industry has shown it is capable of meeting the challenges it faces in the current climate of uncertainty, recording growth in its digital segments.

The report presented below gives the present and future strategic keys for the sectors that comprise the digital content industry. It describes in detail the situation of each sector, offering an analysis that will doubtless serve as a reference manual both for the agents involved and for consumers and organisations.

1. DIGITAL CONTENT INDUSTRY

1.1. Context

Aware of the strategic importance of the digital content industry in our country and following the publication, in 2008, of the White Paper on Digital Content in Spain, which was a point of reference for measuring and making forecasts about this industry, this year the Ministry of Industry, Tourism and Trade is publishing an update of data and trends within the industry, contained in this report.

There are other publications, both public and private, which give data on said industry and which provide valuable insights. The report published recently by ONTSI, "*La sociedad en red 2009*", (The Networked Society 2009), which analyses the ICT sector, includes some of the six sectors studied here. The conclusions drawn from that report together with those in this report, give an overall view of the industry and provide an important basis for analysing future prospects.

The evolution of the digital content production industry in Spain over recent years has been positive and the sales figures for the different sectors, despite their individual heterogeneous performance, give an annual growth rate for the industry of 3% between 2004 and 2008.

In 2008, consumption of digital content in Spain grew, with more than 70% of the population now consuming this type of content, 6% more than in 2007. This growth demonstrates the vitality of the digital dimension, which has become a **solid reality** that should be taken into consideration along with new developments in traditional formats. Said digital formats are already one of the main sources of revenue for all the sectors.

Within the content industry, it is the digital side that is experiencing the sharpest growth, a total of 15.8% in 2008. **Online advertising** showed the sharpest growth in 2008, with 26.4%. In turn, it is also acts as support for the future development of the rest of the sectors, as it is the main source of funding for online business.

Spain, both in terms of supply and demand, is becoming a market with excellent **qualities**: the talent of professionals of recognised international prestige, the extensive network of national infrastructures, the creativity of users as producers of quality content, and public and private strategic support mean that our country has the necessary ingredients to gain a prominent position in the international arena.

There are an increasing number of **sectors not related to leisure** and digital entertainment, which are aware of the need to introduce digital technologies in their content. Consequently, the consumption of digital content is extending to different areas of citizens' activity, such as education, healthcare, security, transport, etc. These new markets take as a starting point the business experiences of the sectors that comprise the core of the digital content industry. In recent years, new business models have appeared, intended for professional uses and based on platforms originally considered as belonging to digital sectors dedicated exclusively to leisure and entertainment. These new models include the creation of social networks for financial matters, wikis oriented towards the teaching profession and even video games for learning medical techniques.

The main **characteristics** of the current demand for digital content are immediacy of access and the interoperability of content on different devices. All the agents in the market have searched for strategies to improve the availability of their content in order to absorb this demand. For example, DTT opens up a wide range of possibilities for users to interact with the different content, leading to the superimposition of business models, such as the online purchase of the sound track of a pay per view film being watched at a given moment.

The importance of Latino culture and the **Spanish language** on the new global Internet scene, (Spanish is the second most widely spoken mother tongue in the world after Chinese and is the third most widely used language on the Internet), offers clear possibilities for Spanish and Latin American digital content creation enterprises.

1.2. Report structure

This report gives a review of the six sectors that currently comprise the digital content industry:

- Video games
- Music
- Audiovisuals
- Publications
- Advertising
- Films

Each chapter contains an exhaustive analysis of each sector and highlights the most important developments in 2008 and 2009. It includes forecasts for the future and indicates the synergies generated between the different sectors.

It is very likely that other sectors will be included in this analysis in the future; sectors that due to their development have acquired sufficient weight within this industry.

The report includes a chapter that analyses the use and consumption of digital content among the population in order to show the habits, demographic profiles and other characteristics that define how digital content is currently consumed in Spain.

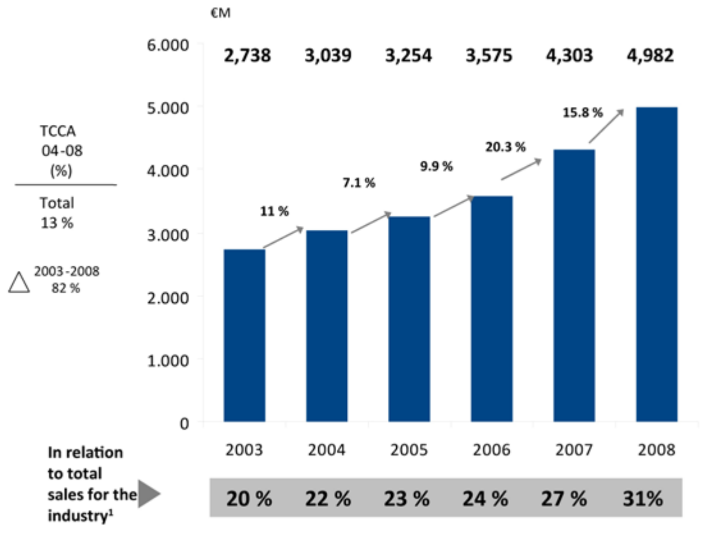
1.3. Data on the industry in Spain

Overall sales in the content industry reached **€15.858 billion** in 2008[1], reflecting growth since 2003 and recording a compound annual growth rate of 3% between 2004 and 2008. The importance of the digital content sector can be seen in the proportion of the content market it accounts for. In 2003, digital content sales accounted for 20% of the total content industry, while in 2008 this figure stood at 31%, an increase of 11 percentage points over this period.

In 2008, the digital content industry in Spain recorded sales of **€4.982 billion**, 15.8% more than in 2007, with growth of 82% between 2003 and 2008.

For the purpose of this study, the digital content industry in Spain comprises enterprises offering digital audio-visual services, music, films and digital video, interactive leisure software (or video games software), websites and digital publications.

Figure 1.1. Digital content industries in Spain: evolution of sales, 2003-2008 (€M)



Source: prepared by ONTSI, 2009

Online advertising has acquired sufficient weight and importance to become a benchmark sector and to be analysed in detail in this study, as it often supports numerous digital business models corresponding to all the aforementioned sectors.

[1] Sources: ONTSI based on data from ADESE, Promusicae, FAPAE, CMT, ImpulsaTDT, UVE, Ministry of Culture, AEDE and FEDECALI.

Despite being affected by the current global economic climate, the digital content industry has performed positively. **The percentage of the Spanish population that consumes digital content has increased by 5.9 percentage points** compared to 2008, with 70.3% of the population now demanding some kind of digital content. This highlights the extent to which the content has been taken on by the population as a means of leisure consumption, demonstrating the great potential and prospects of this industry as a profitable, stable business for the future.

On the other hand, the compound annual growth rate for the industry in Spain stood at 3% in the period 2004 to 2008, that is, over €15 billion.

Figure 1.2. Digital content production industries in Spain: evolution of sales, 2003-2008 (€M) and annual growth.

	2003	2004	2005	2006	2007	2008	CAGR 2004-2008
Publications	6,965	7,286	7,377	7,722	7,997	7,864	2.5%
Audio-visual	4,677	4,532	5,028	5,346	5,767	5,526	3.4%
Video games	465	500	537	576	719	744	10%
Music	457	406	399	368	284	254	-11%
Cinema	1,052	1,096	927	911	916	860	-4%
Online advertising	75	94	121	160	482	610	52%
Total	13,691	13,914	14,389	15,083	16,165	15,858	3%

Source: ONTSI, 2009

The **music** sector, which has been affected by the decline in CD sales, is testament to a transition towards digital platforms and the consolidation of models associated with distribution via online platforms. One of the means of reactivating the sector is through online radio *streaming* services.

In the **audio-visual** sector, Spain is notable for its sharp rise in DTT penetration, which, at 70% is much higher than in countries such as Italy and France, thus placing it in an advantageous position in the DTT switchover process. In turn, DTT has boosted growth in audio-visual consumption, thanks to the greater variety of content available. The future of audio-visual content lies in the self-programming of a la carte content and use of the return channel as a business model.

Sales in the **video games** sector have grown by 3.5% to €744 million. This growth is due in part to the appearance of new consumption devices onto the market (portable consoles, multimedia consoles, 3G mobiles), the development of entertainment software for these formats, such as *serious* *games*[2], mini games, free-to-play games and casual games in general, which involve content that is faster and easier to consume. Spain has become the fourth largest market in Europe in terms of video game sales.

For the **publications** sector, off-line consumption still holds the greatest weight in the industry and although there have been some cases of electronic format sales that exceed traditional sales of printed books, progress in the transition towards the digital side in this sector is slow. In 2008, there was a 5.2% increase in electronic publishing in Spain compared to 2007, with sales figures of €321.72 million.[3]

The global economic crisis experienced in 2008 has led to a reduction in investment in advertising. However, **online advertising** was one of the best performing sectors in 2008, with sales of €610 million, with 52% growth and a CAGR of 52% between 2004 and 2008.

In the first half of 2009, sales in the **film** market in Spain increased by 13% compared to the first half of the previous year, an indication of the revitalisation of this sector, which is also moving towards digital formats due to the proliferation of 3D cinemas. The number of 3D cinemas has increased from 101 in 2007 to 1,541 in July 2009. The development of these more technically ambitious formats and evolution of the sector requires technological solutions, as well as the creation of adapted content.

Other **determining factors** for the advancement of the digital content industry in Spain include the continuous improvement of Internet access (both fixed and mobile broadband) as well as increased broadband coverage. The development of broadband has enabled access to large volumes of digital content and has precipitated the development of new and innovative business models for ensuring the demand is met.

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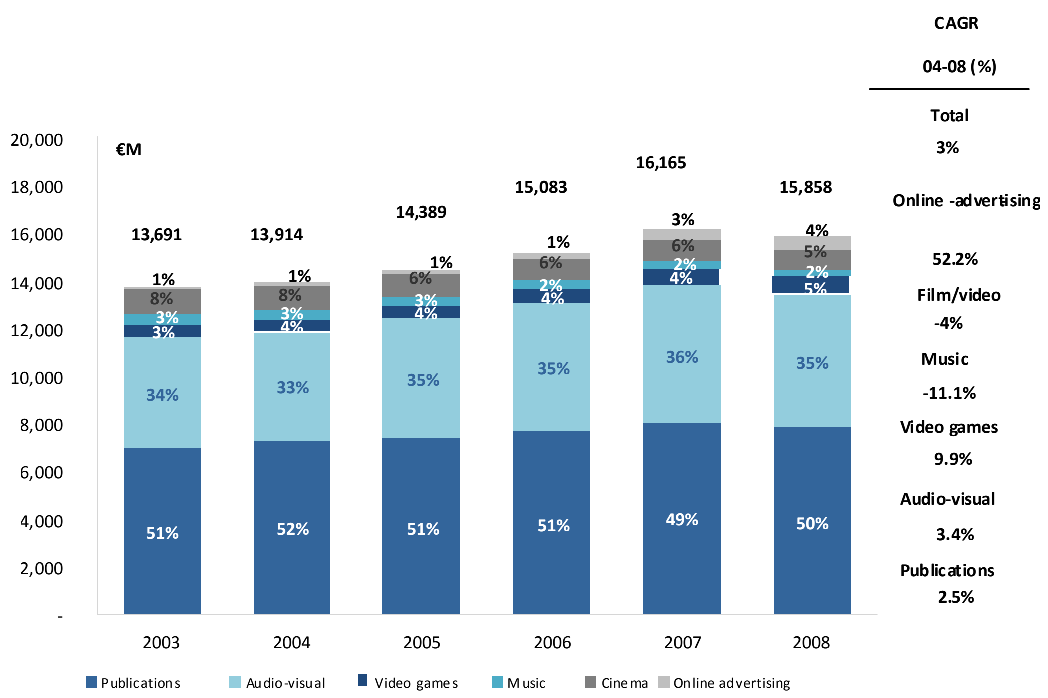
[2] Terms defined in the Glossary of Terms section.

[3] Ministry of Culture. "*El Libro y las Nuevas Tecnologías*. *El Libro Electrónico*". (Books and the New Technologies. The Electronic Book.)September 2009

Figure 1.3. Digital content production industries in Spain: evolution of sales, 2003-2008 (€M and % of total)



Source: ONTSI, 2009

With regard to **devices**, there are currently a series of requirements for facilitating consumption: ability to play and display all kinds of content, access to content that can be downloaded from the Internet and the recreational and social interactivity of the content (messenger and online games). The manufacturing and launching of these kinds of devices help to boost the digital content industry as they promote consumption at any location: the underground, planes, waiting rooms, etc. and of any content: news, songs, books, games and films.

Although the content industry did not grow in 2008, the digital segment has become consolidated and has experienced a significant increase in revenue. It can therefore be said that this segment is the driving force that is moving the industry forward.

1.4. The content industry world-wide

In the international context, with the exception of the **music** sector, sales figures have continued rise, although at a slower pace, due to the global economic slowdown.

The most notable among the stronger sectors are **online advertising** and **video games**. As is the case in Spain, the **publications** and **television** sectors continue to be the major sectors and those with the greatest weight in the industry, followed by the video games sector, which is closing the gap.

Figure 1.4. Digital content production industries world-wide: evolution of sales, 2003-2008 (€M)

	2003	2004	2005	2006	2007	2008	? % 2007-2008	CAGR 2008-2012
Publications	271,478	279,922	290,435	295,364	302,325	305,998	1%	3%
Audio-visual*	202,293	221,847	235,369	252,252	267,618	290,721	9%	8%
Cinema	62,448	66,914	65,086	66,776	68,468	70,839	3%	5.3%
Video games	18,863	21,407	22,632	26,265	33,434	38,514	15%	10.3%
Music	28,875	29,112	28,506	27,785	26,650	25,648	-4%	-0.6%
Advertising**	10,017	14,142	20,309	29,618	39,446	50,365	28%	-0.58%
Total	593,974	633,344	662,338	698,061	737,941	782,086	6%	5.33%

Source: ONTSI, 2009

* Including television (including advertising) and radio.

** Only includes online advertising

One of the regions with the best growth prospects in the digital content sector is **Latin America,** which expects to see increases of more than 50% by 2013. The Spanish industry has excellent business opportunities in countries such as Mexico, Argentina, Colombia, Brazil and Venezuela. Mexico is the leading country in the Spanish-speaking region, accounting for around 25% of the global market. Spanish is consolidating its position as the third most widely used language on the Internet: more than 455 million Spanish-speakers and almost 133 million Spanish-speaking Internet users in the world. This places the Spanish digital content sector in a privileged position.

2. VIDEOGAMES SECTOR

2.1. Key points

- Spain has consolidated its position as the fourth largest market in Europe for video game sales, with software sales standing at €744 million, which is a 3.5% increase since 2007. The hardware industry has returned to its traditional trends, with sales figures in 2008 once again lower than those for software.

- Global sales of video games reached €38.514 billion in 2008, with growth of 15.2% compared to 2007. Asia-Pacific is the region with the largest market volume, with €13.715 billion sales in 2008 and a CAGR of 11% at 2012, the same as in EMEA[4].

- In EMEA, online games and games for mobiles are expected to experience the sharpest growth by 2012, with a CAGR of 24% and 16%, respectively. These formats are becoming a profitable and less costly market niche than the traditional format, in which small development enterprises have found a gap. Spain provides a suitable environment for these markets due to the high penetration rate of wireless game consumption and the proliferation of consoles with Internet access.

- The synergies of the video game sector with industries such as education or sport open up new market arenas, as is the case of serious games, or games for learning different skills, which are not strictly for entertainment purposes and are used in other contexts: education, health, science, etc.

- Between 2008-2012, the sector is expected to grow by 15% world-wide and by 9% in Spain, consolidating its position as a sector and specialising, above all, in mini games and casual, small-scale format games.

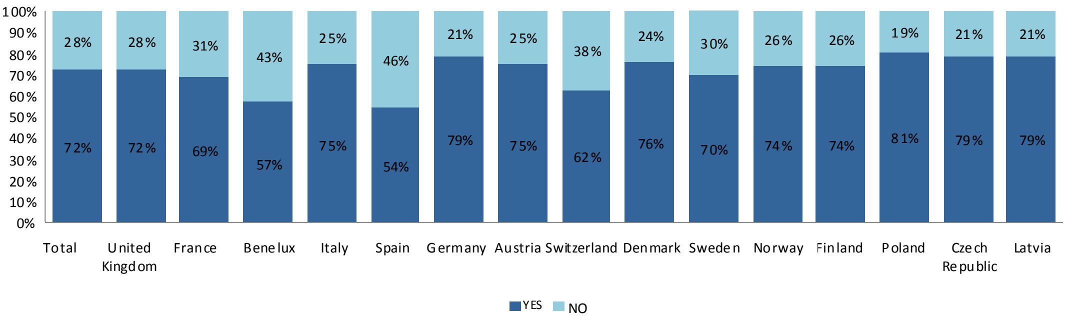
[4] Europe, Middle East and Africa.

2.2. Description of the sector

Overview of the video game sector. The future is online

In 2008, the world-wide video game industry grew by 15.2% compared to the previous year, recording an average annual growth of 15% between 2003 and 2008 and sales of around €40 billion. This is all due to the impact of the latest generation consoles, which have generated profitable business models, such as the exclusive downloading of online video games onto PSP Go and PS3 Slim consoles, online multiplayer games and the extremely popular mobile phone downloadable games, 17 million of which were downloaded in 2008.

Figure 2.1. Use of multimedia console capacities in Europe. 2008



Source: ISFE[5] 2008

The multimedia capacities of consoles are a determining factor in the takeoff of online game sales. In Europe, specifically in the eastern regions, these capacities are actively used. In Germany, Poland, Czech Republic and Latvia, the percentage of players that use the multimedia benefits of the consoles (watching films, listening to music, using social networks, etc.) is over 79%, up to a maximum of 81% for Poland, which is the most advanced country in this aspect.

As was outlined in the 2008 White Paper on Digital Content, the video games sector is characterised by:

- A high concentration of businesses and collaborative agreements in a sector that is vertically highly integrated and with a high oligopolistic component.
- A Spanish product offer supported by foreign distributors from the USA, Japan and France.

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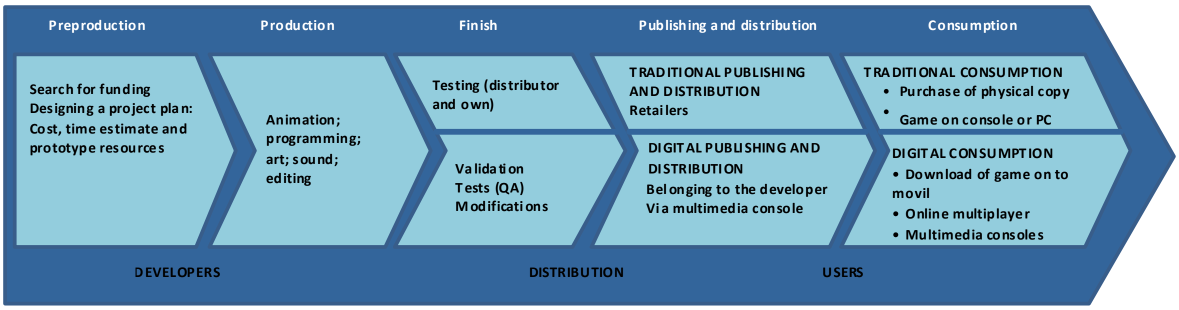
[5] Interactive Software Federation of Europe.

- Tendency towards subcontracting, diversification (casual games) and an investment model based on super-sales, with high profitability of sequels and casual games.
- A fragmented industrial fabric, which has led to specialisation among small Spanish studios.
- New niches among users who already enjoy video games.
- Synergies between films, music, social networks and the video games themselves. Film and music content is adapted to the games, as well as advertising, through Advergames.

Video games sector value chain

There are at least five stages involved in creating a new video game; this process can take from a year and a half to three years, depending on the platform for which it is being developed and the complexity of the product.

Figure 2.2. Traditional and digital value chain of the video game sector



Source: ONTSI

In the preproduction stage, small studios seek to acquire the required funding by presenting a prototype of the video game. Together with this prototype, a project plan is devised that includes the resource planning.

In the **production** stage, the 2D and 3D animation work is carried out along with the artificial intelligence programming, character voices, production of the manual and translations.

The **programming** tasks are carried out by professionals who programme the specific parts of the game. The **artwork** covers the areas of lighting design, modelling, texturisation, scenes and movements.

In the **finishing** stage the tests required to check the game functions correctly are carried out and game **testing** begins. This validation process plays a critical role in cost saving and in ensuring the efficiency and profitability of a video game on the market.

The advantage of distributing through online platforms is that there are no intermediaries involved in the distribution of the profits for the developers, as well as the possibility of reducing the price and increasing revenue if the product is a success.

The new video game distribution platforms are those that are configured in cloud computing games.For this kind of game, users need only the game programme and a centralised remote server. One such case is that of a US enterprise that has announced the launch of a video game that enables users to choose the game on the Internet and to view it on the television screen. This kind of game can also be used on a mobile platform.

Video game enterprises in Spain

In Spain the distribution agents are generally concentrated in the sector's multinationals, leaving a small quota for Spanish distributors.

Spanish developers need the backing of a large distributor in order to fund a project. In exchange, the distributor demands the intellectual property rights of the projects. If the video game is a success, the distributor is guaranteed revenue from the sequels of the game and the cheaper versions for different platforms, to the detriment of the developers.

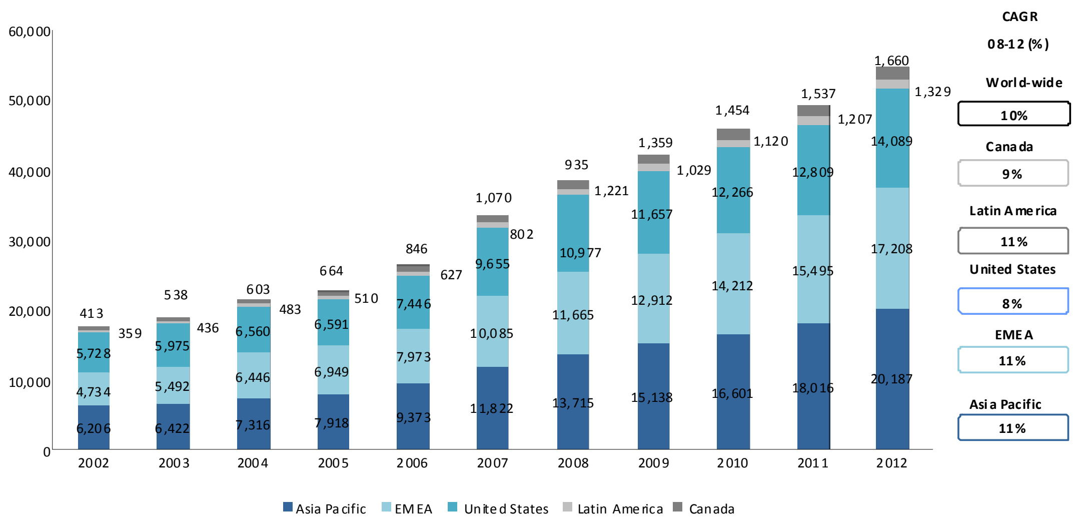
In Spain there are currently more than 100 developer enterprises that employ more than 600 people. This figure may increase due to the rise in video game sales for domestic consumption, given the economic crisis that has led consumers to move their digital leisure activities to the domestic sphere.

As an industry, Spain hopes that the consideration of the video game as a cultural asset will give the country's business sector a strong boost. This will facilitate access to certain public subsidies for the more cultural value chain activities, such as script writing.

2.3. Global situation

Between 2002 and 2008, the global video game market has been undergoing constant growth, which has reached 14%. This growth is sustained by the launch of the latest generation video games consoles (Wii, PS3 and Xbox) on the market. It is estimated that between 2008 and 2012, the trend will lean towards a CAGR of 10%. Global sales of video games reached €38.514 billion in 2008, with growth of 15.2% compared to 2007.

Figure 2.3. Evolution of the global video game market, 2002-2012E (€M)



Source: "Global Entertainment and Media Outlook: 2008-2012" by PriceWaterHouseCoopers (2008)

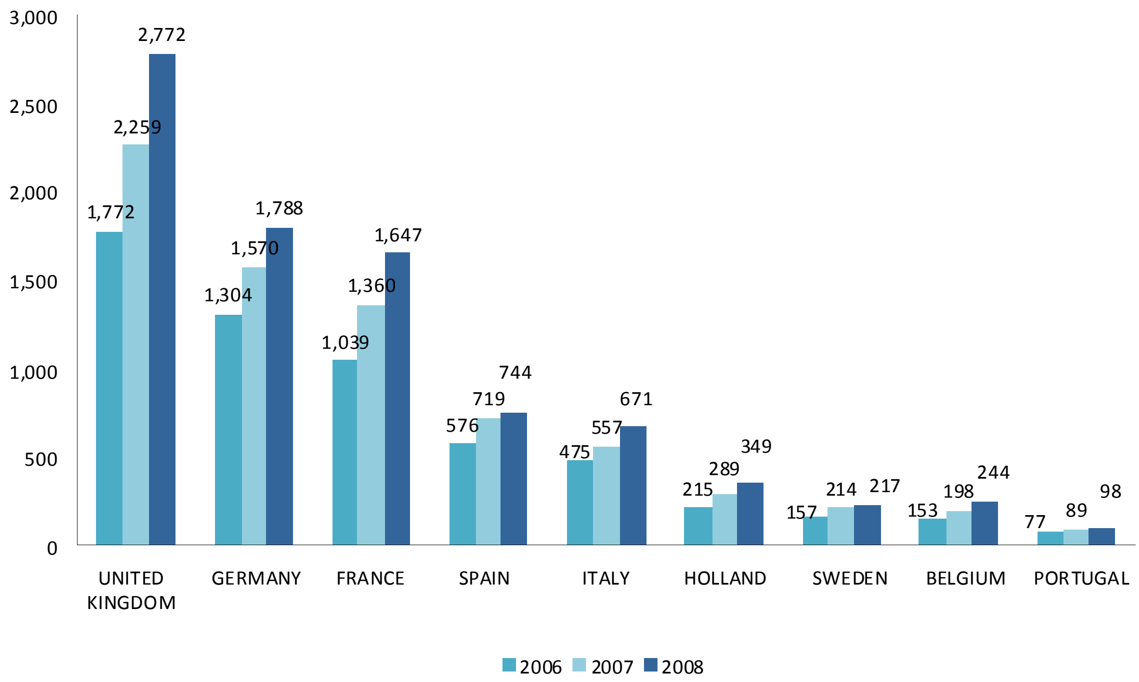
The Asian market is still the largest market, worth a total of €13.715 billion. In EMEA, the growth rate is forecasted to be around 11% for the period 2008 - 2012, with a slowdown in the average growth rate, which was 16% between 2002 and 2007. Sales for video games in EMEA reached a total of €11.665 billion. For the USA, the growth rate is expected to be lower, with a CAGR of 8% between 2008 and 2012. Of the five regions analysed, (USA, EMEA, Canada, Latin America and Asia-Pacific), the area with the highest growth rate in relation to 2007 is Latin America.

Forecasts for the sector still place the Asia-Pacific region as the area with the greatest global weight given that, by 2012, it will account for 37% of the sector's world-wide revenue. The market rankings are expected to remain the same as in 2008, with EMEA in second place, followed closely by USA, although the gap will be wider.

However, this last region will be exceeded in terms of expected growth, by the Latin American region, which together with EMEA and Asia, will grow by 11%. In Western Europe, the countries at the top of the ranking are the

United Kingdom, Germany and France. In fourth place is Spain which is strengthening its position.

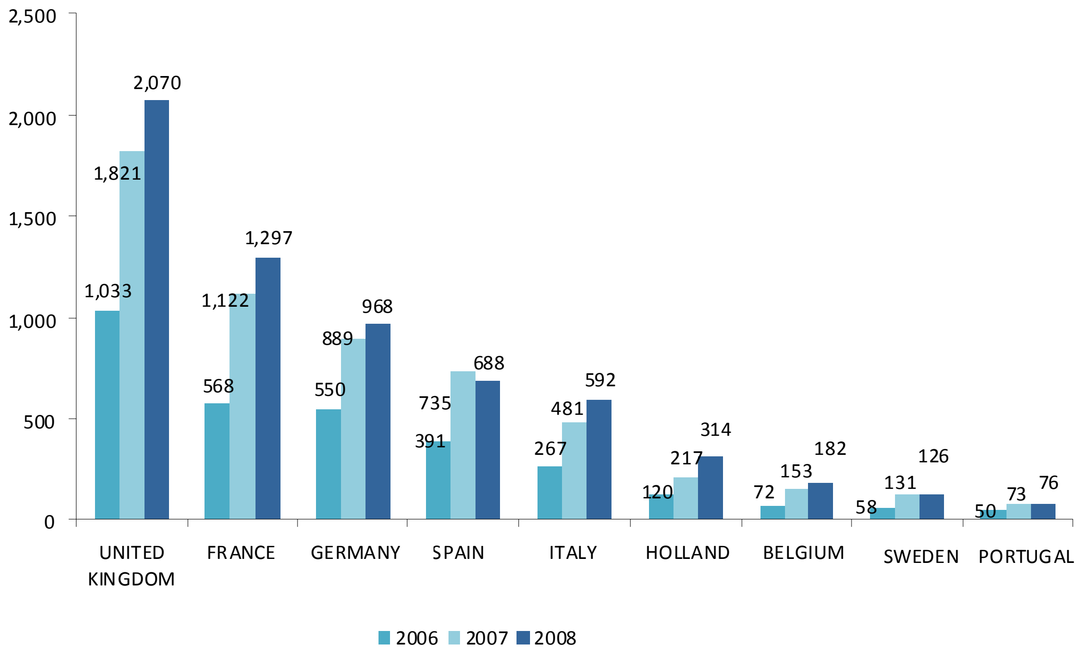
Figure 2.4. Video game software sales (for consoles and PC) in Europe (€M)



Source: ADESE "Annual Results 2008"

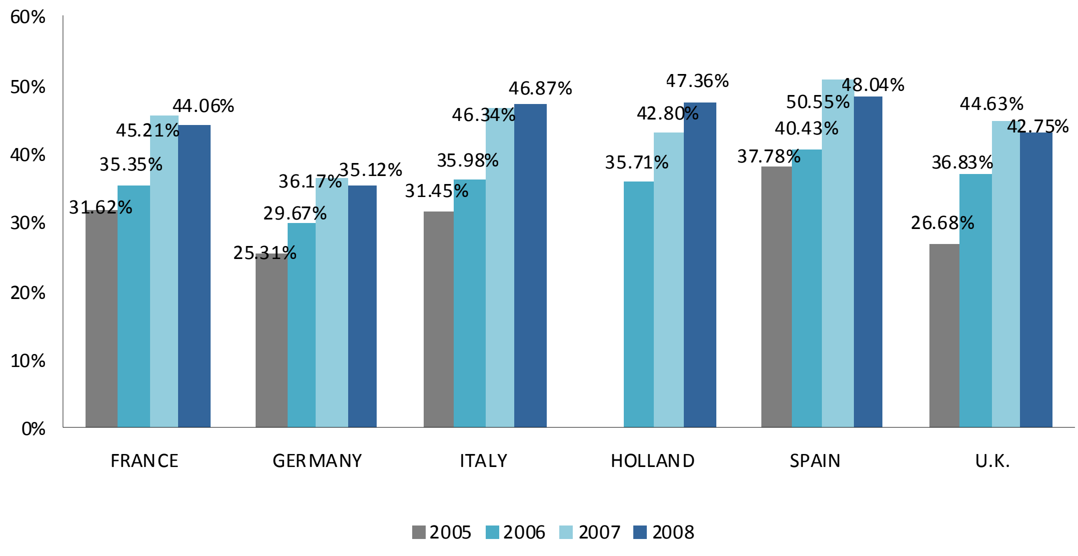
Hardware sales, in relation to the total investment of European countries in the video game sector, vary between the countries studied; however, in general there has been a drop in expenditure on consoles (in France, Germany, Spain and United Kingdom), with average expenditure remaining at 44% of the total investment of the sector.

Figure 2.5. Hardware sales in Europe 2006-2008 (€M)



Source: ADESE "Annual Results 2008"

Figure 2.6. Hardware sales as a percentage of the total investment in hardware and software in the six main European countries



Source: ADESE "Annual Results 2008"

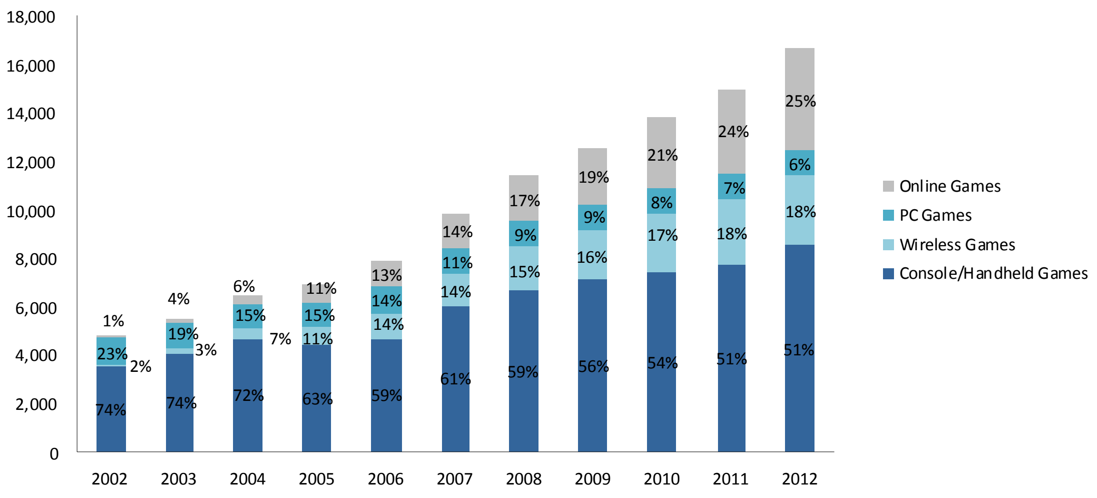
The video game market is split into different consumption platforms: games for consoles, games for PC, wireless games (for mobiles) and online games.

The platform that holds the greatest weight in the industry in the EMEA region is software for consoles (59% of total revenue)[6], which includes games for off-line use on any portable or desktop console.

In 2008,[7], the video game for PC format suffered a sharp decline due to the proliferation of other formats. In all the countries analysed (Germany, United Kingdom, France, Spain, Holland, Italy, Sweden, Belgium), the fall in sales is greater, and in some cases even double the drop in sales during the 2006-2007 period.

Figure 2.7. Segmentation of the EMEA video games market by platform.

Evolution 2002-2012E



Source: PriceWaterHouseCoopers, Wilkofsky Gruen Associates (2008)

This format will continue to lose ground, in favour of games for mobiles and online games. Other factors that explain its steady decline include the appearance of new competitors in this kind of online game, as well as improved image quality in other formats.

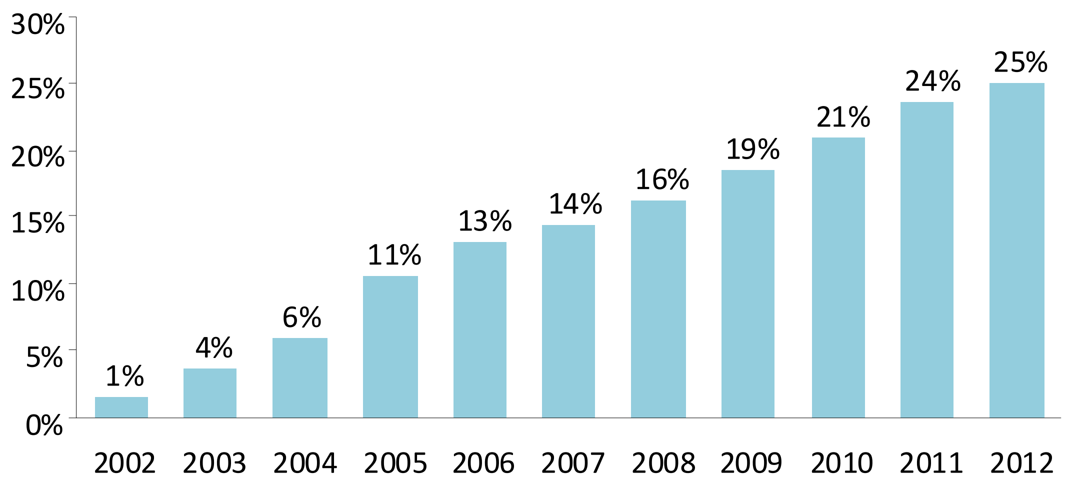
The trends seen in Figure 2.7. show that online games and games for mobiles recorded sharp growth in 2007 and 2008, of 29% and 25% respectively. The favourable environment for the development of broadband

[6] Revenue from advertising has not been included at all for the EMEA region as it is not a game format.

[7] By countries studied, not at EMEA level, which recorded a slight increase of 1%.

in Spain and in Europe in general, in both fixed and mobile formats, has been a determining factor in the growth of these two forms of consumption.

Figure 2.8. Online video game penetration in households with broadband in EMEA



Source: PriceWaterHouseCoopers (2008)

Sales for online games in the EMEA region are expected to reach €4.165 billion by 2012. This format is the most successful, together with mobile games, although it still behind console games, which will remain strong due to the incorporation of multimedia functions in these consoles.

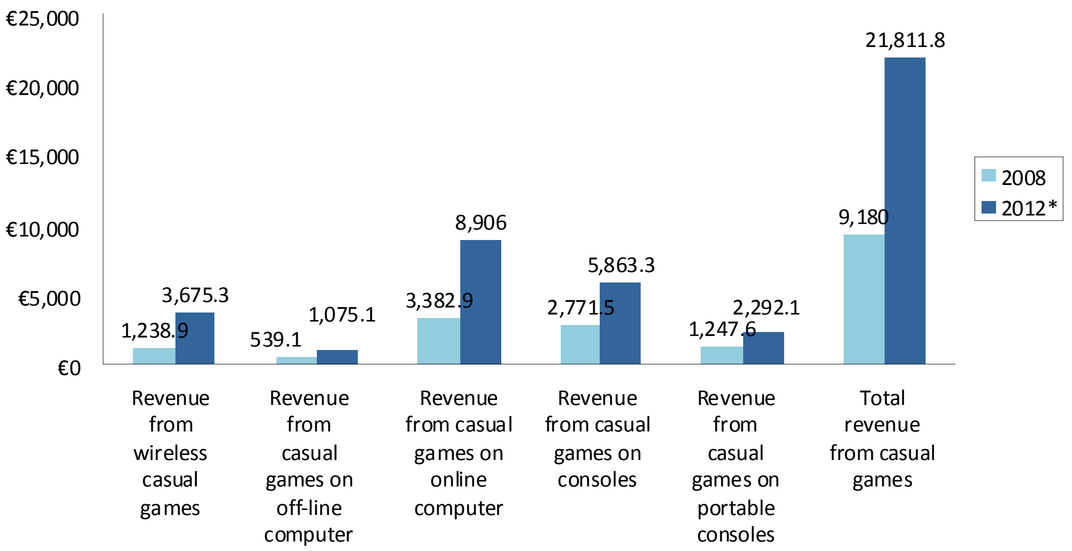
Casual games

It is estimated that by 2012 this type of game will account for 46% of the sector's total business volume, thanks to the increase in the global number of video game users, their low price and simplicity.

Online platform casual games can be downloaded free of charge from platforms such as Yahoo!. These include Games, Pogo, MSN Games, Big Fish Games, Miniclip and Shockwave, among others. Some websites charge for each game downloaded, others offer subscriptions and the free games are paid for by advertising. Casual games for Wii, Nintendo DS or PSP consoles can be purchased from specialist retailers or shops belonging to the sector's large multinationals.

In 2007, the casual games market, as mentioned in the 2008 White Paper on Digital Content, was worth €1.8 billion world-wide. For 2008, more types of game have been included[8] bringing the figure up to €9.18 billion. It is estimated that by 2012 the figure will reach €22 billion world-wide.

Figure 2.9. Sales and forecasts for the casual games market by segment and world-wide 2008-2012E (€M)



Source: IDATE, DigiWorld Yearbook 2009

Spain has enterprises that develop casual games for mobiles and have creations that are already listed among the main retailers' Top 100 best-sellers.

[8] This includes revenue from: "Wireless casual game revenue", "Offline computer casual game revenue", "Online computer casual game revenue", "Home console casual game revenue", and "Handheld console casual game revenue". It is assumed that in the previous White Paper, only the first two sources of revenue listed in this note were included.

2.4. Situation in Spain

In 2008, the Spanish video game market recorded total sales of €744 million, an increase within the industry of 3.5%. Furthermore, contrary to last year, the software sales exceed sales for hardware, which fell by 6%.

The industry's sales for both hardware and software reached €1.432 billion. Within the software segment, sales of video games for consoles rose by 6% to €674 million, although the number of units sold fell by 3.15% from 17.4 to 16.8 million units.

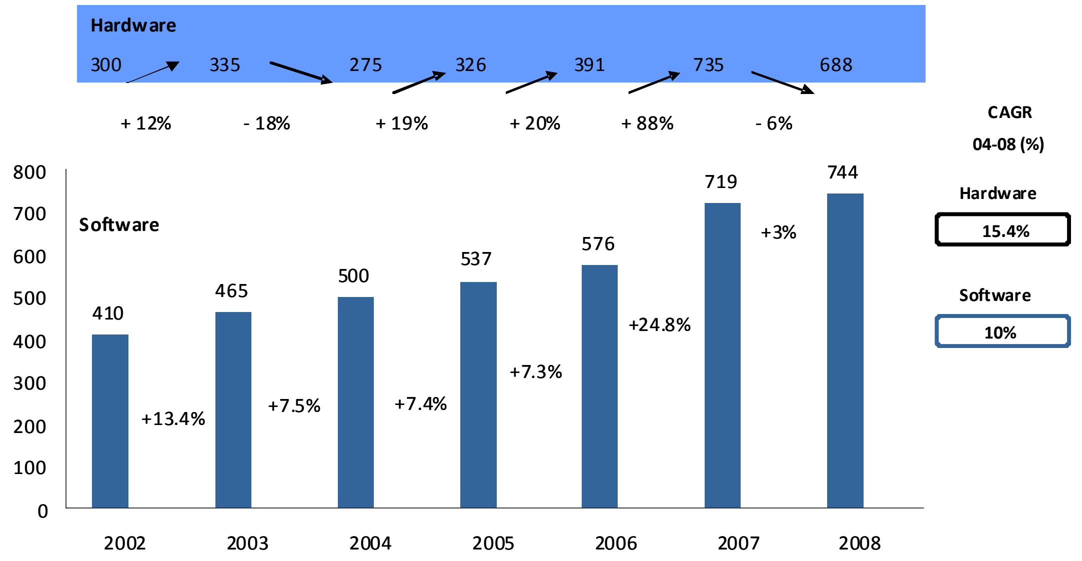
Sales of video games for PCs continued to decline, this time by 15.66%, which was an even sharper drop than in 2007. Sales of this format stood at €70 million, with three and a half million units sold.

It is estimated that the sale of entertainment software in Spain will continue to increase at a steady rate between 2008 and 2012, with average annual growth of 10%.

Hardware sales in Spain have returned to their pre-2007 trend as they fell behind software sales, which totalled €644 million. This 6% fall compared to 2007 is a result of the crisis and not due to the appearance of new consoles on the market. Of the total number of consoles purchased in Spain, 58.24% were portable consoles and 46.75% were desktop consoles.

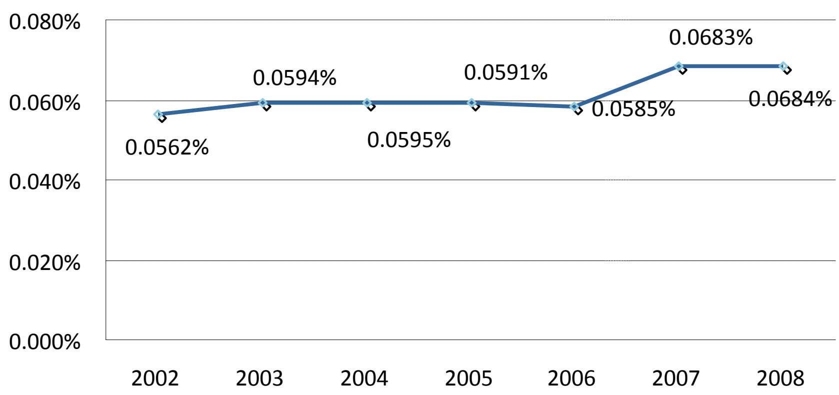
By video game type, the most widely sold were action games, which accounted for almost half of all sales. These are followed by racing and sports games. With regard to games for PCs, strategy games predominate, followed by adventure and action games.

Figure 2.10. Software and hardware consumption sales in Spain (€M)



Source: ADESE "Annual Results 2008"

Figure 2.11. Video games market as a percentage of GDP at market prices 2006-2008



Source: INE and ADESE "Annual Results 2008"

Finally, the sector's trend as regards its weight in the GDP has remained constant, with a slight upward trend.

2.5. Relevant sector data for the 2008-2009 PERIOD

The video game as a cultural asset

2009 has been and will be a decisive year for the video game industry. In March of this year, the Spanish parliamentary Commission for Culture voted in favour of the sector finally being considered a **cultural asset.** This designation makes the video game segment a **cultural industry,** with all the corresponding consequences.

This designation will bring benefits to the industry, such as access to financial aid for funding, promotion and exports, which in turn will give a major boost to Spanish enterprises, both developers and distributors.

On the other hand, this recognition is a decisive step towards strengthening the sector that has always had the advantages of the talent of its professionals and the importance of the Spanish language in the sector, both in Latin America and in the USA.

Games for mobiles

The advance in screen resolution techniques and improved broadband Internet access in Spain are revolutionising sales in this segment. In 2008 alone, Spaniards purchased 17 million video games for mobiles, 20% more than in 2007[9]. Most of the purchases were made via mobile telephony operators on their wap portals.

December, January, July and August are the months in which users renew their telephones and have more free time and, therefore, it is in these periods that the most video game downloads take place. On the other hand, users take the opportunity to equip their phones with entertainment services. Spain is the second largest European market, behind the UK, in terms of the number of video game downloads for mobile telephones.

Asia-Pacific is the region that accounts for the largest share of mobile games[10]. In 2008, users from this region spent more than €1.833 billion on games for mobiles and revenue is expected to reach more than €2.7 billion by 2011. The games for mobiles industry has eclipsed the games for consoles and PCs markets in this region.

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[9] http://www.noticiasdot.com/wp2/2008/05/10/los-espanoles-compraran-17-millones-de-juegos-para-el-movil-este-ano/

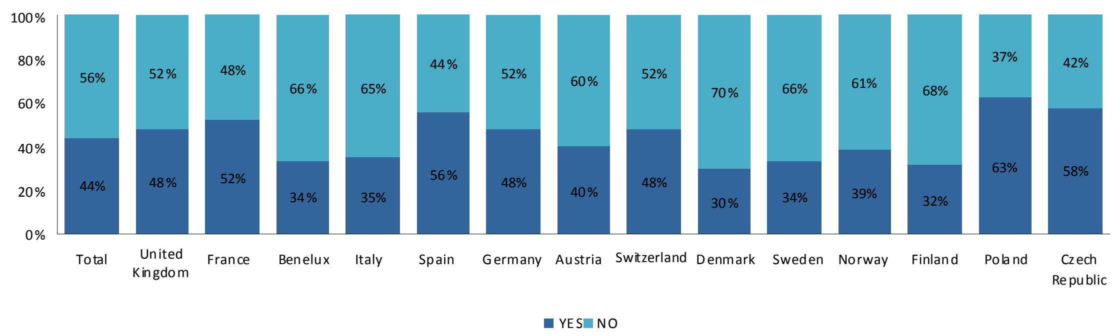
[10] According to the IGDA

In Western Europe, this market will also grow from €559 million in 2008 to an estimated €687 million in 2011. In the North American region the market will increase from €673 million to €956 million in 2011. The difference in revenue between these two regions is expected to grow in favour of the American industry, since an increase in the number of data downloading to mobile service contracts is predicted among users in the latter.

Globally, there has been a huge impact of the iPhone from Apple and its App Store on sales and downloading of video games through this mobile platform. Electronic Arts and Gameloft, two of the leading distributors in the market, presented annual profits thanks to their products created for iPod Touch and iPhone.[11]

EA Mobile remained the leading distributor in the world with revenue of close to €40 million in the first third of 2009. On the other hand, Gameloft recorded sales of €31 million. Glu Mobile took third place with €16 million in the same quarter, despite the forecasts of decline. The mobile game creators are becoming independent from the mobile operators or manufacturers' download shops and are establishing their own online sales channels, retaining the games' intellectual property rights.

Figure 2.12. Consumption of wireless games in Europe. 2008



Source: ISFE 2008

In Europe, around 44% of game users use a wireless device (portable console, PDA or mobile), which encourages expectations for the use and consumption of these games in their mobile format. Penetration rates for the use and consumption of games on wireless devices are high in Spain (56%) ahead of the United Kingdom, France or Germany, the leading countries.

[11]http://www.screendigest.com/reports/09mobilemarketmonitorgamesq22009/pdf/09MobileMarketMonitorGamesQ22009-pdf/view.html

New forms of leisure: Serious games or video games for health and educational entertainment

In recent years, the digital leisure sector has put into practice a number of initiatives in the form of video games designed to improve the physical and emotional state of users and to improve their culinary, medical, mathematical, language or sports skills. The Japanese enterprise Nintendo has revolutionised the video game sector. The appearance of its Nintendo Wii console with wireless control, together with its video game Wii Sports, in 2006, was an innovation in game playing that offered a new way of playing and interacting.

The portable Nintendo DS console also offers games for the physical and mental well-being of older users who, for the first time, are turning to video consoles as a form of leisure activity, with games such as Lets Yoga, with instructions for practising yoga and pilates or Walk with Me, which includes two pedometers for recording activity when you walk, planning routes and improving walking style.

Figure 2.13. Ranking of 10 best-selling video games in 2008

Top Ten 2008 Spain to July 2009		
Titles	**Platform**	**Distributor**
WII Sports Resort + WII Motion Plus	Wii	Nintendo
The Sims 3	Windows	EA
WII Fit + Balance Board	Wii	Nintendo
Mario Kart + WII Wheel	Wii	Nintendo
WII Play	Wii	Nintendo
Professor Layton and the Mysterious Village	DS	Nintendo
Pokemon Platino	DS	Nintendo
Active Personal Trainer + Tapes	Wii	EA
Pro Evolution Soccer 2009 Platinum	Ps2	Konami
Call of Juarez: Bound in Blood	Ps3	Techland

Source: ADESE (2009)

There are also new initiatives from enterprises that have little to do with the development of video games. The German pharmaceutical enterprise Bayer has designed Bayer Didget, a device for the Nintendo DS portable console that enables diabetic children to check their blood glucose levels. The device also has mini games that, when the child carries out the checks, are unblocked and enable the child to go to new levels or get accessories for completing games.

Video games designed for practising sports are not only designed for consoles and computers. A number of different initiatives are being considered for creating sports halls in which physical activity is mixed with gaming the game and new technologies. This way children and young people who do not usually go to the gym will find a more attractive alternative when it comes to exercising.

Moving beyond games for consoles, many enterprises have started manufacturing sports instruments that mix entertainment and sport, such as static bicycles that offer different training environments or which are associated with games controlled by the player's pedalling or by a control located on the handle bar. This is the case of the German enterprise MyVITness and its game Bodyracer or the North American enterprise Expresso Fitness. The latter of these is developing machines for exercising the muscles, specifically Expresso Bike, which is a bicycle that enables the user to watch television, listen to music or connect to the Internet.

Profitability of games in the social network environment

The world of video games can also be found on social networks such as Facebook. A total of 950,000 external programmers work on this social network alone creating applications. The majority of these professionals work on video game design.

Examples of video game developers for Facebook include the enterprises Zygna and Playfish. The latter, the enterprise that created *Restaurant City*, made a profit of $30 million. Zygna achieved revenue of $100 million. It is calculated that the total profit of these and other enterprises on Facebook was $500 million, which translates into advertising revenue for the social network.

2.6. Challenges and opportunities

Video games account for a significant proportion of audio-visual leisure but they also create opportunities in other sectors such as education, music, sports or learning skills, opening up new and profitable market sectors; they are already beginning to profit from social networks that are yet to be fully exploited, such as applications for Facebook.

The Spanish industry is well represented and organised through its different associations - *Desarrolladores de Ocio Interactivo Digital*, DOID (Digital Interactive Leisure Developers), the recently created *Desarrollo Español de Videojuegos*, DEV (Spanish Video games Development) and the *Asociación Española de Distribuidores y Editores de Software de Entretenimiento*, ADESE (Spanish Association of Software and Entertainment Distributors and Publishers). This gives it significant structural leverage and real visibility within the entertainment industry, which contributes towards converting it into a multinational and highly competitive industry. In the field of content, the Spanish video game themes have now become globalised, facilitating its marketing at an international level. Furthermore, the designation of video games as cultural assets in Spain will aid the development of this sector due to the more extensive public funding opportunities linked to these assets.

The enormous potential of Spain's video game creators-developers is clear and it is evident that the opportunity to explore, export and make the Spanish industry visible in Europe, USA and Latin America is guaranteed with the recognition of the video games industry as a cultural asset comparable to the arts, films and music.

The small size of game developer enterprises means that these SMEs require financial backing. Currently a total of 2% of revenue from the sales of video games created by Spanish enterprises goes back into the Spanish industry itself.

Games for mobiles or games for online downloads are predicted to be the most suitable format for the size of the national enterprises as they are simpler and easier to create, given the short length of the game and the need for less technological or human resources. However, it is important that this talented Spanish industry does not put all its resources into this market niche but instead it should diversify and move into other profitable markets through national business agreements. The Spanish industry should consolidate its quality in formats that are beginning to be imitated by other countries. Large enterprises have started to realise the high profitability of casual games as well as the low production costs, which could present a threat to small studios that currently make their profits from the sale of this format.

The high cost of funding the production of a video game cannot be met by small Spanish enterprises without the backing of an enterprise with high market power. In exchange, the intellectual property rights for Spanish creations are given to the video game distributor, as the small enterprises are unable to meet the costs, which can exceed €1 million. For this reason the Spanish brand is disappearing in favour of other agents in the value chain. The challenge this sector faces is to find a way of promoting and disseminating the Spanish video game brand in the international arena, and to establish the appropriate mechanisms to ensure that Spanish enterprises are able to hold onto intellectual property rights.

3. MUSIC SECTOR

3.1. Key points

- In Spain the music market generated total revenue of €254 million, of which €30 million corresponded to the sale of Internet downloads (accounting for €10.8 million) and mobile downloads (which reached €18.4 million).

- There was a 12% fall in CD sales, however, the online and mobile market grew by 8%, which suggests the huge potential of these two formats compared to the physical formats. New opportunities to monetise music consumption, mainly based on *streaming* and advertising, are starting to become a sustainable reality for the music industry.

- Live concerts are an important source of revenue for the sector. In 2008, the estimated revenue in this segment was €300 million and it could be good route for business development.

- Global revenue from the three main platforms (physical, online and mobile) reached €25.648 billion in 2008. Online and mobile sales rose by 22% compared to 2007, with sales of €7.458 billion.

- A change in the market trends is expected in 2011, both on a global scale and in the EMEA region, where the market will begin to show continued growth. According to forecasts, by 2012, both the global and Spanish online and mobile markets will account for more than half the total recorded music market.

- Following years of uncertainty, other business models are starting to consolidate their position in the market as alternative sources of revenue for the music industry. This is the case of mobile manufacturers and service providers, which have established trade alliances or Internet subscriptions for obtaining song repertoires or unlimited downloads for a monthly fee.

3.2. Description of the sector

The restructured music industry

Over the last decade, the Spanish music market has been steadily falling in value. This phenomenon is a result of the industry adapting to the new digital arena, in which, to a large extent, content or songs are consumed individually to the detriment of album sales and is also due to the new formats of listening to music via streaming. This means that online music consumption no longer refers solely to free-of-charge models.

The appearance in the market of agents who believe that the change from the traditional to the digital model is a feasible and profitable option is attracting a whole range of new services for consuming music in all formats, from personalised digital radios, online music festivals to applications for mobiles at the price of an affordable monthly subscription. Also the streamed audio listening in exchange for advertising is consolidating its position as a consumption model.

The sector's large multinationals are establishing alliances that benefit both people who consume digital music for pleasure and the creators of quality music stored in the Long tail, as well as the record companies that, up to now, have seen their profit margins fall due to the restructuring of the sector. One example of this is the agreement established between Universal and Tunecore. The latter enterprise was set up with the aim of offering independent artists a financial agreement for distributing their music through the large online retailers such as iTunes and Amazon, in exchange for a monthly payment of $10. In June 2009, Universal Music sealed an agreement with Tunecore enabling Tunecore to continue to provide this service, adding a series of services to be found in a 'major' (large record companies), but with the exception that the artists would retain the intellectual property rights for their work.

Music sector value chain

There are many strategic agents involved in the value chain (both the traditional and the digital) who participate in the music industry.

The main agents found in both kinds of chain are the **author** or composer of the musical work and the **artist** who performs the musical work, who may or may not be the author. These agents are involved in the creation stage of the work.

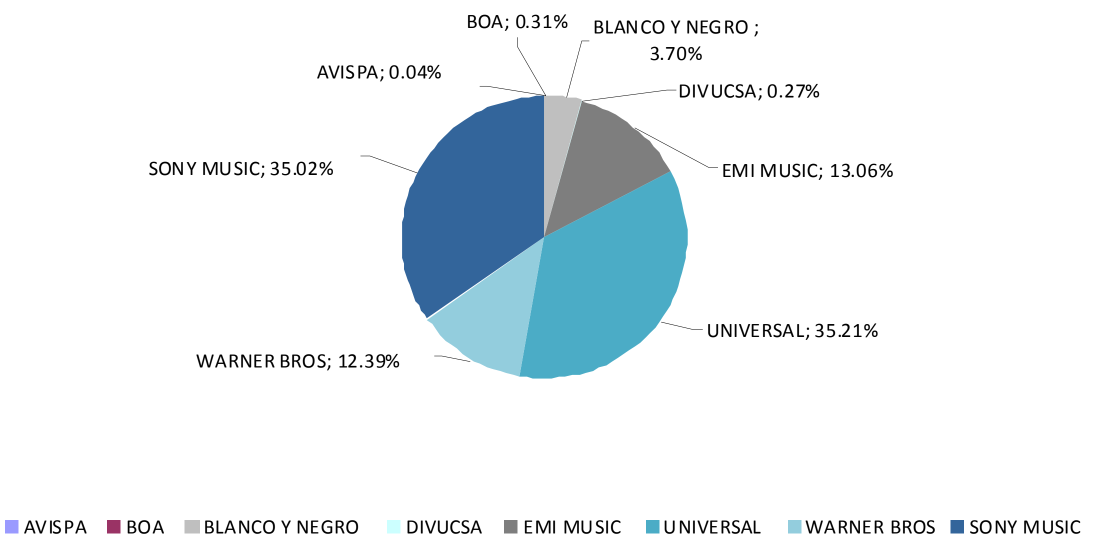
The role of the **music publisher** was originally the graphic publication of music, printing of the score and distribution, but these roles have been gradually disappearing and have been replaced by the management and administration of author's rights. The publisher usually works with the large record companies or 'majors' such as BMG Publishing; Ediciones Musicales

Clipper; Emi Music Publishing; Peer Music; Sony Music Publishing; Universal Music Publishing and Warner Chappell or with the authors themselves.

The **music producer**, is responsible for discovering the artist's talent and investing in the artist, managing and promoting their repertoire. The large producers in Spain (majors), have a 90% share of the market.

The **artistic producer** is a professional, normally independent, who is responsible for the final result of the recording and usually helps to select the repertoire, guiding the artist in their search for a particular style or sound. The **recording studios** provide artists, artistic producers and music producers with the facilities and equipment required for recording and optimising the music and other uses of this (post production).

Figure 3.1. Distribution of the record market in Spain (% of sales revenue, 2008)



Source: Promusicae (2009)

Following the production stage, the communication stage begins with the publication and dissemination of the music through the **communications media** (mainly radio), the written media and the distributors own campaigns.

During the distribution of the physical copies, the **logistics operator** is responsible for storing and transporting them to the sale points; the **distributor** (wholesaler or intermediary) provides the shops with small quantities of the physical copies; the **retailer** then sells the product to the end customer.

However, the value chain is beginning to move away from traditional models. At each sub-stage of the chain, the Internet has emerged as the leading agent. At the talent discovery stage, the Internet is home to authors, performers and groups who use the Internet as an alternative means of publicising their work, or as an alternative source of funding or record label to promote them. These artists are often found on specialist music sites, social networks, blogs, etc.

One very popular example is the social network **MySpace**, a place where both professional and amateur artists have opened personalised web pages where they can store information, songs on streaming, videos, news, photographs and concert schedules, thanks to the tools provided by this site. The aim is to promote the artist and serve as a point of contact with the fans.

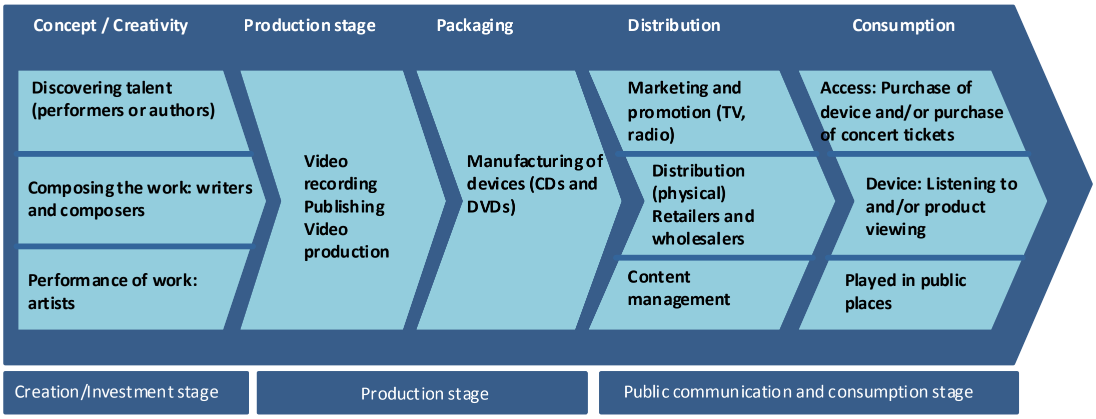
Also emerging are new ways of searching for musical content for online consumption. In addition to the official websites of artists is the music that social network users put on their own play lists. In this way an occasional visitor can listen to music by new artists. Due to the success of this platform, external search engines have emerged that search for songs through social networks, such as **Windows Live Spaces.** They work as aggregators and enable users to benefit from the wide range of sources for creating complete play lists, as in the case of **My Flash Fetish**.

In September 2008, MySpace signed an agreement with the four big record labels Warner, Universal, Sony BMG and EMI, to create a joint service for promoting the musical character of this social network, enabling users from the United States to listen to a catalogue of more than five million songs from these record labels free of charge via streaming audio, as well as from a large number of indie music companies. This business model is based on advertising, the revenue from which is shared between MySpace and the record labels along with the profits from the sale of songs or ring tones for mobiles.

In the **packaging** stage the works are not produced in physical formats and instead the files are converted into metadata files (association to the phonogram of data such as title, duration or year published) and stored in repositories belonging to the record label from where the sales portals (aggregators) or *streaming* portals take the files for them to be sold or listened to.

During the **consumption** stage, users decide the place of purchase and the format, be it an individual song or an album, from retailer portals such as iTunes or Amazon Mp3. The user can choose to consume the product without downloading it, via streaming, in which case the file is not stored on their player at any time. After listening, the user can decide if they want to share, comment on, tag or promote the work on the Internet through social networks, *blogs*, etc.

Figure 3.2. Traditional value chain of the music sector

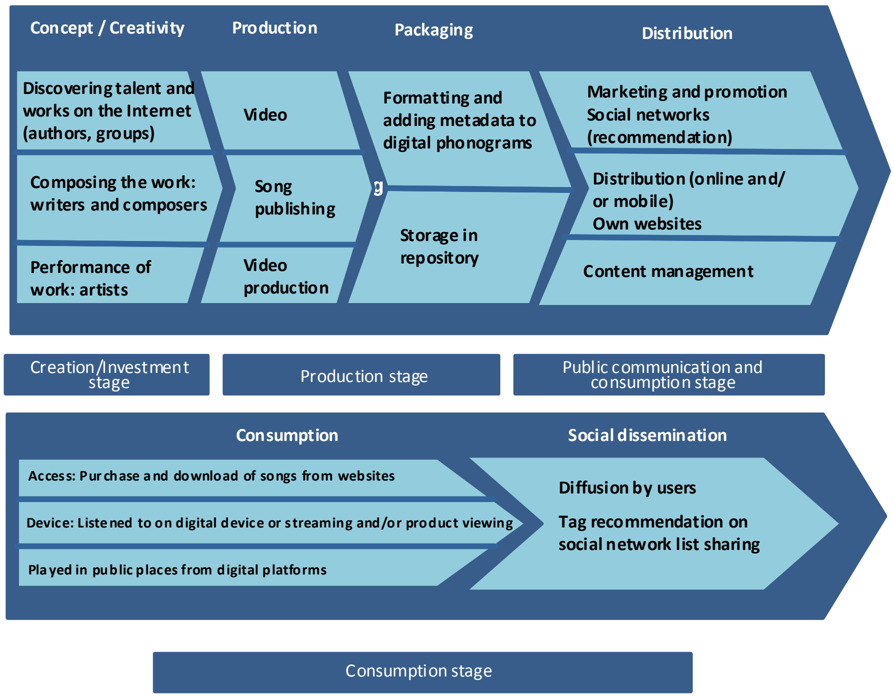


Source: ONTSI

There are now groups with recognised careers and reputations who publish their songs via the Internet; this is the case of the English group Radiohead, who in August 2009 put their new song "These Are My Twisted Words" on the Internet. This was made available to download free of charge via a link on their web page.

The differences between the traditional value chain and the digital one are significant in terms of the user's greater decision-making power, given that it is the user who decides on the download format, who has the option to listen before buying, who decides how many songs they wish to buy or listen to, who compiles their own a la carte play lists and shares these via the Internet.

Figure 3.3. Music sector digital value chain



Source: ONTSI

Following the appearance of new digital business models in the music industry, new agents have appeared in the value chain. The **content manager** or aggregator is responsible for activities related to the aggregation, transformation, cataloguing, grouping, authorisation and presentation of the musical content, in order to facilitate the sale of music via online or mobile channels. On occasions, they sell musical content directly (for example ring tones) and provide their services to digital music distributors (e-tailers and telecommunications operator) and music producers. The biggest content aggregators include The Orchard, CD Baby, IODA (Independent Online Distribution Alliance), InGrooves, La Central Digital, Finetunes and Tunecore.

The last of these (the e-tailers, which may also be the telephony operators or the current service providers), sell music to the end user via their mobile or directly through the online channel, for example iTunes, Nokia Music Store, AmazonMp3 or 7Digital.

Artists are also promoted through musical blogs where songs are often found. Although some sites offer the direct download of MP3 files, most of these blogs use the services of enterprises that allow audio to be inserted free of charge using Flash. This way the file can be played through streaming from the servers of these enterprises. For example **Goear** provides the codes that have to be added to the blog templates in order for the chosen song to be played on said blogs. For more detailed searches there is **Radio.Blog.Club,** a French website that gathers together the music people upload to their blogs.

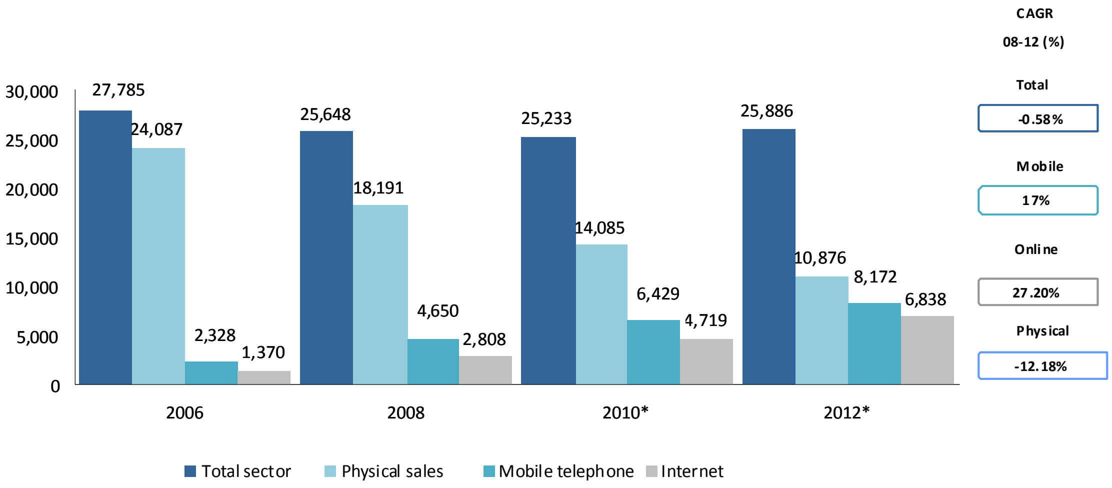
There are also MP3 search engines for finding songs that can be listened to via streaming. These include **SkreemR, Songza** and **Seeqpod**, which also suggests play lists based on search results.

3.3. Global situation

According to IFPI, the global record market has shrunk by 4%. Some countries may soon start to counteract the fall in physical sales with the revenue from online and mobile formats, which have been growing continually over the last few years, with growth in 2008 of over 20%[12] and a compound annual growth rate of 21% for the period 2008-2012. This significant increase in online and mobile sales is mostly due to the increase in the number of online shops and the elimination of DRM from sold music, which hampered the interoperability of the music on different devices. In 2008, the online and mobile market accounted for 29% of the global market, a figure which is forecast to rise to 58% by 2012.

In 2008 the world-wide music sector was worth €25.648 billion. It is expected that the decline in sales will continue until 2011, at which point they will stabilise; estimated growth will be 1.1% compared to 2010, which could lead to sales of €25.886 billion in 2012, with mobile format sales exceeding online downloads, as has been happening in recent years.

Figure 3.4. Evolution of global music sales 2006-2012E (€M)



Source: "Global Entertainment and Media Outlook: 2008-2012" by PriceWaterHouseCoopers (2008)

[12] IFPI and PriceWaterHouseCoopers give similar figures, though above 20%.

In 2008, the Asia-Pacific region became the second largest market in the world, with sales worth an estimated €7.487 billion, behind the EMEA region, which reached €9.246 billion, with Europe accounting for the majority of this revenue: €5.687 billion.[13]

In the EMEA region, the market shrunk by 5% in relation to the previous year but, as with the world-wide situation, in 2011 it is expected to turn around, with growth in the total market of around 0.5% in this region, following several years of decline. According to forecasts, in 2012, the online and mobile market will account for 43% of the total market thanks to advances made by the industry. In 2008 it still stands at 15%.

Physical sales will continue to fall in EMEA. In 2012, the compound annual growth rate will have fallen by 10.23% in relation to 2008, with the sharpest growth found in the online format at 36% (also in compound annual growth rate).

Better international practices in the digital market

At an international scale, the new music business, in online and mobile formats, recorded a new expansion thanks to the progress and weight of countries such as the USA, Japan, United Kingdom and France.

Today, digital platforms (online and mobile) account for 29% of recorded music sales world-wide[14], compared to around 22% for the previous year. This has led to a deceleration or slower decline in the global music market.

The world-wide online market is dominated by singles downloads, which rose by 24% in 2008, with 1.4 billion units downloaded. The number of album downloads rose by 37%, although these are still exceeded by downloads of individual songs[15].

[13] According to IFPI

[14] PriceWaterHouseCoopers

[15] IFPI

Figure 3.5. Number of downloads in the 5 main digital markets (€M)

		% of Digital Market	Album downloads	Singles downloads
1	USA	39%	65 million	1.1 billion
2	Japan	19%	2.19 million	180.374 million
3	United Kingdom	16%	10.3 million	110 million
4	France	12%	1.4 million	14.5 million
5	Germany	9%	4.4 million	37.4 million

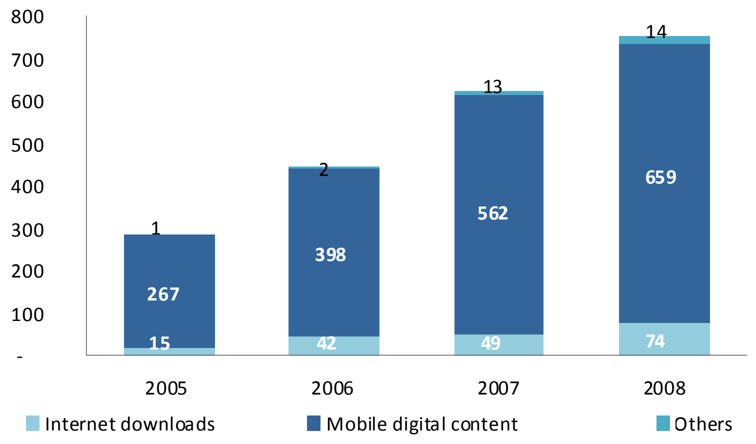
Source: IFPI, 2009 and RIAJ YEARBOOK, 2009

The **USA** is global leader in online and mobile downloads. In fact, average expenditure on music in these formats is five times higher than in Europe. Internet users spent an average of €10 on music in the USA, €5.6 in the United Kingdom and €0.47 in Spain. With regard to online and mobile sales, these already account for 39% of recorded music in the USA with a total of 1.1 billion songs downloaded in 2008, an increase of 30% in relation to 2007. As for the ring tone market, it is set to be the most profitable digital format in the USA, with sales worth €1.9 billion.

Japan is the first country in the world in which sales via a mobile channel have become the main form of digital sales (88% of total sales including online and mobile). In fact in 2008 a total of 140 million songs were downloaded on mobiles, a rise of 26% in relation to the previous year.

Furthermore, for two consecutive years it has made up for the financial losses resulting from the decline in physical sales with profits from mobile platforms. This is due, above all, to the high mobile penetration rate in Japan, with more than 100 million mobile subscribers and 70 million 3G users, as well as to the creation of retail mobile content services in collaboration with record companies. However, in 2008 it was not possible to compensate the sharp fall in physical sales (12%) with the revenue from online and mobile formats, which increased by 20% in that same year.

Figure 3.6. Evolution of the Japanese digital music market (€M)



Source: RIAJ YEARBOOK, 2009

South Korea, despite not being among the top 5 digital markets, is in third place behind **China** and **Japan** in the mobile market. According to forecasts, it is expected that in 2010, online and mobile music will overtake the physical format both in Korea and the USA. The other great Asian powers such as China, India and Thailand recorded growth in their industries of 8%, 6.3% and 7.3%, respectively.

The **United Kingdom**, is still the leading market in Europe (16% of sales are already made online or via mobile) and in the first half of 2008 it recorded the highest growth in digital sales among the major markets, with an increase of 45%. There was a 42% rise in the number of songs downloaded in this country in relation to 2007, in which 77.6 million online songs were consumed. The United Kingdom was the country in which the Nokia "Comes With Music" service was launched in 2008 and was the first European country in which Amazon MP3 was installed, also in 2008.

The **German** and **French** markets also recorded a rise in the number of songs downloaded from the Internet (growth of 20% and 22% respectively in the number of songs downloaded). These European countries are in fourth and fifth place among the top five biggest markets in the world. The online and mobile music market in Germany accounts for a discreet 9% of all music sales, with the figure in France standing at 12%.

Brazil is the largest market in Latin America for music in online and mobile formats and doubled its value in 2008, accounting for 10% of all music sales in the country. The mobile is the most widely used channel accounting for 80% of sales between the two digital formats (only including online and mobile). However, the Brazilian market is still in its infancy in relation to the mobile channel, thanks to the launch of high speed 3G networks and the incredible 60% rise in the number of mobile users in three years.

The operators in this country (Vivo, Tim and Claro), which each have 30 million subscribers, use the strategy of selling devices which include musical content in order to promote their products through agreements with the large record companies. For example, the new album from Madonna *Hard Candy* was included on Sony Ericsson mobiles through an agreement with Warner Music. Sales of devices in which extra content has been added, such as screen backgrounds, ring tones, videos or making-ofs, have shot up in this Latin American country.

The rest of the continent recorded encouraging growth figures for the industry, with 5% in Colombia, 8.1% in Brazil, 10.3% in Central America and 19.2% in Venezuela.

New business opportunities: unlimited music access

There are many music industry agents who establish alliances in order to offer access to musical content via mobile devices or PCs. One business model that is widely used by service operators and mobile manufacturers is the sale of a mobile device in which the user has unlimited access to an extensive catalogue of songs for a certain period of time.

There are also versions of this model for PCs, through the online shops of service operators/manufacturers, where songs can be bought and listened to via streaming audio.

Countries in which these services are offered include Sweden, France, Denmark, United Kingdom and Ireland.

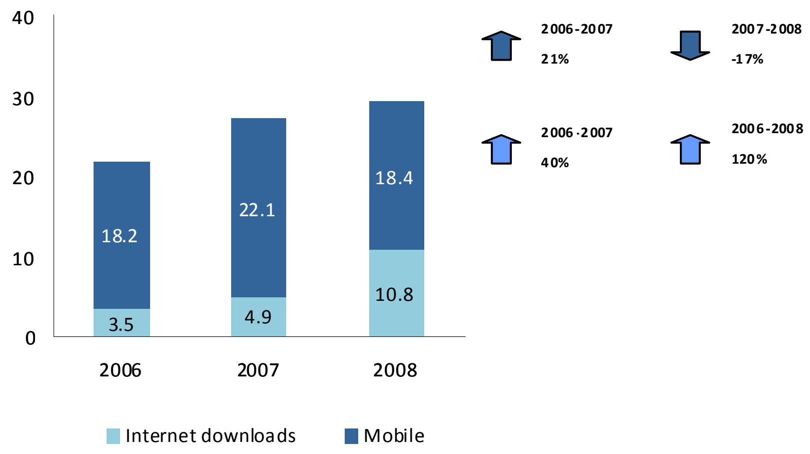
3.4. Situation in Spain

Macroeconomic X-ray of the sector: Sales[16], concerts and GDP

In 2008, the music market in Spain obtained a total revenue of €254 million, of which 30 million corresponded to online and mobile sales. Internet downloads were worth €10.8 million and mobile downloads, €18.4 million, resulting in an 8% expansion of these two formats, an indication of the incremental potential of the online and mobile format compared to the physical format, which experienced a 12% drop.

The fall in the total number of sales has slowed down, with just an 11% fall in 2008 compared to 23% in 2007. The slowdown in the decline of the market is due to growth in digital businesses.

Figure 3.7. Evolution of the music market in Spain 2006-2008 (€M) and in online and mobile platforms



Source: Promusicae, 2009

In Spain, the online and mobile market is already worth 13% of the physical market, while in 2006 the percentage was just half this (6.29%). With regard to its weight in the total music market in Spain, the online and mobile markets account for 11.5%, compared to 6% in 2006.

Although there was a 17% fall in the number of mobile downloads in 2008, the Spanish market is still the leader in relation to this type of downloads,

[16] Sales figures included in this report do not include revenue from hardware sales (devices such as Mp3 players) or synchronisation licences or concerts.

given the high mobile penetration rate in our country. As regards online downloads, in 2008 there was a sharp increase of 120%, with sales worth €10.8 million.

The polytones market is still an attractive niche market for record companies, operators and mobile manufacturers. In the European Union, this business moves around €750 million. In Spain, enterprises such as Movilisto, MyAlert and Club Zed are leaders in polytone downloads. Also, the websites of mobile telephony operators, such as Movistar's Emoción and Vodafone Live!, offer the chance to purchase and download music, not only in polytone formats and directly to mobiles. In the face of this situation, there was a decline in the sale of Mp3 devices in 2007, given the usefulness of having the mobile and the player on the same device. This is so much the case that the possibility of listening to online or remote radio stations or via streaming from the mobile, without the need to store the music, will gradually eliminate the need for large memories on mobiles, to the benefit of connectivity.

Together with this change in consumption habits, there has also been an increase in revenue from live concerts, which are still significant.

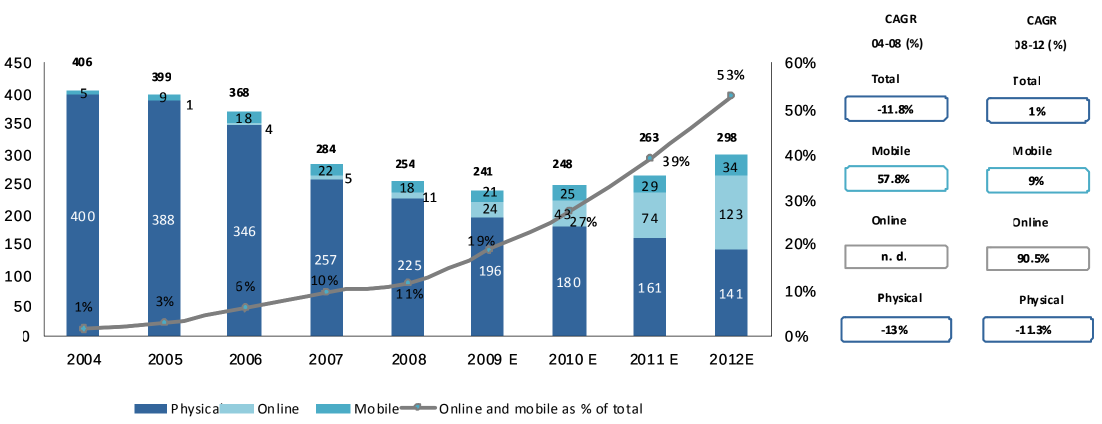
Figure 3.8. Revenue from live concerts in Spain 2005-2008 (€M)

	2005	2006	2007	2008
Total revenue from live concerts	144,000	150,000	285,140	309,190
Applicable Rate (10%)*			0.1	0.1
Social revenue in SGAE			28,514	30,919

Source: SGAE Yearbook, considering a *constant average tariff of 10% on concert takings

It is forecast that by 2012 the Spanish market will be worth almost €300 million in sales, with the online market exceeding the mobile market (€123 million and €34 million respectively). By this date, these two markets will account for half the total music market with an expected 53%. The figure currently stands at 11%. The growth rate is expected to grow slightly, giving a CAGR of 1% between 2008 and 2012; the sharpest growth will be in the online format, with a CAGR of 90.5% between 2008 and 2012.

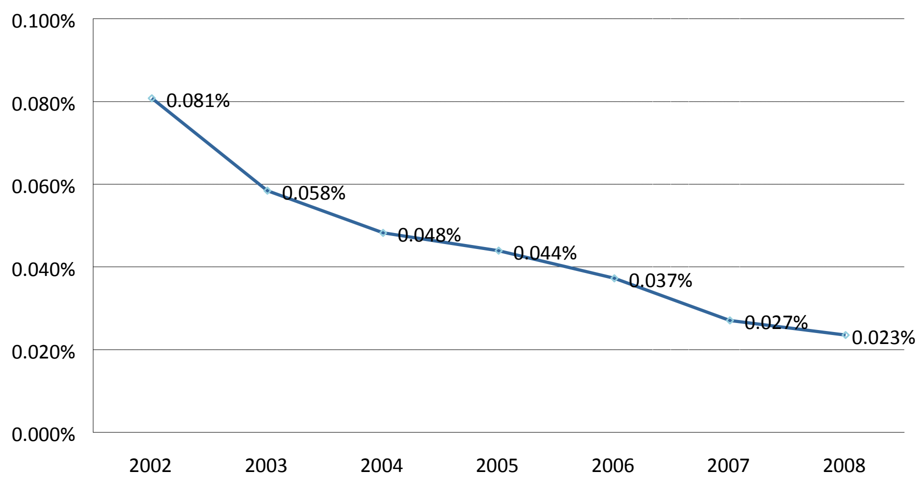
Figure 3.9. Evolution of the music market in Spain 2006-2012E (€M)



Source: Promusicae (2009) and "Global Entertainment and Media Outlook: 2008-2012" PriceWaterHouseCoopers (2008)

The music market as a percentage of the total Gross National Product has decreased, which is similar behaviour to that of recent years.

Figure 3.10. % of music sales in Spanish GDP at March 2002-2008 prices



Source: INE and Promusicae, 2009

3.5. Relevant data for the sector in 2008-2009

Online music: Spotify and the music streaming phenomenon

Revolutionary business models mainly based on streaming services have emerged in the music sector. One such free music service is **Spotify**. As with its predecessors, yes.fm or LastFm, the main features of Spotify are its user friendliness and the way it is funded - based on free advertising.

The Swedish portal, created in October 2008, already has 4 million registered users[17] throughout Europe, half of which are from the UK, who receive an invitation to download the program. After using the program for a few days, users are allowed to invite 10 new users who, in turn, invite their contacts to use Spotify. In Spain, Spotify currently has 800,000 users and is growing at a rate of between 70,000 and 100,000 users each month.

Spotify has signed licensing agreements with several music labels and distribution enterprises and has an extensive and ever growing catalogue of more than 6 million high quality songs. Authors are paid according to the number of times their songs are played.

In addition to the free version, there is a Premium version of the program that enables users to pay a monthly subscription in exchange for benefits such as no advertising during songs. The Day Pass option, designed for parties and events, allows users to stream music from Spotify with no advertising interruptions over a 24 hour period. The Premium subscription version costs €9.99 per month. This option includes additional services such as exclusive previews of unreleased CDs or the chance to take part in competitions.

Spotify users have limitless access to shared song lists, which they can publish on Facebook or Delicious and other instant messaging services such as Twitter and e-mail.

7Digital is the download portal where Spotify users are directed if they wish to buy a song or an album, subject to registering as a user.

Spotify radio and other online radio sites

Other online radios based on streaming, such as **Last.Fm**, are tools where the program suggests the catalogue of songs based on tunes or groups previously chosen by users. At the beginning of 2009 Last.Fm announced that it would start to charge a monthly subscription fee of €3 to users outside their main markets (the US, the UK and Germany). The decision, however, was never implemented because following the announcement thousands of users complained to the enterprise, who decided to put off charging for services until an alternative solution could be found. Nevertheless, the

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[17] http://www.elpais.com (09/08/2009)

decision to charge a monthly subscription was not permanently shelved. One of the options analysed is to pay for the content with SMSs.

Other, alternative, online radio services for listening to music include **Jamendo** or **Rockola**. Both have an extensive catalogue of published albums. The first has over 500,000 registered users who can upload their work free of charge and choose the copyleft user license for their songs. Music can be downloaded without limits and free of charge. To pay the artists, Jamendo shares 50% of advertising revenue from the artist's pages. Rockola provides a personalised Internet radio site that features the largest collection of Spanish music, together with international hits and independent music.

Figure 3.11. Comparison of streaming services

	last.fm the social music revolution	Spotify	Rockola.fm	jamendo Open your ears.
Played in web environment	Yes	No	Yes	Yes
Desktop application	Yes	Yes	No	Yes
Software available	Windows/Mac/Linux	Windows/Mac	N.a	Windows/Mac/Linux
Application for mobiles	Yes	Yes	Yes	Yes
Free version?	No	Yes	Yes	Yes
Premium Version	Yes	Yes	No	No
Price Premium Version	€3/month	€9.99/month	N.a	N.a
Play lists	Styles/a la carte	Styles/a la carte	Styles	Styles/a la carte
Option of Download onto another device	Yes *	Yes**	No	Yes***

* Amazon, Ebay, 7Digital, iTunes

** 7Digital

*** Direct and free

Source: Consumer Eroski, 2009 and ONTSI

Currently, **Pandora**, only available in the US, is a smart radio station (or semantic radio station) that analyses its listeners' tastes and suggests music they would like to hear based on the type of music they choose. It has a catalogue of over 10,000 top quality artists and is wholly streaming-based.

Spotify and the giants Apple and Microsoft

The summer of 2009 was a decisive period for the industry's leading technology enterprises such as Apple and Microsoft which, in view of the success enjoyed by the software, announced their new software related to Spotify and its environment, one in the form of an alliance, and the other with a competitive response.

Specifically, Spotify can now be used on Apple's iPhone if the user has a Premium account and Internet or Wi-Fi connection or uses the iPhone's data connection. Services available on the iPhone version of Spotify include the option of synchronising music lists in the user's personal Spotify account, storing them in the iPhone and listening to randomly selected songs. The software is designed to search for songs and allows users to temporarily store their playing lists while the **telephone is off-line**.

Apple's took its time in reaching an agreement with Spotify, given the latter's direct competition with Apple's iTunes player. The future of the agreement and the way in which it will affect sales of iTunes songs has yet to be seen.

Microsoft also has plans to compete with Spotify and has announced that it will create a free, a la carte music streaming service with advertising - the songs can be played on the enterprise's Mp3 Zune device. Users who do not want advertising can pay a subscription or pay for each song they download. The project will be linked to XBOX Live, which highlights the importance of synergies between sectors, in this case, between video games and music.

Spotify is also available for mobile phones running Android OS, enabling users to use the software in the same way as the computer version, including synchronising it for off-line use.

Synergies between the video game and music industries

In recent years the video game industry has used a large number of songs for some of its most successful music-based games. An outstanding example is the SingStar video game, launched for the first time in 2004, exclusively for PlayStation2.

Widespread demand for the video game and the need to renew its catalogue of songs led Sony Computer Entertainment Europe to sign an agreement with Universal Music UK, in the summer of 2009, making the record label's hits available in SingStore, the online shop created for SingStar; this enables users to download songs and play them on the video game.

Record labels obviously find new market niches from which to diversity their business and boost sales, in this case with the help of one of its traditional competitors in the digital leisure and entertainment industry.

Festivals and musical events in Spain

In the space of just under 10 years, festivals have revolutionised consumption of “live” music and are a fast growing and increasingly important leisure attraction in Spain, above all during the summer, with international music festivals such as Benicassim, Rock in Río, Viña Rock and others becoming consolidated events. Spain, in fact, is second in Europe, behind the UK, in terms of the number of music festivals organised.

Macro-festivals are musical events that , in contrast to other large festivals, last for several days and take place in a closed space where participants can also spend the night. In addition to festivals held in the Region of Valencia, Spain currently hosts the Ortigueira Interceltic festival in Galicia, Festimad in

Madrid, Etnosur in Jaen, Azkena Rock in Vitoria, Contem-pop-ranea in Badajoz and Tintorrock in Burgos. Overall revenue from all these events in 2005 reached €9.6 million, with attendance figures of 341,000. The multivenue Rock in Río concerts also enjoyed great success last year. Some festivals engage in strong competition to bring in leading singers from the international music scene to “top the bill”, and this has increased expenditure in these events.

The Region of Valencia and the province of Albacete head the macro-festival list in Spain, hosting several celebrations of this kind: the FIB and the Mediàtic Festival in the former, and Viña Rock in Villarobledo, Albacete. These three events alone attract nearly 120,000 fans, with takings of over €7 million.

The Festival Internacional de Benicassim (FIB), held since 1995 and now with 40% of visitors coming from the UK, competes with other festivals such as Summercase, or reputed festivals such as *Sónar or Primavera Sound*, which, thanks to funding and sponsorship from beer manufacturers, can now hire famous singers and groups and so achieve international renown.

The recent 2009 edition of FIB Heineken broke all previous attendance records, with 200,000 people attending four days of music featuring such famous groups as Franz Ferdinand, Oasis, The Killers or Los Planetas. In 2007, FIB takings reached €3,689,013, with an average of 50,000 people attending the festival in recent years. The 2006 FIB attracted the largest crowds of its twelve year history - over 36,000 visitors a day who spent around €12.3 million in local shops, according to estimates by the local council.[18] Based on figures published by the festival's organisers and the price of tickets (most being 4-day passes costing €170 in February), the event is expected to bring in €6.8 million this year.

One of the fastest-growing macro-festivals in recent years has been the Mediàtic Festival held in Nucia, Alicante, which in 2007 announced a line-up consisting of 45 artists. According to SGAE data, Mediàtic received 13,475 visitors in 2005, double the figure from the previous year. Box office takings reached €352,763.

Overall, music festivals in Spain generate around €300 million, highlighting the importance of concerts for this sector, although profits are made more by the organisers than directly by record labels.

[18] http://www.lasprovincias.es/valencia/prensa/20070301/cultura/vende-mitad-abonosuma_20070301.html

First Online Music Festival

The first online music festival, the Eristoff Internative Festival, was inaugurated on 7 July, 2009 and sponsored by Eristoff Vodka and the CP Proximity agency.

The festival mainly features alternative music with electronic influences and is only held on full moon nights using high quality Internet streaming, allowing participants to interact with the group and the setting and so reinvent each performance.

In addition, each concert gives the audience the chance to engage in online interaction with the group. The kind of interaction varies with each performance and is not released until the day of the concert, the aim being to enable users to create their own concert and take part in the staging.

Other uses of music: karaoke and concerts on social networks

Internet-based musical social networks such as MySpace and other initiatives are a well consolidated part of the digital music experience. However, this is not limited to networks for sharing music and knowledge and opinions - there are also sites where users can play their own compositions and listen to those of others, such as RedKaraoke.es or kSolo, based on the popular karaoke game and home to thousands of amateur singers.

Music lovers can also become disc-jockeys or specialised radio programmers thanks to online music clubs such as Mercora or Musicmakesfriends.com. The social network Nvivo has specialised in providing information about upcoming concerts.

RedKaraoke.es was created in 2007. It is the largest karaoke social network in Spain and currently has a catalogue of 1,00 songs, funded through advertising. The site allows users to sing and record the songs by following the lyrics on screen. The portal also has community creating tools and a voting system with which users can create a list of top ranking solo singers.

This community of singers allows users to upload their own .kar files, these are MIDI files that are transferred free of charge by their creators. Authors' rights are protected by a *streaming* licence granted by SGAE. This Spanish idea has given rise to new, successful Internet initiatives beyond our borders, such as *kSolo* (by Fox Interactive) or *Singshot* (by the video game manufacturer Electronic Arts).

Indaba Music is a web site enabling users or musicians to come together to create music without the need for group members to live in the same city or country.

Each user has a specific profile though which they can publish “samples” of their music, photos, etc. . If one user wishes to interact with another they can create a so-called “recording session”, in which the user invites another to take part in their session and record songs, for example, a hip-hop song with a jazz background contributed by another musician. Later, the recording can be arranged, mixed and edited. The international Indaba community has nearly 75,000 registered musicians from 150 countries all around the world.

Nvivo is a social network supplying information on the latest concerts, sessions and festivals. It also provides an e-mail concert alert system, based on user-defined values.

Nvivo.es also has a data base of over 250,000 artists and thousands of albums. Through this site users can publish or advertise any kind of concert, performance of event, well-known or unknown.

Nvivo.es uses APIs to provide the most reliable information, for example GoogleMaps API to show the location of concert halls and users' provinces of residence; the data base of artists and albums is taken from MusicBrainz.org.; accompanying information on artists and tags are obtained from Last.fm's AudioScrobbler.org web service; geographical information is checked using Geonames; videos of artists and performances are obtained from Youtube.com; and photos of concerts come from Flickr.com.

The Irish band U2, through their official Youtube.com channel, U2official, broadcast live their California concert held on 25 October; the event was viewed simultaneously in Australia, Brazil, Canada, South Korea, the UK, Spain, the US, France, India, Ireland, Israel, Italy, Japan, Mexico, New Zealand and Holland. This was the **first event of its kind in the world broadcast via streaming** by Youtube.

New physical media for selling music

Some enterprises, in spite of the economic situation and the fall in sales of physical media, have chosen these formats to sell music, such as **SanDisk,** the world's largest flash memory manufacturer, which has announced a new music storage format: **SlotMusic**, which will store music albums in MicroSD memory cards to be sold in hypermarkets at an estimated prices of $10. This solution has been developed mainly for mobile phone users, as most terminals have MicroSD card slots, this being one of the most widely used formats with 750 million units sold per year. Apple phones, however, do not have flash memory slots.

The world's most important record labels have signed agreements with SanDisk to distribute their catalogues through this new media, although to begin with there will only be 29 albums from the four largest record labels available in this format, in MP3, with no copy restrictions. The songs will include lyrics, musical videoclips and other additional content. To distribute the device the enterprise has reached agreements to sell the product in the US through Wal-Mart and Best Buy.

3.6. Challenges and opportunities

Digital music formats are faced with the challenge of an increased monetisation of the sector through the sale of songs and other value added services based on agreements with complementary industries such as technology, mobile phone manufacturers, retailers, or record labels, with which great profits are obtained. As is the case with competing brands (such as iTunes and Spotify), they establish alliances to channel sales and increase the critical mass of multiplatform users. Music industry enterprises must come up with new sales ideas based on innovative material that can be marketed with mobile devices.

The sale of online and mobile music in turn stimulates sales of alternative music players such as MP3 devices or mobile phones with built-in players. Device manufacturers will see sales rise thanks to increased consumption of online and mobile music and the integration of streaming services in third generation mobile phones.

The streaming format is now consolidated. The technology that enables users to watch videos and listen to songs on specialised websites without the need to download and store files has boosted this kind of consumption. Improved Internet connectivity has benefited this instant “click and see or listen” technology, created in 1995.

The emergence of new online stores and the disappearance of DRM licences has increased the number of digital sales allowing users to listen to songs on the device of their choice, thus increasing interoperability. Industry agents offering multiplatform and multiformat material will stimulate demand from a greater number of users and so increase their turnover. This the challenge: adapting the offer to suit new demand.

After 2008 and the economic crisis of 2009 the music business is faced with the challenge of restructuring business models and reinventing the financial approach to the same.

The newly identified business models, such as individual song consumption or music streaming, open up new distribution formats in which users can get quality material that can be heard on a variety of devices, in addition to accepting advertising in exchange for music streaming.

The importance of music in leisure activities emphasises the need for content providers to offer their products in multiplatform mode where users expect services to be ubiquitous. For this reason music companies should make the effort to make their material available wherever the consumer might be, and in all possible formats (streaming, subscription, download stores, merchandising, licensing or in video games).

An important challenge the export of Spanish music. Spanish music, increasingly admired and followed in Anglo-Saxon and non-Spanish-speaking countries, is moving further and further away from its traditional markets. The phenomenon of the Latin boom, much quoted nowadays, together with international hits, have introduced Spanish music to countries such as the US, Germany and France.

Initiatives taken by Spanish institutions such as the ICEX promote the sale and spread of Spanish music around the world through platforms such as Sounds of Spain, promoting the Spanish music industry abroad in events such CMJ Music Marathon in New York, South By Southwest in Austin, Midem in Cannes, Popkomm in Berlin, Musik Messe in Frankfurt and Womex in Seville[19].

In the music industry, production costs have been optimised thanks to digital recording and published media. Initiatives to digitise catalogues of Spanish music are an enormous step forward for the sector in terms of conservation of old catalogues, availability of files for promotional ends, synchronisation licences (in advertising, films) or the use, for sale and distribution purposes, of music from digital aggregators and other portals selling online and mobile music. In addition, music libraries could be used as a resource in education, as well as in cultural and leisure spheres.

The creation of common music libraries through mass digitising paves the way towards the digitisation of the industry, and automating online user rights will facilitate the adaptation and efficient monetisation of the market.

Finally, an analysis should be made of the situation of the music sector and the introduction of new sources of income for the industry. Concerts are still a profitable way of exploiting music and the industry should develop these formats as high value services for music users.

[19] Mobile headquarters

4. AUDIO-VISUAL SECTOR

4.1. Key points

- Spain, with 47.5% of individuals with DTT connection (source AIMC – Nov. 08), a household penetration of 45.2% (source AIMC – Dec. 08) and 92.38% of the population living within DDT range (Source: Abertis Telecom – Dec. 08), is well-placed for the transition to DTT compared with neighbouring countries, such as Italy and France.

- In 2008, income from satellite TV, IP TV and mobile TV increased by 1.3%, 41.8% and 86.7% respectively with respect to figures from the previous year.

- The number of Pay TV subscribers in 2008 has increased by 5.4% with respect to the previous year, exceeding the 4 million client mark for the first time due to the increase in the number of cable and IP TV service subscribers.

- The global economic downturn of 2008 affected the audio-visual sector due to its impact on advertising spending. Revenue for 2008 was €5.5268 billion, 4.2% less than that of the previous year.

- Television consumption has increased, going from 223 minutes per viewer and day in 2007 to 227 per viewer and day in 2008. The increase in the number of programmes available through DTT, together with the onset of the economic crisis, could be encouraging more TV consumption in the home.

- Revenue from the radio sector (€442 million) fell slightly by 0.4%, due to the economic downturn, which has affect advertising earnings.

- In 2008, over 92.2% of total revenue from the radio sector corresponded to the three main radio channels.

- Digital Audio Broadcasting (DAB) coverage has risen from 51% in 2007 to 60% in 2008, 9 percentage points higher than in 2007.

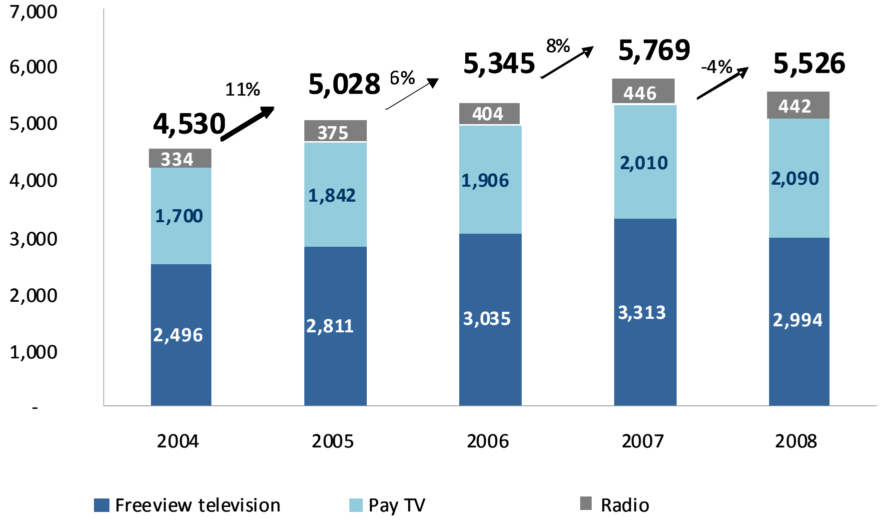
4.2. Description of the audio-visual sector

Within the audio-visual sector an analysis is made of the TV market (freeview and subscription) and the audio broadcasting (radio) segment, both analogue and the new digital formats.

Revenue from the audio-visual sector in Spain reached €5.5268 billion, 4% less than in 2007. The global economic downturn of 2008 has affected the sector by reducing spending on advertising.

Nevertheless, pay TV segment revenue grew by 4% in 2008, in contrast to the loss of income recorded for radio and freeview television, which fell by 0.4% and 9.6% respectively. This was due to a reduction in advertising spending in 2008, which affected different media in different ways (newspapers, weekend supplements, magazines, films, radio, television, etc.).

Figure 4.1. Audio-visual sector revenue in Spain, without subsidies (€M)



Source: CMT Annual Report (2008)

In 2008 freeview television earned €2.994 billion, which represents 54.2% of total audio-visual sector revenue. Pay TV, based on income from subscriptions, accounted for 37.8% of the total. The income percentage of the radio segment was similar to that of 2007 - 8% of total revenue.

Use of Internet radio and TV

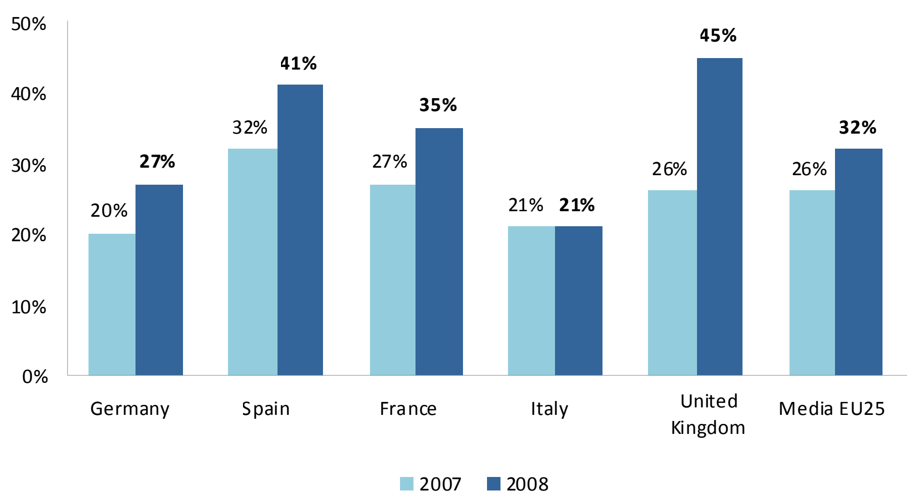
Spain, together with the UK, had the largest number of Internet users using this media to listen to the radio or view TV in 2008. The figures returned by Spain, 41% Internet users, are far above EU25 figures (32%) or the average figures for the reference countries used in this survey[20] (33.8%).

In other European countries, such as Italy and Germany, it is significant to note the small percentage of people using the Internet to access TV and radio, 21% and 27% respectively. France, on the other hand, is above the EU25 average, with 35% of Internet users, although it does not reach the figures for Spain.

Using the Internet for listening to the radio or viewing TV has risen sharply both among Internet users in the reference countries (those described in note 20), and among those in the EU in general, with the EU25 average going from 26% to 32% of Internet users. Italy is the only country that did not record an increase, remaining at the same level as 2007.

The country recording the greatest increase in Internet users accessing radio or TV websites was the UK, with an increase of 19% from 2007 to 2008. Spain also recorded a significant increase of 9%, being the country with the highest percentage in 2007.

Figure 4.2. Evolution of the percentage of Internet users accessing online radio and TV 2007-2008



Source: Annual report eEspaña 2009 (Orange Foundation) and ONTSI

[20] Germany, Spain, France, Italy and the UK.

4.3. Description of the television sector

The television sector in Spain is divided into two main types: freeview and subscription. In 2008, revenue from television reached €5.084 billion, of which 41% corresponded to pay TV.

Depending on the broadcasting method used, the sector is further divided into terrestrial television (analogue and digital), cable television, satellite television, IP television and mobile television. In 2008, revenue from the last three (satellite, IP and mobile) increased by 1.3%, 41.8% and 86.7% respectively with respect to the previous year, while income from terrestrial and cable television fell by 9.6% and 0.6%.

The value chain of the audio-visual sector

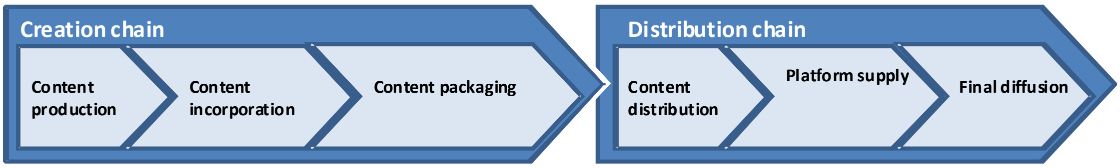
The value chain of the audio-visual sector is divided into two different stage - creation and distribution - mainly focussed on content. The **creation** stage consists of three main phases:

- The production of content, including generating ideas, selecting, drawing up contracts and editing.
- Incorporation of content, including the acquisition and management of rights.
- Packaging content, during which the programming is drawn up, content is added, the catalogue is organised, channel production is controlled (quality, strength of the brand, marketing and promotion), post-production, advertising sales and client management .

The **distribution** chain process is divided into 3 phases:

- The distribution of content, where agreements are reached with cable channels, television, VoD IP or Internet broadcast and the sale of rights.
- Platform supply, where agreements are reached with the owners of the channels through which the content can be broadcast; the combination of channels; supply of the physical infrastructure and coding.
- Broadcasting, where channels finally broadcast the content over terrestrial, satellite, cable or IP media, or market the product over other physical media.

Figure 4.3. Audio-visual sector value chain



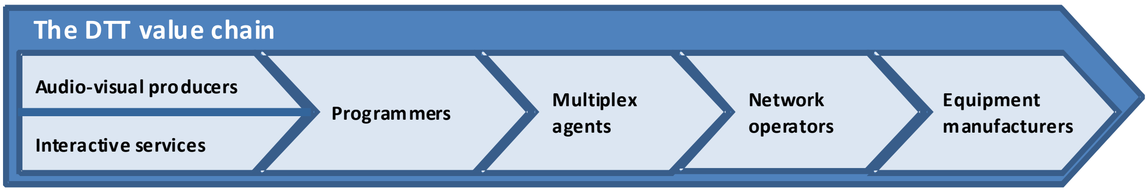
Source: ONTSI

The DTT value chain

The new possibilities opened up by DTT broadcasting fragments but also extends the traditional television value chain. This chain is divided into 5 stages.

- The first includes audio-visual production enterprises and interactive services. The appeal of the content created depends on audio-visual production enterprises, and those responsible for developing and providing interactive services help exploit all the possibilities opened up by the new technology.
- The next stage includes the programmers, who take charge of grouping the different contents into a television programme.
- The third stage sees the emergence of the multiplex manager[21], who packages digital television programmes and the data channels into a single radio frequency channel.
- The network operator is in charge of transporting and broadcasting the content to the end user.
- Finally, manufacturers must provide users with a suitable receiving system.

Figure 4.4. The DTT value chain



Source: ONTSI

[21] Definition included in the Glossary

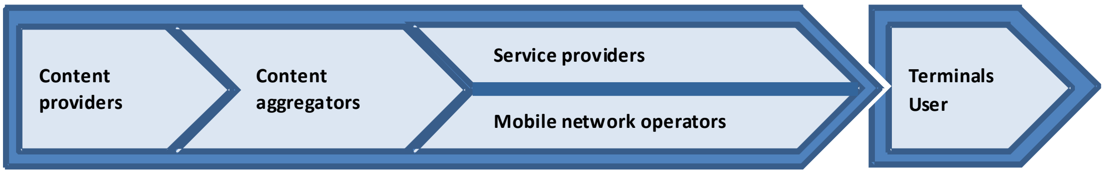
The mobile telephony value chain

The new possibilities opened up by third generation mobile communications fragment and extend the tradition mobile telephony value chain, bringing in new content, including mobile television. The transition from 2G to 3G mobile phones created a new value chain because, in addition to traditional services such as calls, messages, etc., the new phones also become digital content receivers.

Figure 4.5. The "traditional" mobile telephony value chain

Source: ONTSI

Figure 4.6. The "new " mobile telephony value chain



Source: ONTSI

4.3.1. Global situation

The transition to digital television in the most important European countries

Spain, one of the most important countries in Europe, is well-placed in the transition to DTT, having brought forward to 2010 the 2012 deadline established by the European Union for terminating analogue broadcasts. Some EU countries have already completed part of the changeover, among them Spain which, together with the UK, France and Italy, are the main EU countries engaged in the transition process.

Figure 4.7. EU DTT transition calendar

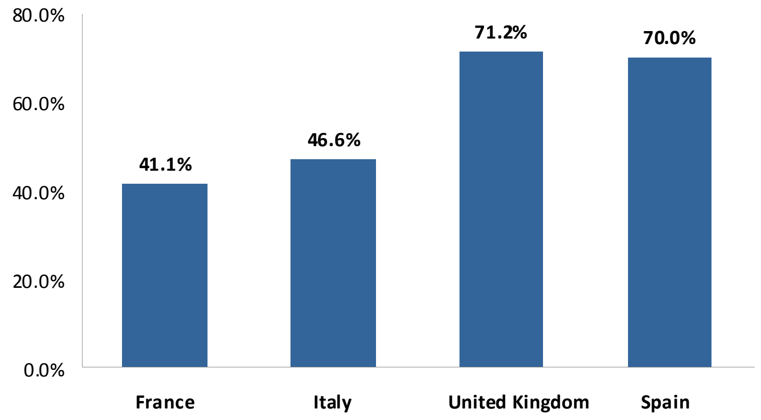
	France	Italy	United Kingdom	Spain
Switched on	2005	2004	1998	30-Nov-05
Switched off	2011	2012	2008-2012	03-Apr-10

Source: Impulsa TDT, 2009

The only country with more households with access to digital content than Spain is the UK, with 71.2%, although these do not have exclusively DTT access as the UK has a DTT broadcast and measuring policy that, in addition to Digital Terrestrial Television, includes other pay TV platforms, such as cable, satellite or ADSL. For this reason, Spain could be even further advanced than the UK in the number of household with DTT access.

Far below Spain in the percentage of household DTT penetration are France and Italy, with 41.1% and 46.6% respectively.

Figure 4.8. Penetration of DTT in Europe



Source: CSA, August 09 (France); DGTVi, July 09 (Italy); Ofcom, Sept 09 (UK) and Sofres, Sept 09 (Spain), Impulsa TDT, monthly report for October 2009

End of analogue broadcasts in the USA

The switch to DTT in the USA was completed on 12 June, 2009, a move that affected around 12 million DTT users due to the high penetration of cable and satellite pay TV among US viewers. Due to its low incidence in homes, 17 February to 14 June 2009 was proposed as the date for ending analogue broadcasting, resulting in improved penetration.

In 2006 the authorities introduced a series of transition actions. The most important of these was a voucher worth $40 towards the purchase of a DTT receiver. The day the technological transition took place 428,000 calls requesting the vouchers were registered; in the week following the shutdown (from 10 to 16 June) this number fell to 230,000.

In addition, a customer helpdesk was created, which received over 900,000 calls during the week of the shutdown. The service was manned by technicians and volunteers who continue to provide a free service installing receivers in users' homes Finally, over 500 help centres were created, together with a web page that registered three million visits on 12 June.

However, the main terrestrial channels of the 85 regional markets will continue analogue broadcasts during night-time viewing to provide information on the end of this kind of broadcasting.

4.3.2. Situation in Spain

Between 2004 and 2008 the sector grew at a rate of 3.1% per year, obtaining television revenue of €5.084 billion, of which 41% came from pay TV.

Based on revenue grouped according to broadcasting media, the highest earnings were registered by terrestrial television (59% of overall revenue). This includes both private and public freeview broadcasting enterprises operating on a national, regional or local scale, with revenue reaching €2.9939 billion, 9.6% less than the figure for 2007. This is due to the decrease in revenue due to a reduction in advertising spending by communications media during 2008.

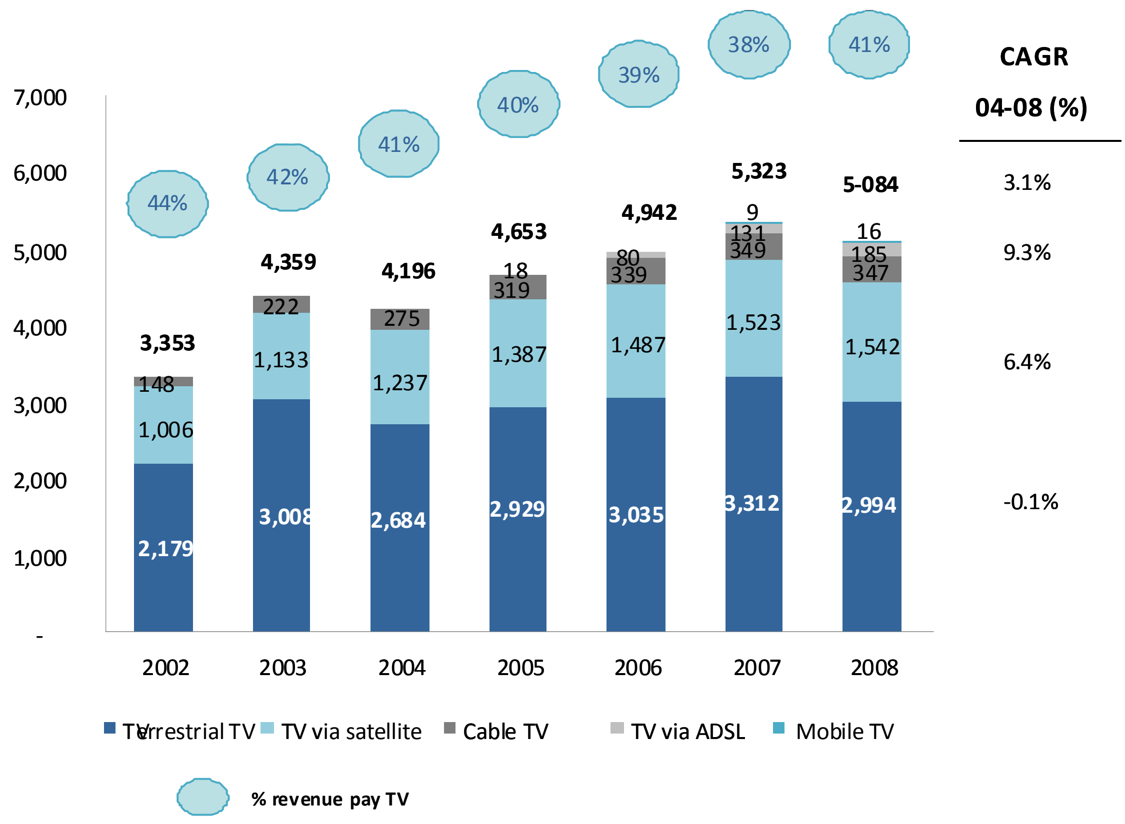
Satellite TV, where Sogecable's Digital+ is the only service provider, registered the second largest revenue, €1.5423 billion, representing 30.3% of overall turnover and an increase of €19.8 million with respect to the previous year. **Cable television,** meanwhile, registered a 2008 turnover of €346.7 million, representing 6.8% of total income, and a slight reduction of 0.6% with respect to the previous year.

Revenues from **IP** or ADSL TV (Telefónica, Orange and Jazztel pay TV) rose by 41.8% over the previous year, reaching sales of €185.1 million.

Finally, on a par with the evolution of new, non-linear[22] **mobile TV** electronic communications services, this new 3G network platform earned €16.2 million in 2008, an increase of 86.7% over the previous year.

[22] Definition included in the Glossary.

Figure 4.9. Television revenue by transmission medium 2002-2008 (€M)



Source: CMT Annual Report (2008)

With regard to the evolution of the **number of pay TV subscribers**, 2008 has witnessed a positive trend with the number of subscribers exceeding the 4 million mark (4,196,766 subscribers) for the first time in Spain.[23] This represents a rise of 5.5% over 2007 and an annual compound growth rate of 3.7% between 2004 and 2008.

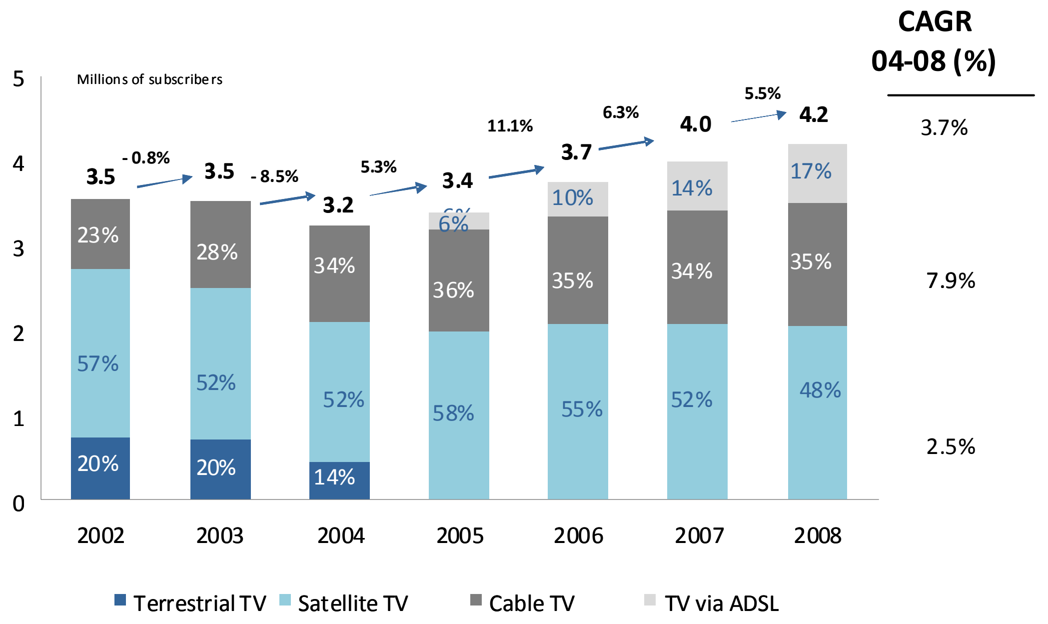
The platform with the greatest number of subscribers was satellite TV, with almost half of all subscribers (48% market share), although in 2008 the number fell by 30,000 with respect to the previous year.

The cable platform recorded a growth of 8.4% in 2008, more than double that recorded in 2007. This type of TV represents 35% of market share, with 1.46 million subscribers.

[23] This does not include 269,919 mobile TV subscribers

IP or ADSL TV recorded the greatest growth, both in the number of subscribers and revenue for 2008, with 133,691 registrations and a growth rate of 23.5% over the previous year.

Figure 4.10. Evolution of pay TV subscribers 2002-2008* (millions of subscribers)



Source: CMT Annual Report (2008)
* Does not include mobile TV

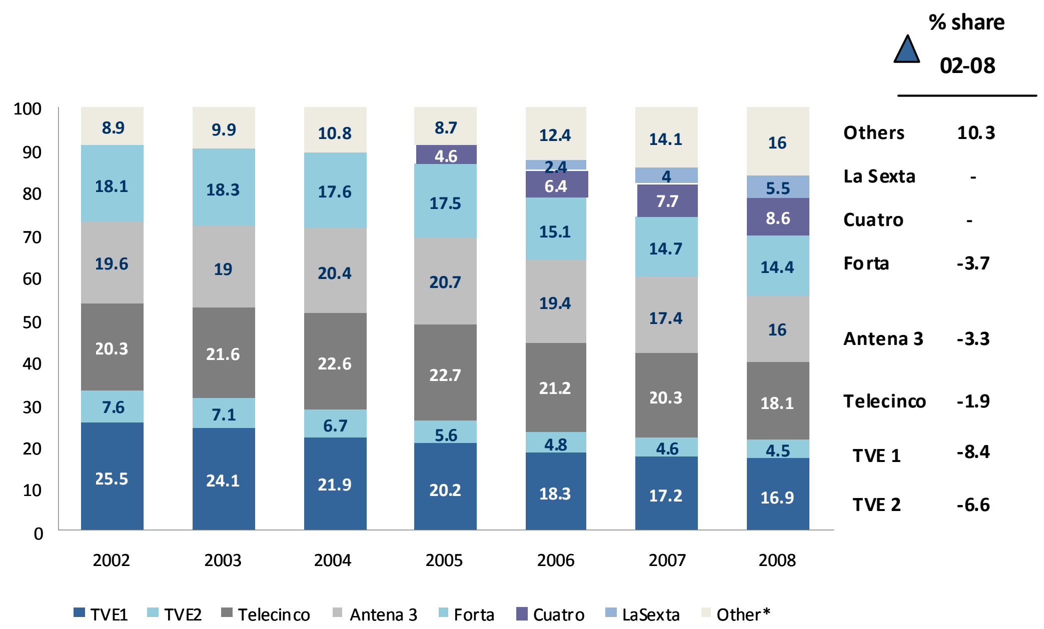
Number of freeview TV viewers and market share

TV consumption in 2008 increased to 227 minutes per viewer and day, an all time high, exceeding the 223 minutes recorded in 2007. This seems to indicate that the increase in the number of channels and programmes available on DTT, together with the economic crisis, has encouraged home leisure and boosted television consumption.

Audience evolution since 2002 shows that the main TV channels (La Primera, La 2, Telecinco, Antena 3 and the regional channels grouped under Forta) accounted for 91.1% of market share, while in 2006, with the emergence of channels such as Cuatro or La Sexta, the market share of the aforementioned 5 channels was only 78.8%, falling in 2008 to 69.9%. The market leaders lost audience ratings to the new general interest channels, Cuatro and La Sexta, which in 2008 increased audience ratings by 0.9 and 1.5 percentage points. Specialised networks also recorded an increase of 2%.

Traditional network leaders, such as Telecinco, Antena 3 and TVE1, have seen ratings fall to 3.3, 1.4 and 0.3 percentage points respectively between 2002 and 2008.

Figure 4.11. Evolution of average audience ratings in Spain (2002-2008)



Source: CMT annual report (2008); TNS; Sofres/IOPE; Infoadex; ZenithOptimedia
*Specialised channels, local networks, private regional networks, etc.

Analysing audience ratings according to groups of networks it can be seen that private broadcasters (Telecinco, Antena 3, Cuatro and La Sexta) accounted for a share of 48%, while 35.8% corresponded to public networks (TVE1, TVE2 and FORTA) The remaining share, 15%, went to specialised and local networks.

Transition from analogue TV to DTT

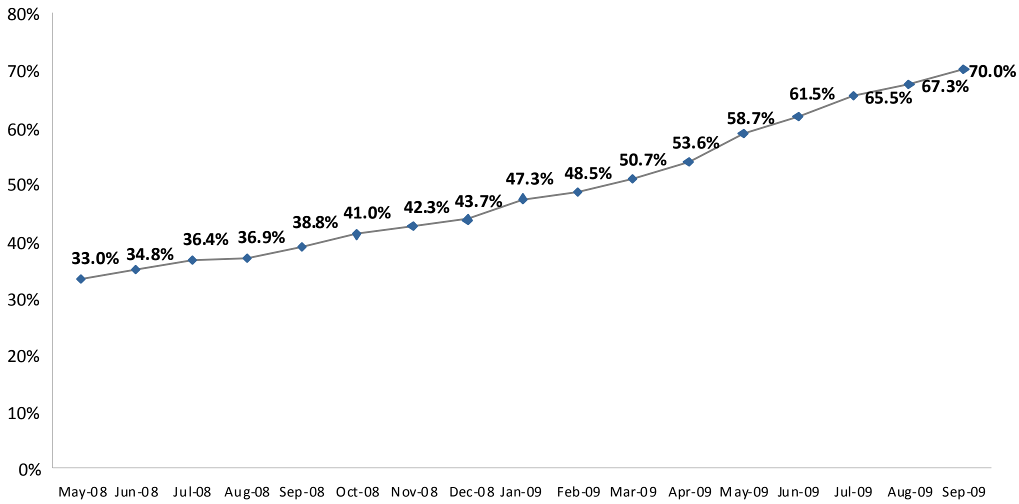
By October 2009 there were already 5.4 million digitised households which, compared to 1.5 households in the same situation three months previously, shows the rapid progress made in the transition to DTT.

According to Sofres, DTT penetration in homes at the end of September 2009 reached 70%[24] of households in Spain, and in July 2009, 96.3% of the population had DTT coverage. The autonomous region with the greatest level

[24] Impulsa TDT, Monthly Report, October 2009. (Data from Sofres 2009)

of DTT adaptation in Spain is the Canary Islands, with a (household) penetration of 80.5%, exceeding other regions that have headed the list in recent months. Second on the list is the Region of Madrid (76.3%), followed by Catalonia (75.8%) in third place.

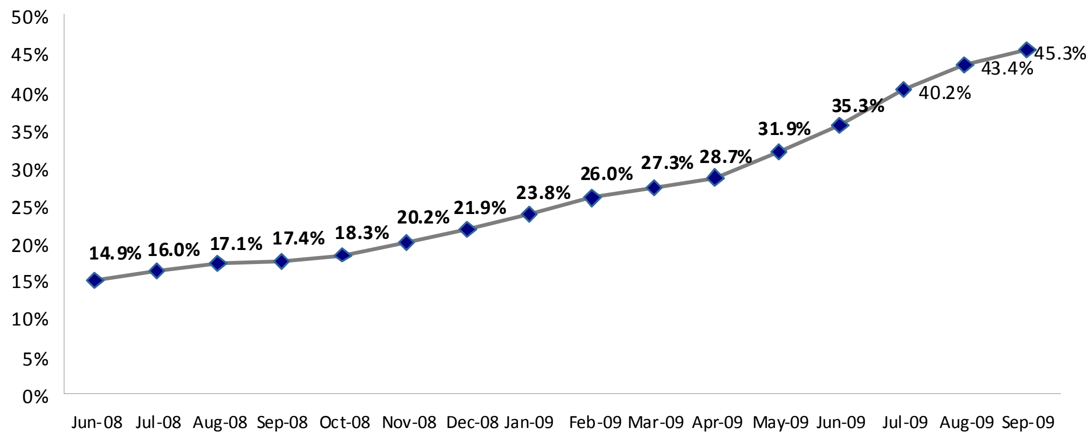
Figure 4.12. DTT penetration in Spain



Source: Sofres, 2009

More than a third of the total number of viewers in Spain now receive DTT, specifically 45.3%, an increase of 1.9 points over the previous month. During the first half of 2009 the number of households with DTT rose by 13.4 points, and by September this figure had risen to 23.4 points. The average annual growth rate for 2009 is 2.6 points per month.

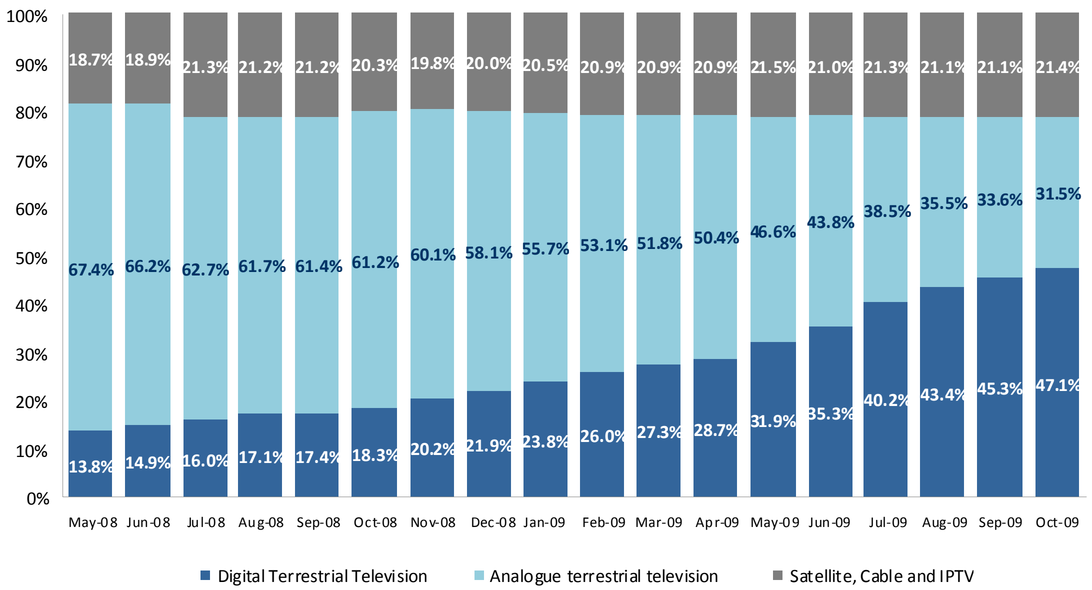
Figure 4.13. Evolution of DTT audience ratings in Spain



Source: Sofres, 2009

The increase in DTT audience ratings has been at the expense of analogue ratings which in October reached an all time low of 31.5%. The use of pay TV platforms, meanwhile, has stabilised at around 21% in 2009 (one fifth of total audience figures). The proportion of pay TV ratings in October was 21.4%.

Figure 4.14. Audience ratings according to broadcast media (June 2009)

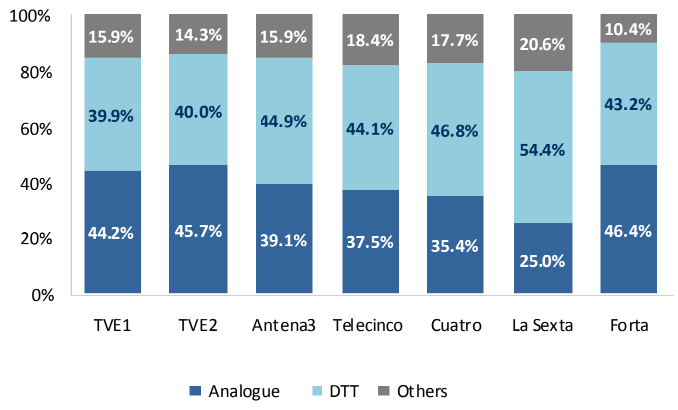


Source: Sofres, 2009

In several regions DTT is watched by more viewers than analogue TV. In September 2009, the three regions with the highest proportion of DTT viewers, exceeding the 50% mark, were the Canary Islands (61.8%), Aragon (59.3%) and Catalonia (52.5%). Madrid is relegated to seventh place, with 44.2%, behind the Balearic Islands (46.2%), the Region of Valencia (46%) and Andalusia (45.5%).

Furthermore, based on the balance between DTT and analogue TV, the number of viewers watching La Sexta on DTT has overtaken those watching it on analogue sets, reaching in June 43.3% of audience ratings (this reached 54.4% by October 2009, making it the channel with most DTT viewers). For October 2009 the same is true of Antena 3, Telecinco and Cuatro, which, as in the case of La Sexta, are now viewed by more people on DTT than on analogue sets.

Figure 4.15. Audience ratings according to type of broadcast (October 2009)



Source: Sofres, 2009

After reaching the first important date in the transition process (30 June 2009), it can be said that the first analogue shutdowns have proceeded normally, which confirms that the process is well advanced and progressing at a greater rate.

The process started on 27 June 2009, affecting 14 towns in the east of Cantabria, and continued on 30 June with the preliminary shutdowns in 17 technical projects in another 12 Autonomous Regions and the autonomous cities of Ceuta and Melilla, affecting over 1.5 million citizens.

4.3.3. Relevant data for the sector in 2008-2009

Specialised channels

Specialised channels are one of the most interesting new phenomena to appear in the audio-visual panorama. They have been available in Spain for over a decade and are currently the fastest growing in terms of audience ratings. Moreover, audience ratings for specialised channels in Spain has doubled in just three years, going from 3.6% in 2005 to 15.1% in 2009.[25] Over the last year, audience figures have risen by 4 percentage points.

New broadcasting services

One of the new broadcasting service is *video on demand* (VoD), divided into three separate services: *Premium* service (mainly films), *catch-up* TV service (a la carte TV) and community services for video sharing. High Definition (HD) television services, on the other hand, are increasingly benefiting from the sale of TV sets compatible with this technology.

Pay DTT

In August 2009 ministers approved a Royal Decree Law regulating pay digital terrestrial television services received through decoders for awarding nation-wide authorisations (licences).

According to the law, conditional access systems (decoders) used to receive future pay DTT broadcasts must be based on open technology so that any device may be used to decode the pay TV signal from all networks using this kind of broadcast . This means, for example, that if networks decide to provide cards for decoders, they must be equipped to read all cards.

From the entry into effect of this regulation, all nation-wide networks holding DTT licences that so wish may operate no more than one of their channels as pay TV, as long as they have a licence for more than one channel. The aim of this limitation is to ensure that DTT broadcasting continues to be generally freeview.

Likewise, the *Consejo de Emisiones y Retransmisiones Deportivas* (Sports Broadcasting Council), a body made up of representatives from the National

[25]Source: Barlovento Comunicación, January 2009.

Sports Council, the Government, television networks, sports organisations and trades unions, has approved a Catalogue of Sporting Events of Public Interest, listing events that must be broadcast as freeview.

The decision for approving pay DTT was based on the following reasons:

- A positive contribution to stimulate the transition from analogue to digital TV within the established deadline (April 2010, or before), as pay DTT will provide more programmes and will raise public interest in adapting their installation to the new technology.

- An alternative source of revenue for private networks that can help overcome the economic downturn affecting TV networks in the process of technological transition, which could put TV services at risk.

- The existence of certain broadcasts (for example, high definition) that , due to the high costs, would not be economically viable except through pay DTT .

- The rapid implementation of pay DTT will make it possible for the Spanish industry to place itself on an equal footing with other European countries already implementing this type of broadcast.

The General Audio-visual Act (*Ley General Audiovisual*) regulated, among other things, formulas for applying pay Digital Terrestrial Television or conditional access with the help and implementation of new audio-visual technologies and opportunities. It is also a commitment to High Definition, interactive TV and mobile TV. For these reasons, the General Audio-visual Act provides a legal framework beneficial to the industry and a clear opportunity for the industry to develop digital content.

4.3.4. Challenges and opportunities

One of the opportunities awaiting this sector is the further improvement of infrastructures required for development in fields such as broadband, HDTV (High Definition Television), interoperable devices, pay TV platforms and wireless services

New communication media and broadcasting services also have great potential. This is true of pay DTT as a pay-per-view platform, which would affect the sector in three ways: it will be a new source of funding for private networks, a stimulus for creating high quality content and the emergence of a greater number of television channels.

As far as IPTV or ADSL television is concerned, openings are mainly to be found in the field of interactivity. Considering that in 2008 the number of mobile phone numbers in Spain continued to rise and now stands at 49.7 million,[26] with the addition of 1.3 million new numbers, mobile TV is also emerging as a platform of interest, both for *on the go* users and for downloading contents from TV broadcasts (songs, miniseries), or as a platform providing direct interaction with the content available. Mobile operators are also realising their innovative potential, dormant till now, which has been further enhanced by the consolidation of virtual mobile operators (VMO), which came into existence in 2007.

Interactive services provided by DTT, IPTV or 3G mobile telephony, which include a series of features complementary to core network services (broadcasting programmes), bring added value to users and give the sector the chance to increase its content on offer.

In the case of DTT, the services and data applications provided by an interactive decoder include the Electronic Programme Guide (EPG), programmes with additional content (allowing the viewer to access complementary information while the programme is on the air, to take part in games, vote, send live comments during a broadcast, etc.), teleshopping, competitions, extra content for TV programmes (technical specifications, interviews with actors, *making of*, extra scenes, etc.), data services in the form of text, audio, still or animated images, and even video, etc., interactive advertising, video on demand and, finally, Internet access.

Generally speaking, the sector should develop digital content for a greater number of available communication media, new equipment and new devices providing new broadcasting platforms. Specifically, the audio-visual sector is faced with the challenge of generating quality content adapted to high definition and other formats, such as 3D, which requires nation-wide presence of enterprises able to provide the technological services needed to fulfil this potential.

[26] CMT report (2008)

Interactivity will stimulate the creation of new ways of using content and inserting advertising and is a key strategy for boosting revenue in both sectors. An example of this is the purchase of objects or clothes used during a TV programme, or voting and taking part in competitions.

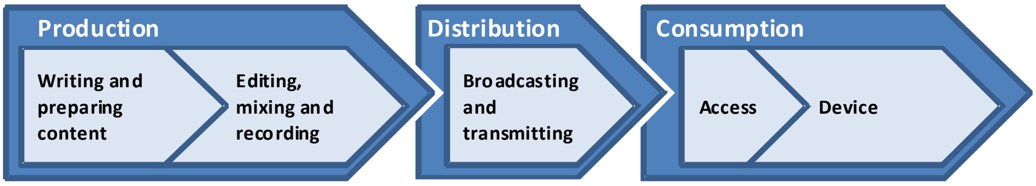
4.4. Description of the radio sector

As has been mentioned above, the global economic downturn experienced in 2008 also affected the radio industry by reducing spending on advertising.

The radio industry in Spain is based on a business model in which advertising is the sole source of revenue (over 99% of revenue, excluding subsidies). As a result, in 2008, revenue in this sector, a total of €442 million, fell by 0.04% with respect to overall turnover in 2007.

The following figure illustrates the value chain of the radio sector, both analogue and digital.

Figure 4.16. Radio sector value chain



Source: ONTSI

The radio sector's value chain model changes in the case of digitally broadcast radio. This type of digital radio, called DAB (*Digital Audio Broadcasting*), while not affecting production, does have an impact on broadcasting, as digital signals make more efficient use of the radio-electric spectrum and provide radio stations with a wider band on which to include additional services.

When it is broadcast, the digital radio signal is transformed into "*bits*" and carried by interference-proof radio waves, providing almost perfect sound quality. Digital radio optimises the radio-electric spectrum space by using a single frequency network, which enables all stations to use the same frequency when transmitting the same digital radio signal. This means that it is no longer necessary to change frequency when travelling.

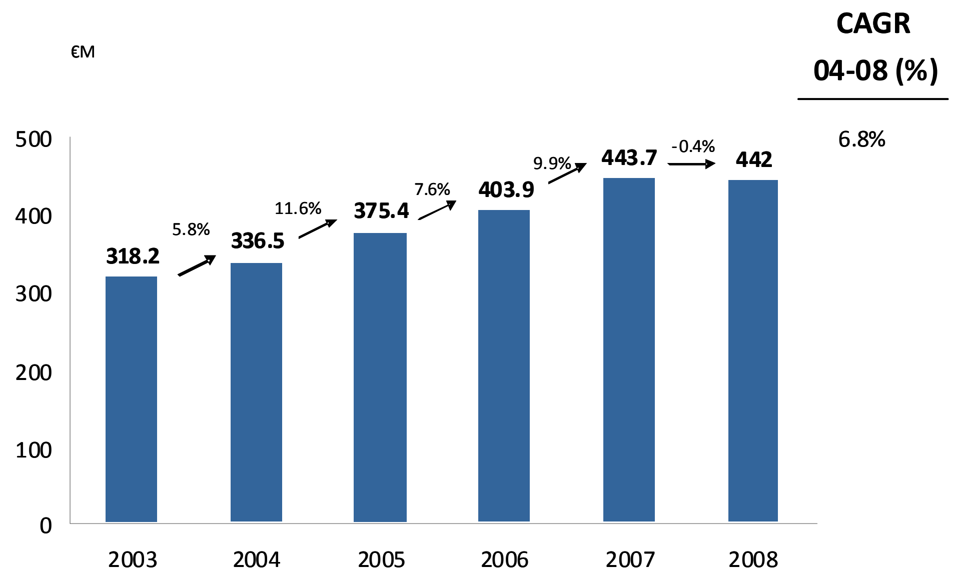
As far as consumption is concerned, a specially designed receiver is needed to receive digital radio services.

4.4.1. Global situation

The sector had sales of €442 million in 2008, with a compound annual growth of 6.8% for the 2004-2008 period. After growing by nearly 10% in 2007, the sector experienced a slight downturn of 0.4% in advertising revenue, which reached €441.45 million.

Other revenue comes from sponsorship (€600,000) and telesales (€20,000), with 2008 being the first year this has been included in CMT surveys as a source of income.

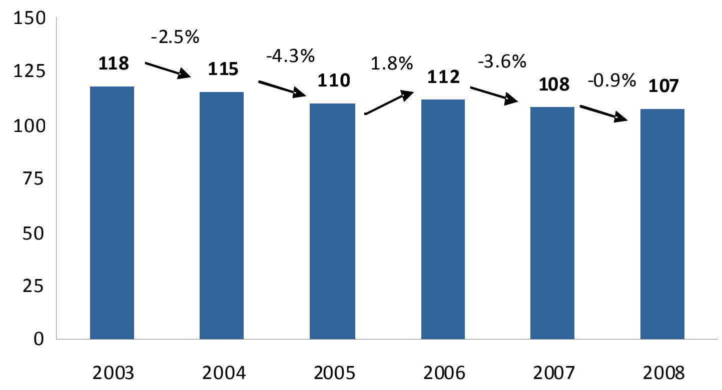
Figure 4.17. Advertising revenue of radio sector in Spain 2003-2008 (€M)



Source: CMT Annual Report (2008)

Radio consumption stands at an average of 107 minutes per person and day, of which 51 minutes correspond to general interest stations and 53 to specialised stations. From this, it can be seen that specialised radio broadcasts obtained higher audience ratings than those of general interest, although there is not much difference between the two. This data represents one minute less of listening per person and day with respect to 2007, resulting in a reduction of the compound growth rate of 1.9% in minutes consumed for the 2004-2008 period.

Figure 4.18. Evolution of average radio consumption per person and day (minutes)

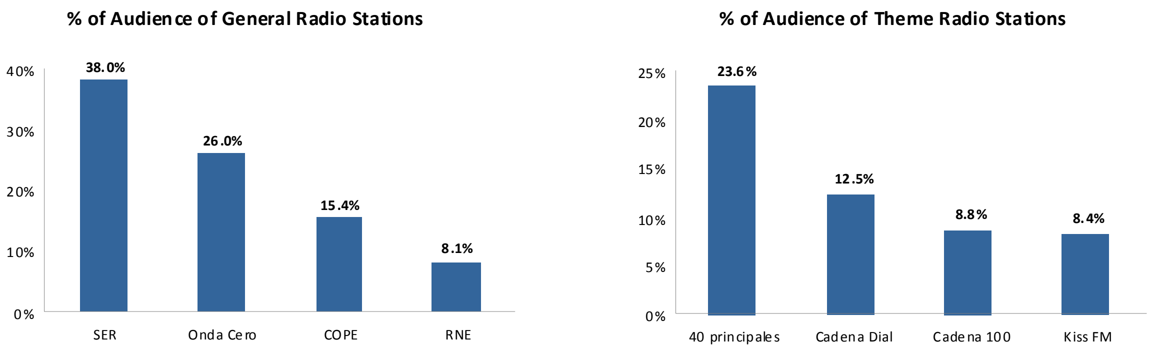


Source: CMT Annual report (2008) with AIMC data

The main factors explaining the fall in radio audience ratings are the emergence of Internet as an information and entertainment media and changes to media consumption habits, such as listening to online radio music using streaming through a device connected to the Internet.

The general interest radio stations obtaining the highest audience ratings in 2008 were Cadena SER, followed by Onda Cero and Cadena Cope. These data contrast with advertising revenue data that, as will be seen below, show that Onda Cero received less income than Cadena Cope. Of all specialised radio stations, the most popular were Los 40 Principales and Cadena Dial.

Figure 4.19. Audience ratings for general interest and specialist radio stations in 2008 (%)



Source: CMT Annual Report (2008)

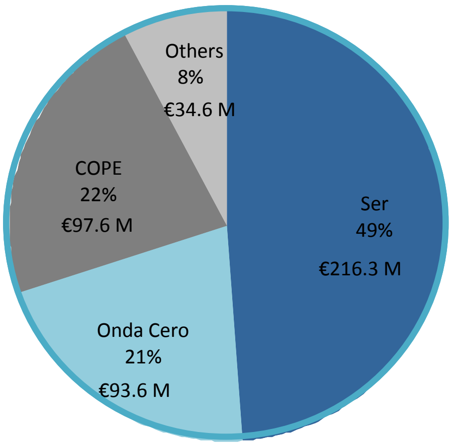
Excluding RNE (Spanish National Radio), which has no advertising revenue, the radio sector in Spain is concentrated between three main stations (SER, COPE, and Onda Cero), which account for over 92.2% of total industry revenue.

These three radio giants have seen their advertising revenue fall in favour of other radio stations. Cadena SER continues to lead the market, with audience ratings of nearly 49% and revenue of €216.3 million (3.2 million less than in 2007), 1.5% less than the previous year.

Cadena COPE registered the second highest earnings and has lost most advertising revenue, earning 7.8 million less in 2008 with respect to the previous year, a 7.4% drop in earnings. Onda Cero, on the other hand, earned €5.9 million less in 2008, 5.9% less than in 2007.

In contrast with the three leading stations, the “Others” group, (the remaining radio stations), saw revenue grow by 79.2%, bringing in €34.6 million in 2008.

Figure 4.20. Revenue of the main radio broadcasting enterprises and market shares 2008 (€M)



Source: CMT Annual Report (2008)

4.4.2. Relevant data for the sector in 2008-2009

Transition to digital radio

The process of introducing digital radio, known as DAB (*Digital Audio Broadcasting)*, or European digital radio process, is similar to the transition from analogue television to DTT.

The DAB system has a series of advantages over analogue broadcasts, including a more efficient use of the spectrum, maximum sound quality, the possibility of tuning in from any geographical situation without changing frequency, transmission of additional services (emergency warnings), data information, and also user interactivity.

With regard to the implementation schedule, the National Technical Plan for Digital Audio Radio has established the stages for implementing DAB in Spain. The first two phases have been completed, establishing coverage for 60% of the population in 2008, 9 percentage points more than in 2007, when the total coverage was 51% Completion of the third phase, planned for 31 December 2011, will make it compulsory for operators to provide coverage for 80% of the population.

There are a large number of radio broadcasters who have already broadcast on DAB, such as RNE, SER, Cope and Onda Cero, among others.

The main reasons for the delay in the takeoff of digital radio relate both to the audience's lack of awareness of this new option and to the limited number of users with receivers, since traditional radios and transistors cannot tune into DAB. This means that for digital radio to become fully established, all equipment would need to be replaced and alliances with other industrial sectors would need to be renewed, such with the automobile sector, which up to now has resisted using this kind of receiver in its vehicles.

On-line digital broadcasting

In addition to digital radio, there are other means of broadcasting radio content via the Internet, using the different options offered by this media (online radio). These include the real-time broadcasting of radio content (radio streaming) and the range of content which can be downloaded by the user (podcasts).

Because these kinds of digital radio do not use the radio-electric spectrum for distribution purposes, they are not regulated by the authorities and consequently their development and proliferation will be determined directly by the relationship between supply and demand.

4.4.3. Challenges and opportunities

One of the main opportunities faced by the radio sector in Spain lies in **digital broadcasting**, which offers advantages such as interactivity with the user and the transmission of additional information and services. The advantages detailed below represent a source of opportunities, previously unavailable with exclusively analogue transmission:

- Through the extended information channel, digital radio (DAB) transports the multiplex configuration, information on services, date and time, general data services such as radio search, emergency warning system, traffic, global positioning system, etc. It is also possible to access data associated with audio programmes: music titles, author, song lyrics in various languages, etc.

- Another feature of digital radio is the rendering of data services, where, in addition to the digitised audio signal, other information is transmitted. One example is the cancellation of credit cards.

- The new digital radio devices have liquid crystal screens (LCD), which display textual information in addition to what is being listened to. One of the other possibilities offered by digital radio is TPEG technology, a format that will revolutionise traffic information and which enables a radio broadcaster to transmit a greater quantity of information, whilst listeners are able to receive only the traffic news they are interested in. This digital service provides the most detailed possible information tailored to the listener's tastes, minute by minute updates on accidents or traffic jams. The data can also be provided in various formats: text, screen or synthesised voice. The information can also be translated into a number of different languages.

Online radio offers another clear opportunity as specific content needs to be developed for this kind of radio. Most of the major broadcasters still only broadcast their conventional programming simultaneously on their websites. The sector is evolving towards greater interactivity and personalised options, such as a la carte radio, which allows for content to be organised in such a way that listeners can download content that interests them and listen to it at any time.

5. PUBLISHING SECTOR

5.1. Key points

- The press sub-sector achieved record turnover in 2007 of €2.9 billion, 24% higher than the previous year. Digital newspaper consumption rose by 24% in relation to the previous year, with 6.4 million readers, a figure equivalent to 47.5% of readers of traditional press, 10 points more than the previous year.

- Despite this increase, the 8% decline in the press sub-sector in 2008 has had an impact on the whole industry with total revenue down by 1.49%. This downward trend is due to the 20% fall in advertising revenue of the traditional paper editions.

- There was a sharp increase in the number of digital books in the ISBN register in the first quarter of 2009, up to more than 4,000 and 109% more than in the first quarter of 2008.

- The foreign book market was worth €546 million in 2008, accounting for 15% of the total revenue for this sub-sector. This confirms the importance and the great reception Spanish literary works receive in the international market.

- Electronic books, which in Spain are worth €321 million, have started to outsell the printed versions in some countries in the case of very successful literary works. This is true of sales of books for the Amazon's Kindle device.

- The sales volume for online magazines is still in its early stages of development, offering online advertising an alternative market. In 2008 this format experienced growth in revenue of 44%.

5.2. Description of the sector

The publications market, and specifically the digital publications market, is branching out in two directions; the digital option, which is constantly increasing its weight, and the sale of printed editions as a deeply rooted sales channel in Spain.

For agents in the electronic publishing industry, this enables them to diversify their content in relation to distribution and marketing and also enables interactivity, which is more limited in hard copy formats. One possible development route for the digital publications market is to form alliances with technology companies or service providers whilst at the same time prolonging the printed edition as the best known format on the market.

Electronic editions result in huge savings on distribution and paper costs, they enable fast distribution and sales records thanks to their electronic footprint. In the fields of science, universities or literary publications, electronic publishing opens up a wide range of possibilities for improving returns. This is because, by applying the mechanisms offered by electronic publishing for promoting and distributing the works, the electronic dissemination reaches larger markets in a shorter space of time and a greater number of readers. One area of publishing that has made the most of these strengths is the scientific community.

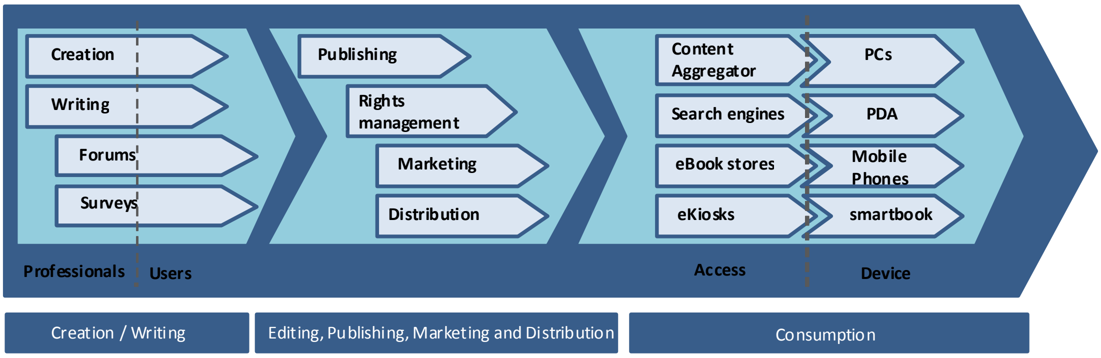
Value chain of online books, newspapers and magazines

This report develops a new and unique value chain for online books, newspapers and magazines, as these are practically identical and respond to similar production processes. Therefore, the traditional value chain, dealt with in the previous edition of this report, will not be analysed[27] here. On the other hand, it is important to highlight one particular digital value chain, the publications value chain, which has opened up its content to new devices that include the *e-reader* or 3G mobiles, PDAs and other mobile devices and is increasing contact with the user-reader as the recipient of the content (news, opinion, articles, magazines, novels).

It is worth bearing in mind that the production of physical publications is already electronic up to the distribution stage, which is when paper is used.

[27] http://www.red.es/publicaciones/articles/id/2660/libro-blanco-contenidos-digitales-2008.html

Figure 5.1. Digital value chain of the publications sector



Source: ONTSI

The digital value chain is based on the traditional hard copy model. The digital version requires a series of transformations that will be analysed in each of the stages that constitute the value chain. There are basically three stages: creation and writing; editing, publication, distribution and marketing; and consumption.

The first stage is the creation and writing of the content, produced by writers, journalists, experts, institutions, etc. In the digital model, in addition to writing copy and compiling photos, multimedia content, such as video and audio, also needs to be added and there needs to be a space - forums, blogs or surveys, for the content generated by users, who have become one of the main agents to be taken into account.

The process then moves to the editing, publication, distribution and marketing (particularly in the case of books) of the material prepared and approved in the previous stage. This process includes registering the author's rights and text formatting and layout to prepare the final version for distribution online or, in the case of books, on a CD or another digital device. This is leading to the disappearance of the traditional intermediaries, except in the case of books on physical digital devices, making way for new agents in the sector, such as content aggregators, search engines and online bookshops and kiosks.

Lastly, in the consumption stage, the online model requires a device for accessing said content, which makes it even further removed from the end consumer than the traditional model. As a consequence of this distancing, other agents are needed, such as telecommunications and broadband operators and manufacturers of electronic devices (PCs, PDAs, e-books, mobile telephones, etc.).

With regard to the magazine sector, it is worth mentioning the recent online kiosk phenomenon. These kiosks distribute digitised copies of the printed versions of magazines, which are available to download for a subscription fee. In this business model, the value chain of traditional printed magazines is maintained although digitisation is added at the publishing stage and the distribution (download) and consumption (computer-based or via a device with Internet access) stages are modified.

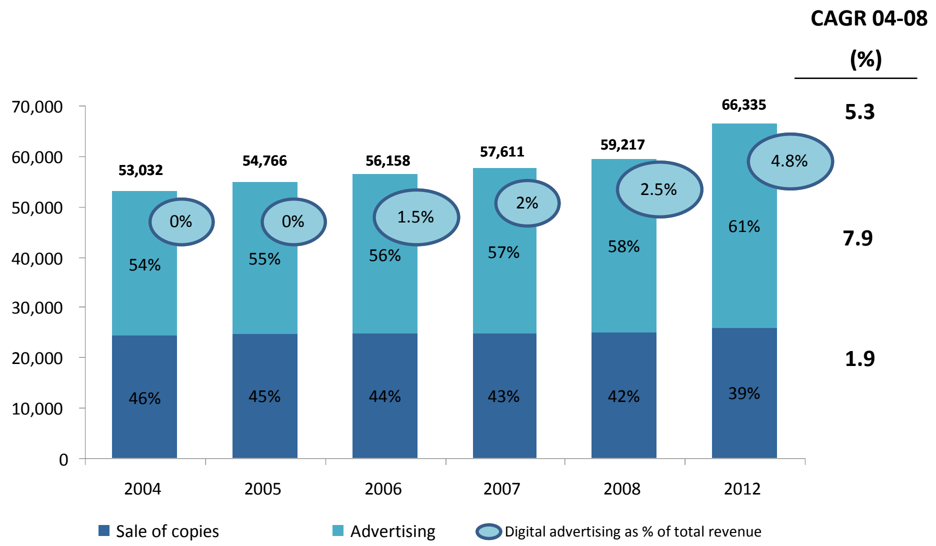
5.3. Global situation

As indicated in the previous edition of this report, the publications market is divided into three sub-sectors that, due to their specific characteristics, require individual analysis. These sub-sectors are books, newspapers and magazines.

Newspaper market

Sales forecasts for the EMEA (Europe, Africa and Middle East) region in 2008 are €59.217 billion, 58% of which will come from advertising. This means a CAGR for the period 2004-2008 of over 5% and a forecasted growth for 2008-2012 of 3% (CAGR) amounting to more than €66 billion for this region. With regard to online advertising, despite its rapid growth, it accounts for just a small percentage of total revenue, reaching 2.5% in 2008, and it will still be below 5% in 2012.

Figure 5.2. Newspaper market sales - EMEA: evolution 2004-2012 (€M)



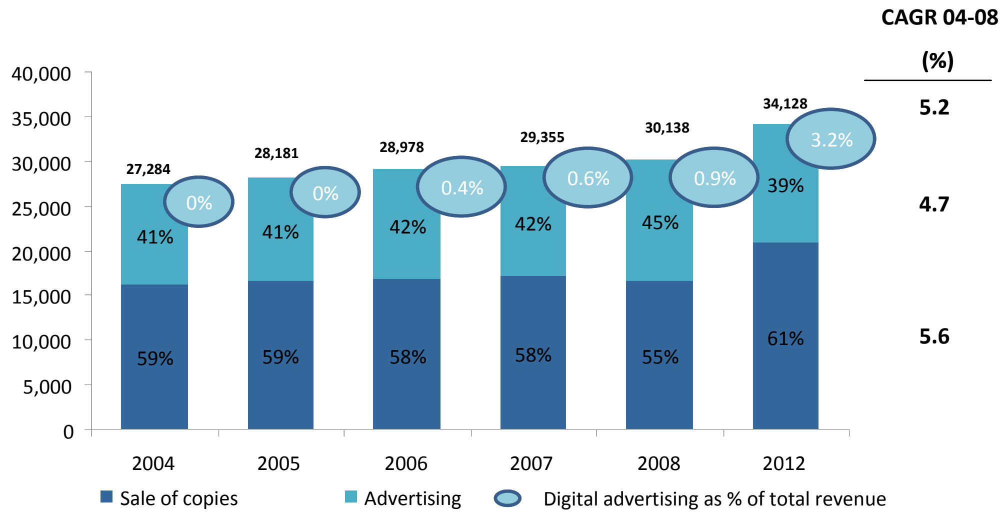
Source: ONTSI based on the "2008 White Paper on Digital Content in Spain"; PWC ("Global Entertainment and Media Outlook 2008-2012)

The magazine market

The online magazine market is still in its infancy and to date has mainly been used as a tool for promoting the printed edition.

In the EMEA region, growth in the magazine sub-sector has been constant for more than 5 years, which translates into a compound annual growth rate of over 5% for the period 2004-2008, taking the sales for 2008 to more than €30 billion. The CAGR for the period 2008-2012 is forecast as 2.5%.

Figure 5.3. Magazine market sales - EMEA: evolution 2004-2012 (€M)

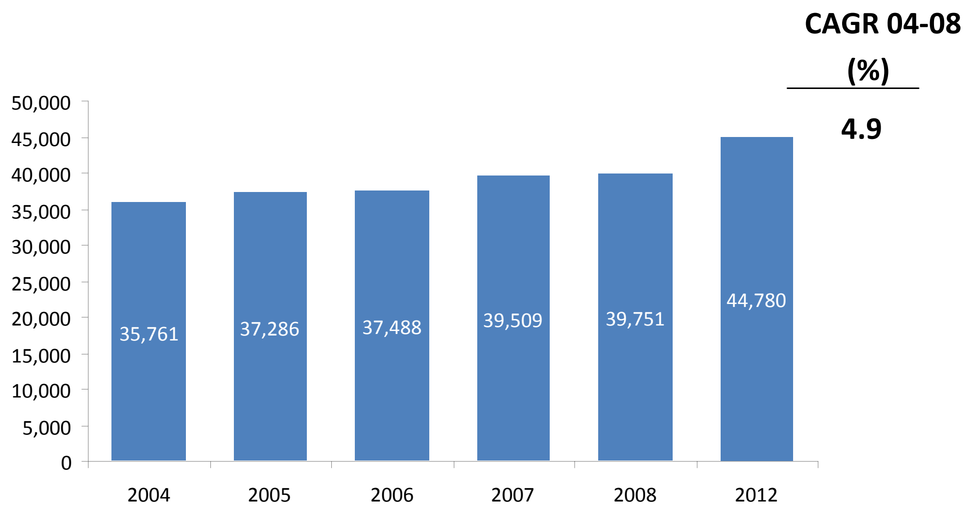


Source: ONTSI based on the "2008 White Paper on Digital Content in Spain"; PWC ("Global Entertainment and Media Outlook 2008-2012)

The book market

In 2008, book sales increased slightly reaching over €39 billion. It is expected that this sub-sector will be worth more than €44 billion in 2012 due to the proliferation of reading devices and digitisation initiatives from private companies such as Google and national, European and international public institutions.

Figure 5.4. Sales in the book sub-sector - EMEA: evolution 2004-2012 (€M)

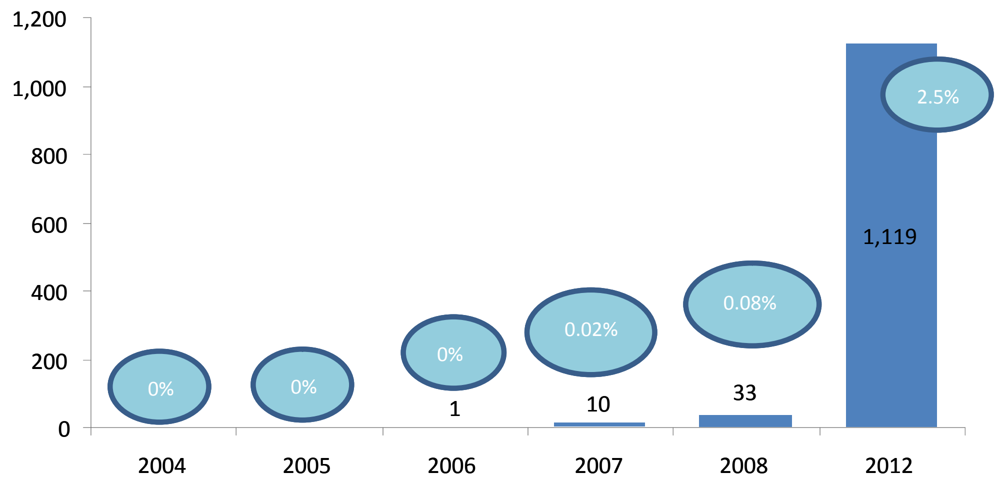


Source: ONTSI based on the "2008 White Paper on Digital Content in Spain"; PWC ("Global Entertainment and Media Outlook 2008-2012)

With regard to electronic books, these still accounted for a small percentage of the market in 2008 in the EMEA region at just €33 million, less than 1% of the total revenue for the sub-sector. However, the market is forecast to grow over the period 2008-2012 and will reach a CAGR of more than 100%, exceeding €1.1 billion[28]. Likewise, advertising revenue for the electronic book sub-sector is practically nil (0.08%).

[28] PWC "Global Entertainment & Media Outlook" 2008-2012

Figure 5.5. Sales in the electronic book sub-sector. EMEA: evolution 2004-2012 (€M)



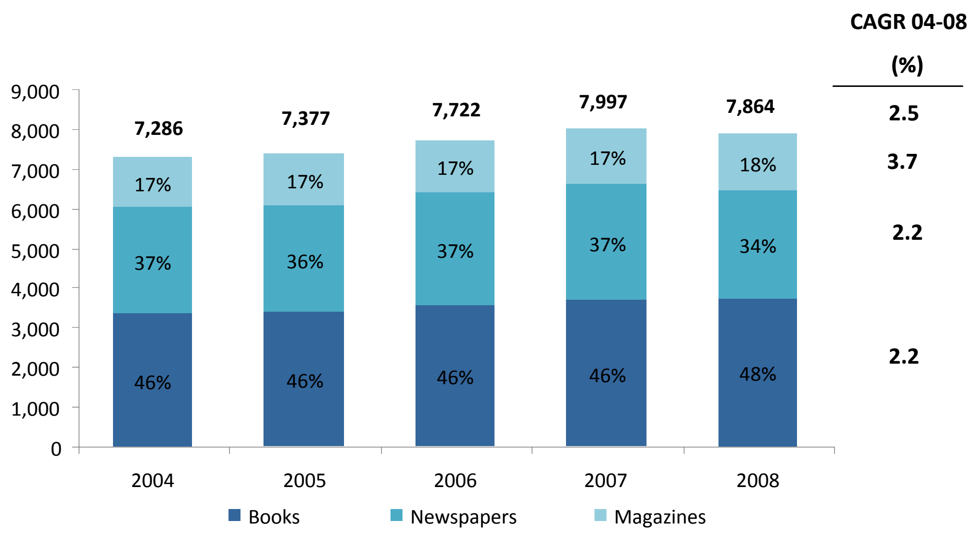
Source: ONTSI based on the "2008 White Paper on Digital Content in Spain"; PWC ("Global Entertainment and Media Outlook 2008-2012)

5.4. Situation in Spain

In terms of revenue, the **book** sub-sector still leads the publications market, with growth in 2008 of 1.4% in relation to the previous year and with sales of €3.731 billion, accounting for 48% of the total sales.

This sub-sector is followed by **press**, which achieved its highest sales figure in 2007 (€2.932 billion) and experienced a slight fall in 2008 (€2.698 billion) as a result of the decline in advertising revenue. Lastly, with growth of more than 3%, the **magazines** sub-sector, with sales of €1.435 billion, accounts for 18% of the total.

Figure 5.6. Publications market in Spain: evolution 2004-2008 (€M)

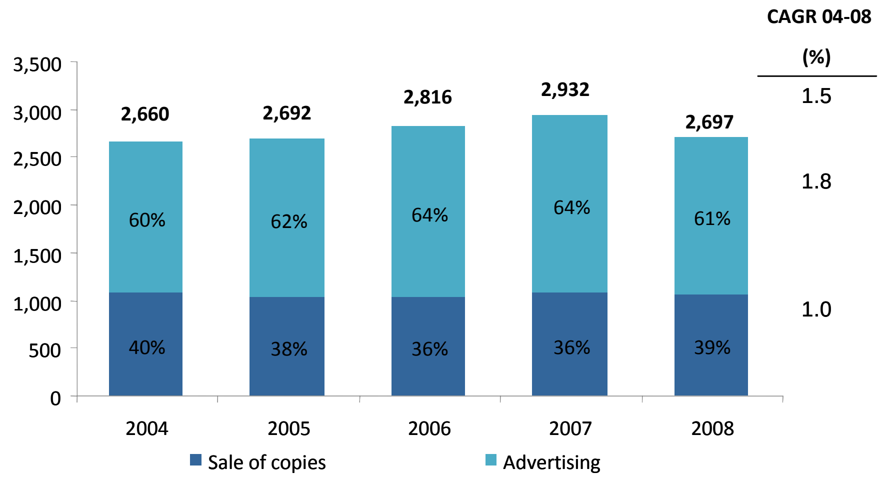


Source: ONTSI based on the "2008 White paper on digital content in Spain"; AEDE ("White paper on the daily press"); Spanish Federation of Publisher's Guilds ("Domestic book trade in Spain); FEDECALI (Spanish Federation of Book Chambers"), "Foreign Book Trade" and PWC, GEMO 2008-2012

Newspaper market

According to the AEDE (Association of Spanish Newspaper Publishers), in 2007 the Spanish newspaper market had a maximum turnover of €2.932 billion of which 64% came from advertising. However, the economic crisis of 2008 has led to a dramatic fall in advertising revenue, bringing revenue down to €2.697 billion. However, unlike in the rest of Europe (-1.5%), newspaper sales remained almost stable in 2008, registering a slight fall of 0.6%.

Figure 5.7. Newspaper market sales: evolution 2004-2008 (€M)



Source: ONTSI based on the "White paper on digital content in Spain"; AEDE ("White paper on the daily press"); Spanish Federation of Publisher's Guilds ("Domestic book trade in Spain, 2009) and FEDECALI (Spanish Federation of Book Chambers"), "Foreign Book Trade 2009"

This fall in newspaper sales is due in part to the proliferation of online press, which according to the EGM (General Study of Media), will account for more than 30% of audience penetration by the end of 2009 (10 points less than the printed press). The free press, circulating more than 2 million copies per day, will account for 35% of dissemination.

Figure 5.8. 2008 distribution ranking for paid Vs free press

Rank	Paid press	Promotio	Rank	Free press	Promotio
1	EL PAÍS	431,033	1	20 MINUTOS	789,094
2	EL MUNDO	323,587	2	QUÉ!	741,367
3	MARCA	296,353	3	ADN	689,743
4	ABC	251,642	4	CRÓNICA DEL SURESTE	65,570
5	AS	230,306	5	LV DE LUNS A VENRES	37,944
6	EL PERIÓDICO	217,607	6	MES TARRAGONA REUS COSTA DAURADA	24,225
7	LA VANGUARDIA	201,859	7	BONDIA LLEIDA	15,012
8	LA RAZÓN	154,410			
9	EL PERIÓDICO DE CATALUNYA	152,025			
10	EL CORREO	115,365			

Source: ONTSI based on OJD

With regard to estimated growth over the next few years, a compound annual growth rate of 1% is forecast for the period 2008-2012. As regards online newspaper consumption, growth in this market is exponential with the sector's leading online publication (El Mundo) moving from 277,878 unique users in 2006 to 20 million in August 2009, double the figure reached in 2008 (10 million).[29].

Figure 5.9. Ranking of online press distribution. Thousands of users

Rank	Periódico	Nº usuarios DIC-2008	Nº usuarios AGO-2009	Variación
1	EL MUNDO	10.527	20.158	91,5%
2	EL PAÍS	N.a	N.a	N.a
3	VOCENTO	13.311	N.a	N.a
4	20 MINUTOS	6.334	8.075	27%
5	ABC	5.456	N.a	N.a
6	ADN	1.349	N.a	N.a

Source: ONTSI based on OJD, Alexa and Google Trends

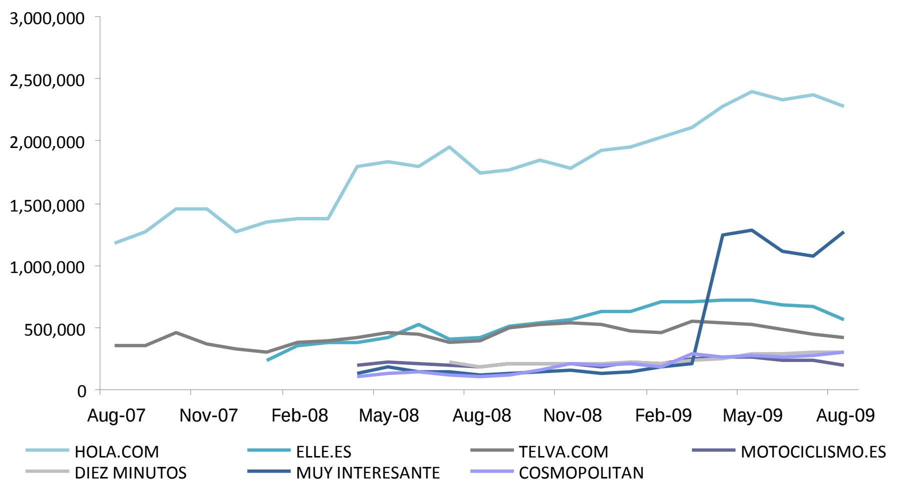
The magazine market

In Spain, as in the rest of the world, the online magazine market is still in its early stages with CAGR of 2.5% for the period 2004-2008. Its growth in the last year put sales revenue at €1.435 billion with growth of 3.5% in relation to 2007. This is in keeping with the expected growth for the period 2008-2012 (CAGR).

As can be seen in figure 5.10, in the online magazine market there has been hardly any increase in the number of users over the last few years, with only one publication reaching 2.5 million and the following publication reaching a figure less than half that.

[29] OJD, 2009

Figure 5.10. Unique users of online magazines



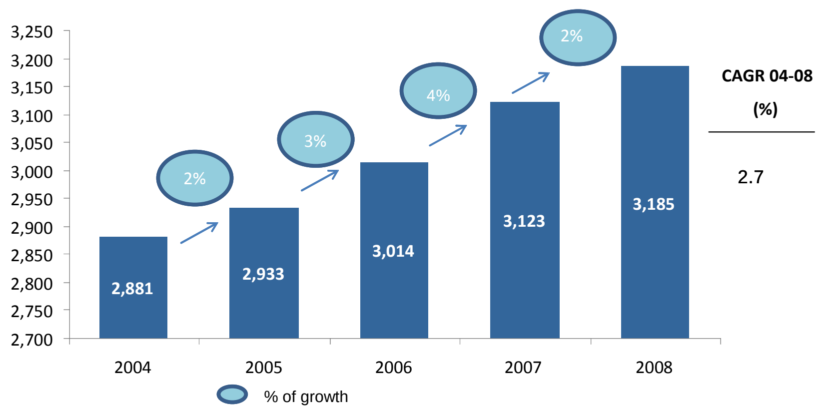
Source: ONTSI based on OJD

The book market

In 2008, growth in the book market in Spain fell to 2%, with sales reaching €3.185 billion. This growth will remain constant for the period 2008-2012 with sales in 2012 of more than €4 billion.

It should be pointed out that this sector shows a positive balance with regard to exports, with the foreign market (€546 million) accounting for 15% of total revenue.

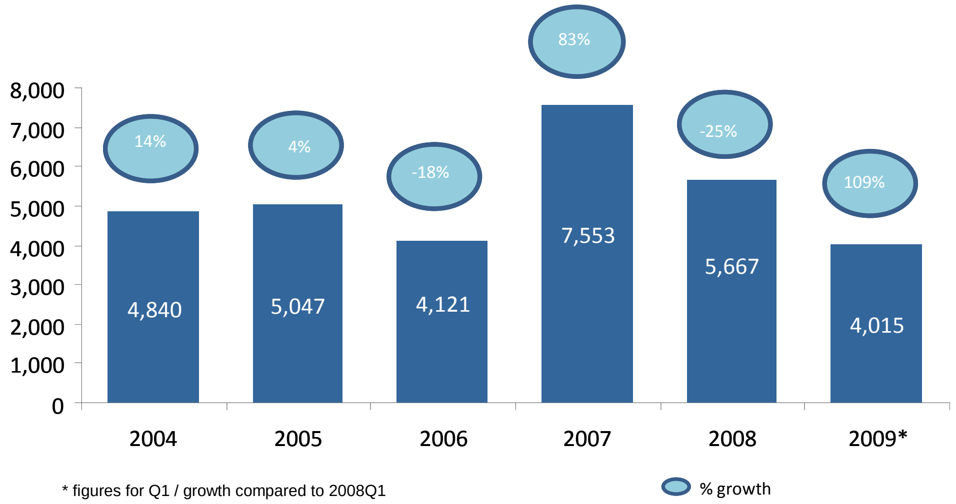
Figure 5.11. Domestic book market in Spain: evolution 2004-2008 (€M)



Source: ONTSI based on the "White paper on digital content in Spain"; AEDE ("White paper on the daily press"); Spanish Federation of Publisher's Guilds ("Domestic book trade in Spain, 2009) and FEDECALI (Spanish Federation of Book Chambers"), "Foreign Book Trade 2009"

The digital element of the publishing business in Spain has seen sustained growth over the last few years with a CAGR of 5.9% for the period 2004-2008. It is particularly significant that during the first quarter of 2009, more than 4,000 electronic books were sold, a 109% increase over the same period for the previous year.

Figure 5.12. Electronic books registered in the ISBN: evolution 2004-2009



Source: ONTSI based on the Ministry of Culture

Electronic publishing

Electronic publishing in Spain (which includes publishing in digital formats such as CD-Rom or DVD and online publishing), has been evolving upwards and currently accounts for 8.1% of all publications (8,447 new titles) and 10.1% of sales volume of the Spanish domestic book trade, worth a total of **€321.73 million.**[30]

More than half of the titles are published on CD-Rom, although the highest percentage of sales comes from DVD sales, worth €112.92 million (35.1% of the total). Sales for online publishing stood at €42.5 million (13.2% of total sales for electronic publishing).

[30] Ministry of Culture, The Book and New Technologies. The Electronic Book. September 2009

5.5. Significant data for the sector in 2008-2009

Online newspapers and magazines

As a result of the decline in advertising revenue within the press sub-sector, the main publishers, both globally and in Spain, are turning to the justice system to fight against what they believe to be a violation of their rights. In 2009 there have been numerous rulings against clipping[31] companies, which are being urged to cease their activity or acquire copyrights that would provide some revenue for the daily press.

Another ongoing battle at the moment is that of news aggregators such as Google News[32] from whom advertising revenue is being claimed. One of the solutions being considered by North American publishers is to make themselves non-profit associations (cultural foundations). They would then enjoy fiscal benefits that would enable them to survive in the sector[33].

Digital books and a la carte publishing

The unstoppable growth in digital books has led to numerous private initiatives for digitising the catalogue archives of universities and libraries both world-wide and in Spain. One good example is the recent agreement signed between Google and the Biblioteca de Cataluña (National Library of Catalonia) to digitise 35,000[34] books from their catalogue.

Another initiative that has come about is the exclusive agreement between El Corte Ingles and the company Inves to sell a reading device to reactivate its online book store service, which has more than 10,000[35] titles. Lastly, it is important to stress the revolution that all these events have brought about in the mobile device industry, both telephones and computers, in order to capture a large part of this new consumption model.

Also, the marketing agent Amazon already sells more digital editions of its *Kindle* format (electronic reading device) than printed copies of some best sellers such as Dan Brown's book *The Lost Symbol*. This is mainly due to the fact that this format comes at a more affordable price.

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[31] http://www.expansion.com/2009/05/21/empresas/medios/1242939834.html

[32] http://www.prnoticias.com/index.php/component/content/article/59/10033941-la-aede-carga-contra-los-agregadores-de-noticias-

[33] http://www.surysur.net/?q=node/9993

[34] http://www.elmundo.es/elmundo/2009/07/27/barcelona/1248692472.html

[35] http://www.lne.es/sociedad-cultura/2009/08/16/corte-ingles-espana-libro-electronicobr/796074.html

Print on demand systems are being progressively introduced into the world of books, especially in advanced countries such as the United States, where the number of books produced using this technology increased by 132% between 2006 and 2007. The possibilities offered by this system are being exploited not only by companies from the sector but also by machinery manufacturers and others such as content providers. Notwithstanding this, it is still uncertain how this system will evolve, especially with regard to the quality of the books published and the demand for books published using this technology (economic accessibility, that is, price, of the content).

5.6. Challenges and opportunities

The sales volume of the online publications sector is still in its early stages of development, especially in the case of magazines. New technologies, such as *bidibooks,* open up the sale of multimedia content to hard copies of books and magazines through the use of mobile telephones. Also, the linking of off-line and online formats will provide a boost to *Long tail* content, generating new businesses based on this content. (E.g. web communities of best-sellers or *bidibooks*).

With regard to the benefits and use of the Web 2.0, efforts are being made within the publishing sector to include these kinds of applications on their respective websites, associating them with their products, acting as aggregators for user generated content. There has been significant growth in relation to the figures for 2005, although there is still some way to go in this area.

Apart from fostering relevant, quality digital content for newspapers and magazines, the sector's situation also requires a reduction in production costs as well as finding new sources of funding and ways of generating synergies. One of these ways is funding through subscription, which is still latent in Spain.

The search for alliances with news aggregators and the development of a new mutually beneficial business model are essential to guarantee the survival of both business models.

The development of cheaper reading devices will revitalise the consumption of electronic books, above all in the field of teaching, and the digitisation of historical catalogues will safeguard the cultural value of works that would otherwise be lost.

6. ADVERTISING SECTOR

6.1. Key points

- In 2008, Internet advertising recorded growth of 26.5% compared to the previous year, making it the media with the highest growth rate in Spain. However, its weight is still less than 10% (610 M€) of the total sector.
- World-wide, expenditure on Internet advertising grew by 10.5% in 2008, with this rate expected to be maintained through 2009 and an increase of up to 15.1% in 2011.
- In Spain more than 50% of advertisers expect to increase their investment in interactive media in 2009.
- In 2010, the global market in mobile marketing will be worth close to €5.846 billion, while in Spain it is forecast that investment will reach €105 million in 2010, which means an average annual growth rate of around 100%.
- Mobile telephones and geolocation tools will become key to personalising advertising in spatial-temporal dimensions.
- There has been a sharp increase in revenue from online advertising, with a compound annual growth rate of 52.2% in the period 2004 to 2008. It now accounts for almost 9% of all advertising revenue.
- In some countries, such as the United Kingdom, investment in online advertising has for the first time overtaken television advertising, with a growing trend towards using interactive media that are more effective and have a greater impact.

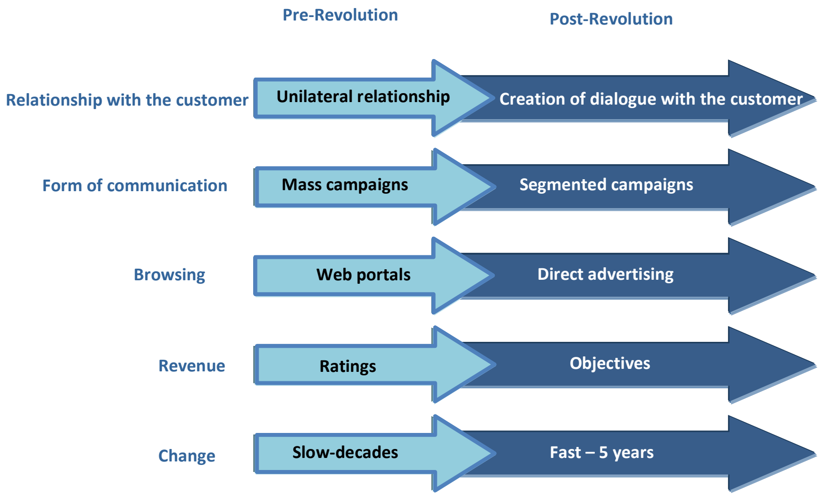
6.2. Description of the sector

Like the other sectors that comprise the digital content industry, advertising, which as the main source of funding for new business models is at the heart of all the other sectors, is immersed in the same conversion process. Said revolution is reflected in the new way of communicating, in changing relationships with clients and in the search for the ideal medium for generating revenue through effective campaigns.

Thus the digital phenomenon marks two different stages in advertising techniques: the pre-revolution stage in which there was no immediate feedback from the customer and instead advertisers maintained a unilateral relationship with their target audience; and the post-revolution stage of the digital era, in which two-way communication is a basic feature of advertising communication and an intrinsic characteristic of digital media (Internet, mobile, DTT). This is one of the reasons why the Internet (PC and mobile), as an advertising media, experienced growth of 26.5% in 2008.

The second distinguishing feature of this digital revolution is the way communication is carried out, moving from mass campaigns, typical of media such as television and newspapers, to more segmented campaigns in which the number of impacts is less but which are much more effective than those carried out via traditional media. Here lies one of the challenges or questions for the sector: how to measure new audiences and quantify the true cost in terms of effectiveness. For example, new contracting models have been developed such as pay-per-call, in which the effectiveness of campaigns is extremely high compared to pay-per-view, since the customer can interact and request more information about the product via the telephone.

Figure 6.1. The digital revolution



Source: Mobile World Conference 2008

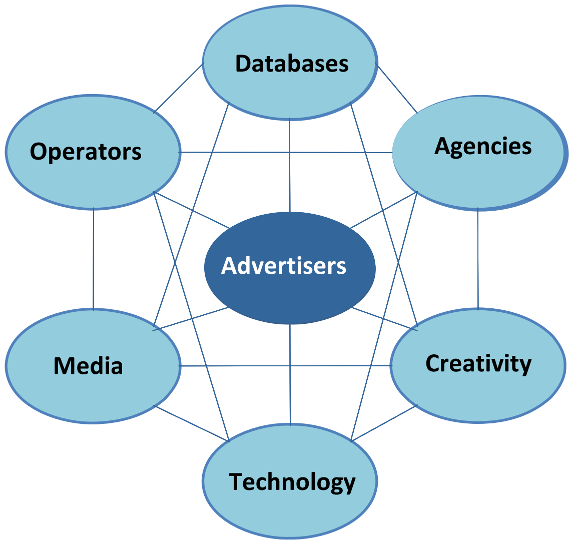
In this way, revenues are defined by different objectives set out for each specific campaign (response time, target audience reached, etc.). So that all the elements that mark the change from one stage to another are accepted as normal by the customer, the basic aim of the advertising campaigns will be to use interesting information to persuade the consumer without becoming intrusive.

With this new approach, current tools, for example geolocation tools, start to generate demand, adapting themselves to the spatial-temporal circumstances of each individual in the form of segmented and even personalised advertising campaigns. Hence the mobile, with all the possibilities offered by 3G technology, is one of the tools with the best forecasts for new business models for digital content.

The new value chain for advertising

However, these circumstances have not only had a decisive affect on demand but also on supply, and all the agents in the value chain who make them possible have seen their roles change to a greater or lesser extent, changing the rules of the game.

Figure 6.2. Value chain for mobile advertising

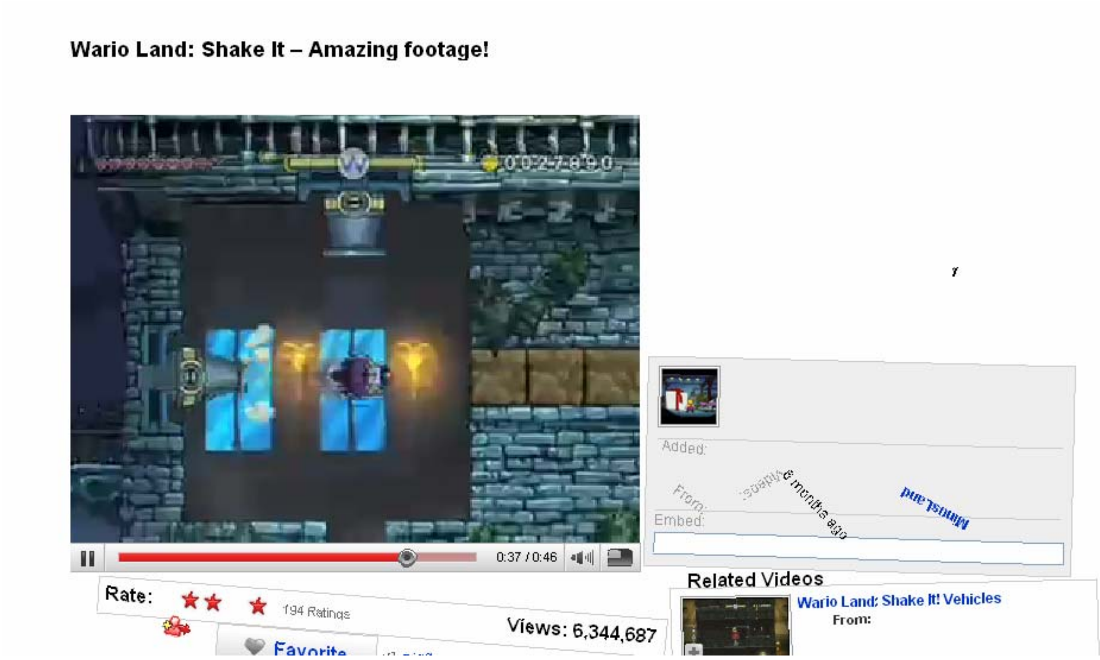


Source: Mobile World Conference 2008

The agents' traditional linear chain has changed, giving way to a situation of interdependence between all the existing agents and the new ones, such as agencies, media, operators, etc. raising the complexity of advertising products. Also included in this context are the transfers of audiences from one medium to another. A certain form of customer loyalty has arisen, or rather, characterisation of the consumer and their consumption objectives in relation to the medium used. For example, individuals find themselves in a more passive situation as television viewers than when they are browsing the Internet, which involves more activity and conduct that has a more defined purpose and is not merely receptive. This means that agents have to adjust their campaigns to suit the medium, making it necessary to move advertising campaigns from one medium to another.

One clear example of alignment with the medium was the promotional campaign for the video game *Wario Land* on *Youtube*, which led to the campaign being highly successful in reaching a wide audience: the video received six million hits[36].

[36] http://www.youtube.com/wariolandshakeit2008



Thus we are observing a trend among some advertisers to move away from investing in more traditional forms of media in favour of more interactive forms. According to the latest report from the EIAA (European Interactive Advertising Association), European advertisers are making this change in order to maximise their investment. A total of 70% say they plan to increase their investment in online advertising in 2009, maintaining it at 21% in 2010 and 15% in 2011. In Spain more than 50% of advertisers also expect to increase their investment in interactive media this year. However, advertising budgets have not grown, apart from a few exceptions, and instead investment is taken away from television, newspapers and magazines.

The increased use of digital media highlights the value of this medium due to the higher numbers of consumers who are now using the Internet. In 2008, weekly Internet use in Europe was 28% higher than in 2004. This medium also enables advertising campaigns to be channelled due to the segmentation of audiences; in this sense, in Spain, the sectors with the greatest advertising presence on the Internet are those that have picked up on their customers' interest in acquiring information about their products via this medium.

The telecommunication and Internet sector, with investment of €204 million, takes first place among sectors in Spain. Telefónica, France Telecom and Vodafone were in third, tenth and twelfth place in the ranking of Internet advertisers in 2008. The finance (€188 million), energy, (€177 million) and automobile sectors (€165 million) are the next sectors to have increased their niche market in this interactive medium.

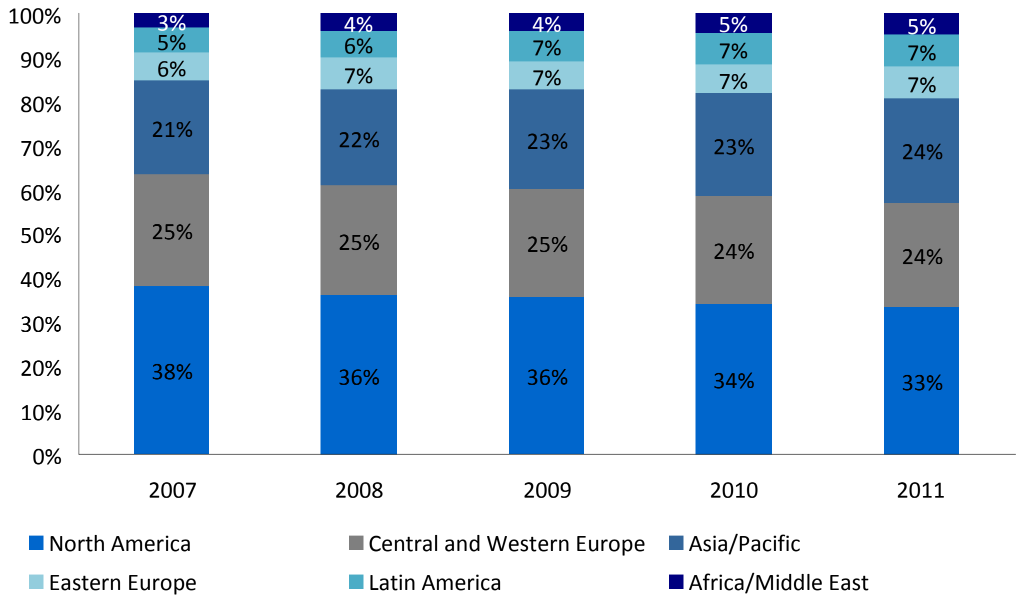
6.3. Market situation world-wide

In 2008 world-wide expenditure on advertising stood at €266.551[37] billion, meaning an annual growth rate of 1.3% in relation to the previous year. This was fuelled by the sharp growth in Africa (22.4%), Latin America (14.5%), Eastern Europe (12.5%) and Asia (3.2%) with North America, and Central and Western Europe the only world regions that experienced a decline, of 3.7% and 1.1% respectively.

Despite the sharp growth experienced in most continents, the increase in global expenditure on advertising was not that high. This trend is set to continue with little variation, even into 2011 when the figure for Asia will rise by 2%, discounted from the North American continent.

As an advance indicator of the online advertising sector in the international markets, it is important to point out that, for the first time, Internet advertising overtook television advertising in the United Kingdom.

Figure 6.3. Proportion of expenditure on advertising by world region



Source: ZenithOptimedia 2009

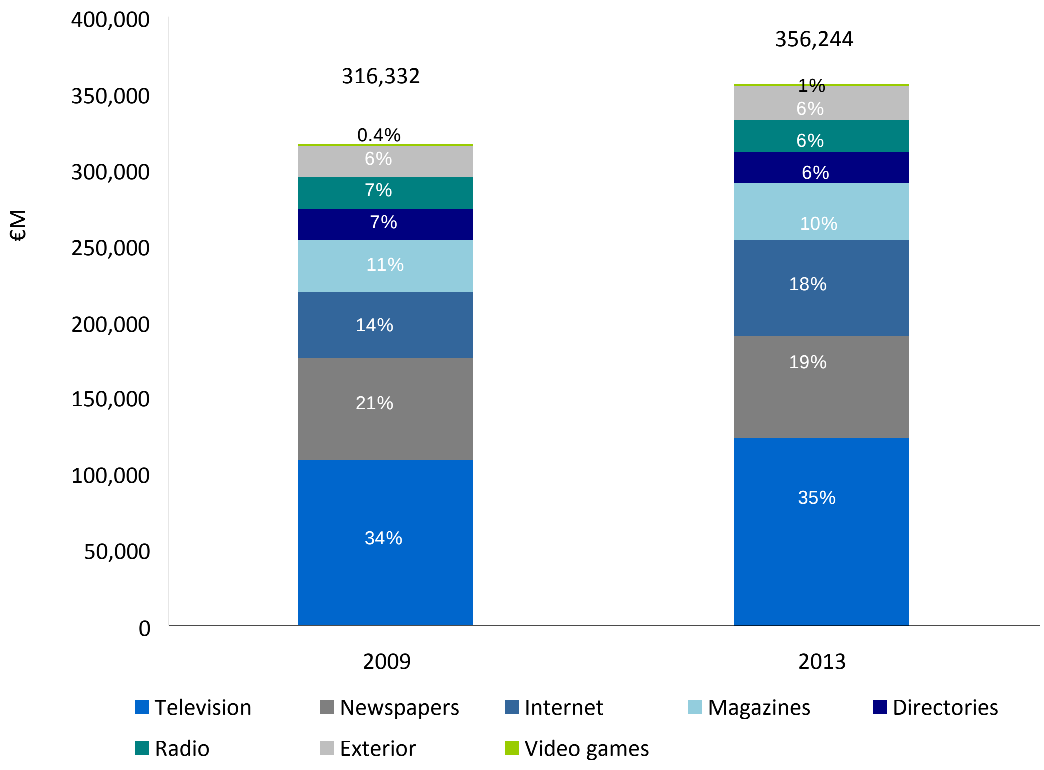
Analysing the distribution of advertising by medium, on a global scale, television stands in first place in 2009, maintaining this leadership up to 2013

[37] ZenithOptimedia, 2009

and accounting for 34% of global investment. Newspapers, Internet and magazines together account for more than 40% of the remaining investment, and in the space of just a few years, the online medium has managed to reach third place in sales, with figures of €42.912[38] billion in 2009; sales are forecast to reach €63.383 by 2013.

Along with this sector, advertising on video games, commonly known as *Advergaming*, will see a compound growth rate over the aforementioned period of 13.4%, although its representation in overall advertising sales world-wide is still very small, with a forecast for 2013 of 1%.

Figure 6.4. Forecast growth in conventional advertising and video game advertising world-wide



Source: PWC 2009

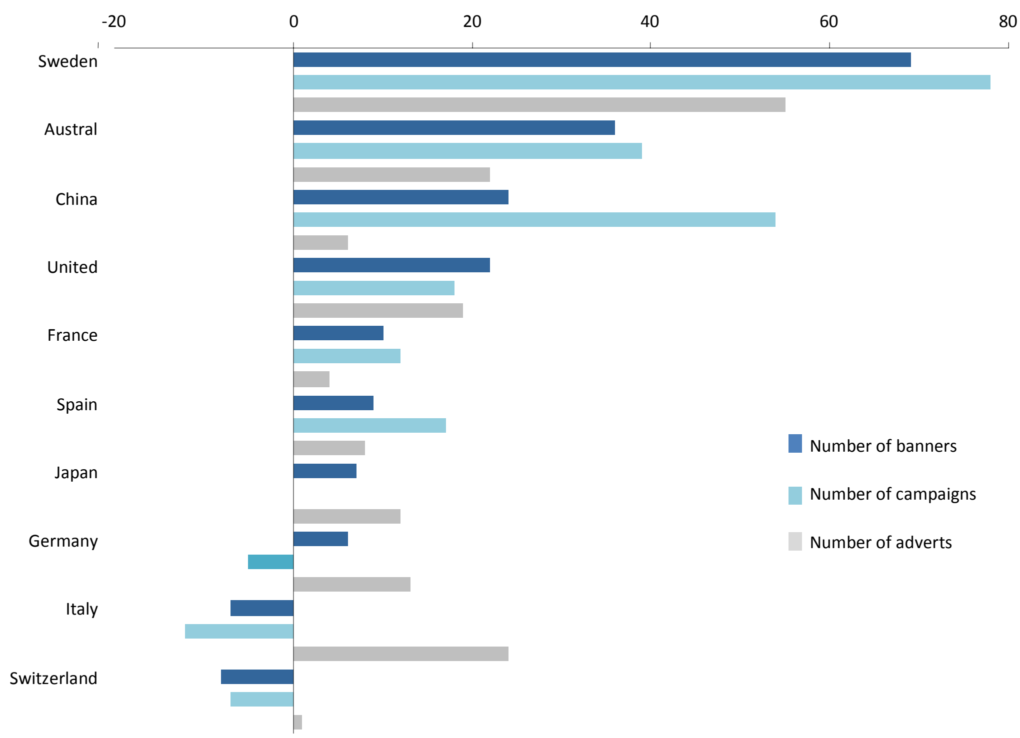
The fact that Internet advertising has so rapidly become a benchmark media is due to its characteristics of transparency, flexibility and simplicity with regard to the rendering of accounts. The majority of this media's revenue will continue to come from payments for positioning on search engines. This has led Microsoft to launch its new search engine, *Bing*, which has been set up as

[38] PWC, June 2009

a rival to *Google* and will encourage innovation in search systems, bringing us ever closer to what is known as the semantic web and intelligent searches.

Key indicators of this positive evolution of world-wide online advertising include the growth experienced in the countries that are most representative both in terms of the number of banners and the number of campaigns and adverts. In 2009, most of the countries analysed used a greater number of banners, with Sweden heading the table in Europe with an increase of more than 60% in relation to the previous year, followed by the United Kingdom, France and, in fourth place, Spain. Although Australia is ahead of China in its use of banners, China has carried out a higher number of online campaigns. The only countries to have experienced a decline in this kind of advertising are Italy, Switzerland and Germany.

Figure 6.5. Indicators of the evolution of online advertising



Source: Nielsen AdRelevance

All these indicators show that there is a trend, both world-wide and in our country, of progressive adaptation of companies' advertising campaigns to a more digital format.

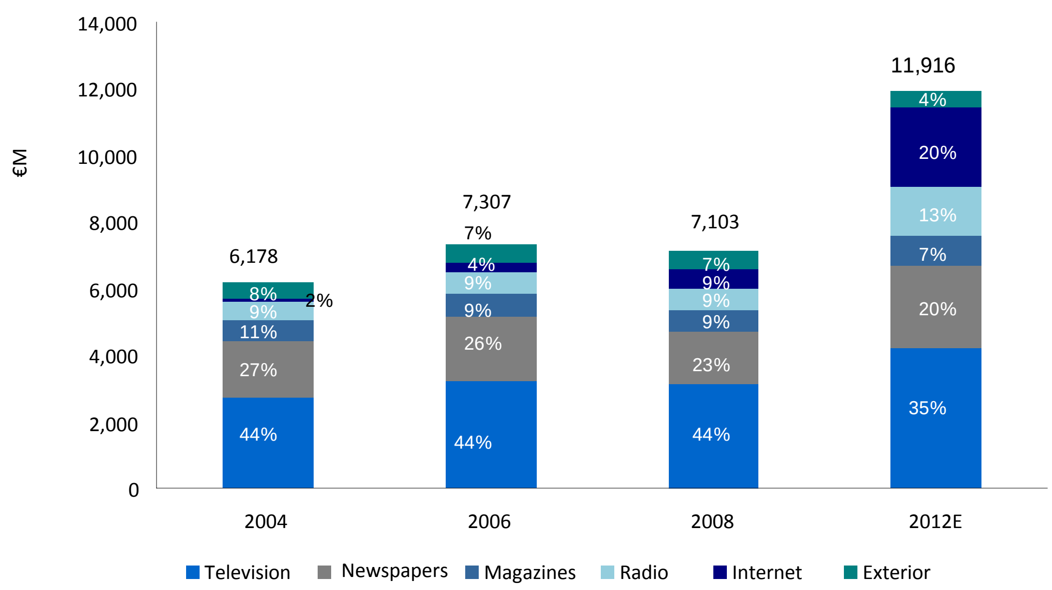
6.4. Situation in Spain

The advertising market in Spain was worth €14.9153 billion in 2008, of which conventional advertising, which includes the sectors belonging to the digital content industry, accounted for €7.1025 billion, representing 0.65% of Spanish GDP.

As in the rest of the world, we have seen the speed with which, due to Internet penetration, the industry has taken off in Spain as a communication media for brands and products, going from 2% of total advertising expenditure in 2004 to 9% in 2008 and is forecast to reach 20% by 2012, taking a market share from what are considered to be traditional forms of media (television, radio, magazines). Despite this growth, in 2008 television was still the main medium used by advertisers for their communication campaigns, reaching an estimated investment figure of €3.102 billion, followed by newspapers with €1.612 billion and equally by magazines, radio and Internet with estimated investment of just over €600 million for each sector (617.642 and 610 respectively).

The slowdown in 2008 has been felt by all the conventional advertising media except for Internet advertising which has continued to grow with a percentage of 16.7%.

Figure 6.6. Conventional advertising market in Spain (€M)

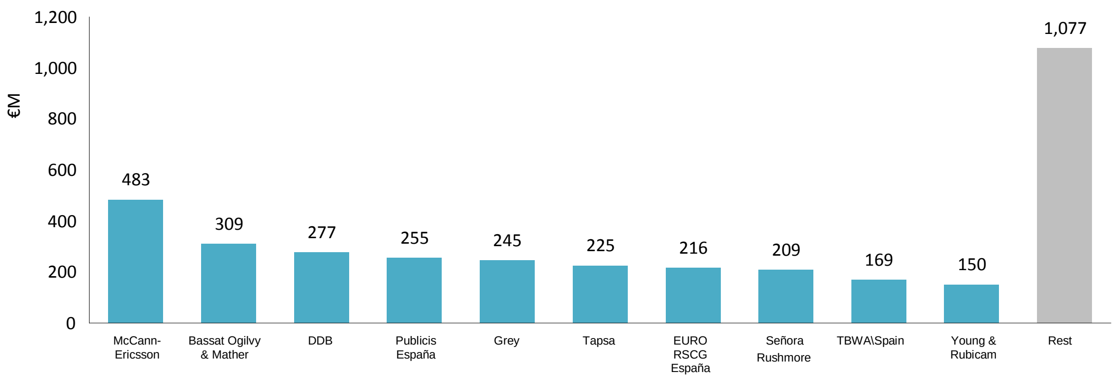


Source: Infoadex 2009 and PWC

Despite the decline, caused mainly by the global crisis and the adaptation to the new market situation, it is expected that the sector will undergo average annual growth of 13.3% to 2012, mainly supported by the sharp growth in Internet advertising (CAGR 08-12: 40.3%) and radio advertising (CAGR 08-12: 23.8%)[39]. Conventional advertising will be worth €11.916 billion, with Internet becoming the media with the third highest investment levels behind television and newspapers, the latter taking just €128 million more in revenue than the online media.

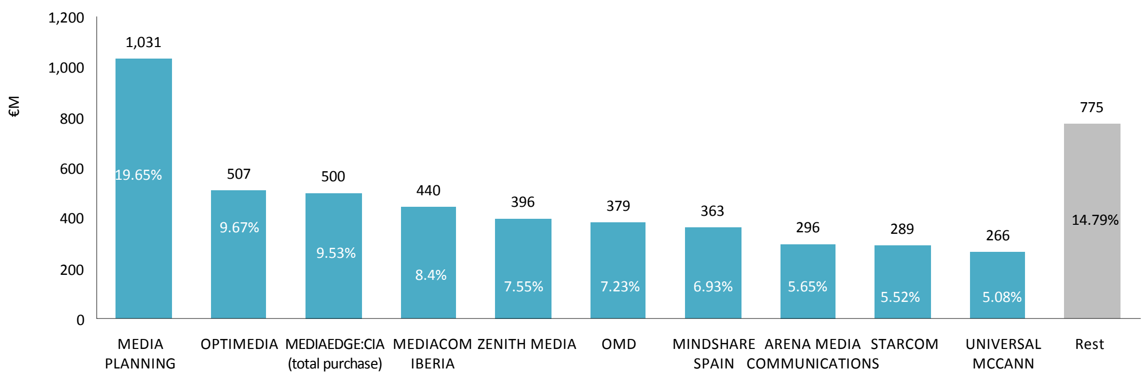
However, this new situation has not had a decisive effect on the sector's supply, which is still highly concentrated. In 2007, the 5 leading media centres accounted for 54.8% of estimated real investment and the 5 biggest advertising agencies for 43.4%. McCann-Erickson is still in first place, while DDB and Tapsa have seen their sales revenue fall, although not significantly.

Figure 6.7. Advertising agency sales in 2007



Source: Infoadex 2009

Figure 6.8. Media centres sales in 2007



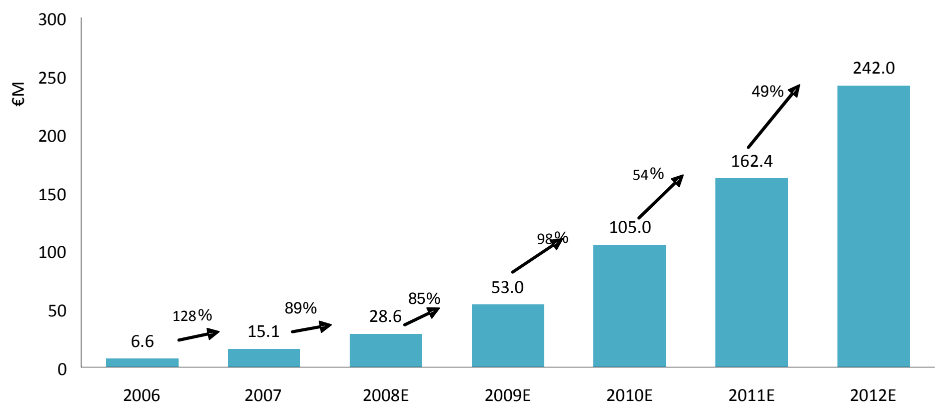
Source: Infoadex 2009

[39] PWC, "Global Entertainment and Media Outlook: 2008-2012".

Advertising agencies, media centres and advertisers are all becoming aware of the strong potential mobile advertising is starting to acquire. By using geolocation, ad campaigns can be personalised to take into account the spatial-temporal parameters of each individual. This medium could become a powerful resource for company communication strategies due to its capacity for segmentation, the possibility of interacting with the end user and the ease with which campaigns can be measured.

In 2010, the world-wide mobile marketing market will be worth close to €5.846 billion, while in Spain it is forecast that investment by 2010 will reach €105 million, an average annual growth rate of 100%. In 2008 it had a market volume of €28.6 million.

Figure 6.9. Evolution of mobile marketing in Spain

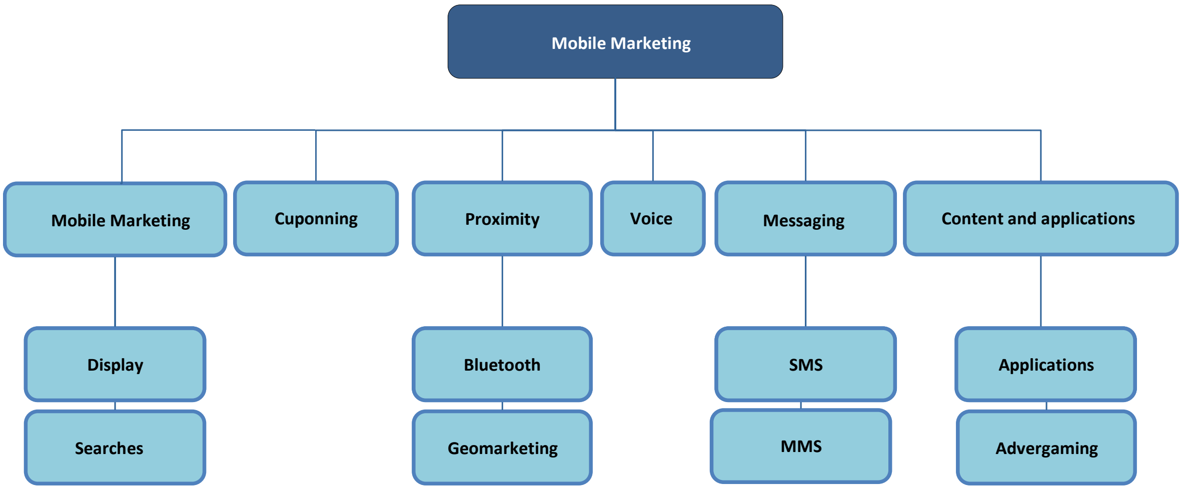


Source: Accenture based on quantitative survey, MMA associates Spain 2008

Mobile marketing can be divided into different types. Mobile advertising campaigns in the strictest sense refer to Internet searches and [40]display, which in 2008 accounted for €9.5 million in sales. In second place in terms of importance is proximity marketing carried out using bluetooth or geomarketing, which was worth €9 million. In third place, applications and specific advertising content for mobiles is estimated to have been worth €6.5 million that year. This includes *advergaming* or specific video game advertising for mobiles. Finally, messaging, both SMS and MSM, was recorded €3.4 million in sales.

[40] Display:Complete download that enables the user to view all the site's content.

Figure 6.10. Type of mobile marketing



Source: MMA 2008

6.5. Relevant data for the sector in 2008-2009

The previous forecasts will be modified following the effective introduction of Law 8/2009, dated 28 August, on the financing of the Spanish Radio and Television Corporation (TVE). The application of this law will lead to the progressive phasing out of advertising on national public television in Spain, which will affect the audience, investment and the distribution of advertising revenue of other media outlets. This new measure will mean that Spanish Television will be sustained, on one hand by increased funding in the National Budget and, on the other hand and in different proportions, by a group of agents who benefit to a greater or lesser extent from the application of this law. As a result, part of TVE's funding will come from the application of a 3% tax on the revenue of open commercial television operators, 1.5% for pay television operators and 0.9% for telecommunications operators. According to estimates from GroupM, the TVE budget for 2010 could reach €1.2 billion, €100 million more than in 2009.

Figure 6.11. Estimated distribution of TVE funding in 2010

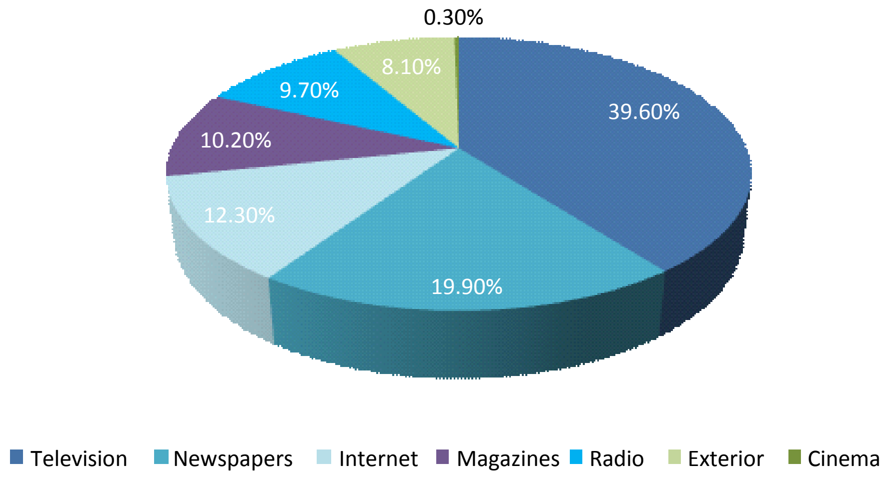
	2010
General National Budget	€502 M
Private Television tax	€131 M
Telecommunications operator tax	€230 M
Canon for use of the Radio-electric Spectrum	€320 M
Revenue from marketing of products and services	€17 M

Source: GroupM 2009

This forecast increase in Spanish Television funding leads us to assume that the quality of content on Spanish TV will remain the same or will improve, which, together with the disappearance of commercial breaks, suggests there could be an increase in the number of viewers, especially for prime time television.However, this possible increase in the share of viewers could be counteracted by the new restrictions established by the recently approved law, in relation to the limits on purchasing sports events, the obligation to buy European and national films (increased to 20%) and, lastly, filling the space left by advertising with new programmes, which will require an increase in investment to purchase new audio-visual content.

On the other hand, the investment could be divided between other forms of media, based on the degree of similarity between the TVE target audience and each of the different media to which the audience will move. One hypothetical but possible scenario is that television will see its representation in the advertising sector reduced by 40% to the benefit of Internet, radio and magazines.

Figure 6.12. Forecast changes in share of investment of different media by 2010



Source: GroupM 2009

On the other hand it is worth noting that in September 2009 the advertising sector in the UK reached an important milestone, when investment in Internet advertising overtook television advertising for the first time.[41] Expenditure on online advertising, which includes classified adverts, e-mail campaigns and ad windows or pop-ups, grew by 4.6% in the first half of 2009, while TV expenditure fell by 16.1%. All together, 23.5% of advertising budgets correspond to the Internet compared to 21.9% for TV. In concrete figures, €697 million were invested in online advertising in this country compared to €637 million in television.

41 http://www.elpais.com/articulo/tecnologia/publicidad/internet/supera/primera/vez/television/Reino/Unido/elpeputec/20090930elpeputec_10/Tes

6.6. Challenges and opportunities for the industry

Growth in the use of digital media, Internet and mobile, will depend on the evolution of terminal and network rates as these constitute the basic infrastructure and equipment for viewing digital content.

Another determining factor is improving consumer protection, especially in relation to the collection of databases, which become powerful tools for ensuring the efficiency of advertising campaigns via mobile telephony.

Likewise, regulation of the terms and conditions for carrying out proximity marketing, based on geolocation, will help ensure citizens consider advertising as a key tool for obtaining information as opposed to an intrusive medium that overwhelms consumers by bombarding them with messages. This will also depend on the strategy and management of this type of marketing by those who operate in the market.

The problem of how to measure the true effectiveness of the different media still prevails as well as how to compare the more traditional media with those that are purely digital. In the United States, *catch up TV* measurements are now being applied (measuring audiences after the day of the broadcast) which have unveiled content consumption habits not previously seen.

Lastly, the introduction of pay digital terrestrial television in Spain is leading to an increase in the number of channels, which in turn leads to greater fragmentation of audiences and has an impact on the distribution of profits from advertising.

7. FILM INDUSTRY

7.1. Key points

- In the first half of 2009, sales in the film market in Spain (including box office takings and sale and rental of films and excluding the sale of devices such as televisions, DVD players, home-cinema, etc.) were 13% higher than in the first half of the previous year.
- Spain's film industry has grown steadily since 2003, with a compound annual growth rate of 9.5% between 2004 and 2008 and this last year saw the highest number of feature films produced in the last 26 years, with 173 Spanish films released.
- The number of Spanish production companies reached its highest level in 2008 with 217, compared to 213 in 2007.
- Of the 518 films released, 139 were Spanish feature films and 379 were imported foreign films. The market share of domestic films stood at 13.32%.
- The last few years have not been favourable for film screening world-wide, and Spain reflects this situation with a decline in the number of active screening venues (4,140 active venues compared to 4,296 in 2007), the fall in audience numbers at Spanish screening venues (almost 108 million spectators) and the reduction in box office takings, which have experienced a slight decline following the stagnation of recent years (€619.20 million).
- Consumption levels for online videos in Spain are higher than in other European countries. A total of 87% of Spanish Internet users watch videos on their computer, placing Spain ahead of the United Kingdom, Italy, Germany and France.
- New business opportunities are still appearing world-wide. These are mostly Internet-based and they are continuing to generate changes in leisure and entertainment consumption patterns.
- More alternative content is now being developed for digital cinemas with 3D or conventional technologies, which is attracting larger audiences to cinemas and a more diverse range of content to reach a different kind of audience.

7.2. Description of the sector

Cinema takings for the first 6 months of 2009 rose to €296 million, 13% more than in the first half of the previous year (€35 million more). This has led to a reactivation of the sector, while in 2008 figures for the film and video market were slightly down on 2007.

The film sector in Spain includes box office takings in addition to video rental and sales (VHS, DVD or other new formats such as UMD, Blu-Ray or HDDVD). Income from the sale in Spain of equipment or devices for viewing films is not included in the scope of this report.

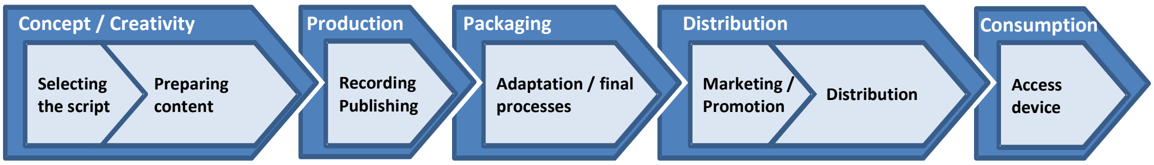
On the other hand, the number of spectators attending cinemas in 2007 stood at 48.8 million, 7.9% more than in 2008 or the equivalent of 3.7 million more spectators. Consequently, the first half of 2009 has been the second best first half year in the last 5 years, exceeded only by 2006 when takings reached €300 million in the first six months of the year. The key factors involved in this are mainly the success of 3D cinema, the high number of big productions released and the popularity of Spanish films.

The film sector value chain includes five different stages that begin with the **concept** and **creativity** process. This includes gathering the information needed for the whole creative process, the scripts are chosen and acted out and the content that will subsequently be developed is prepared. This stage involves various creative agents such as script writers, actors and producers.

Next comes the **production** stage in which production companies or television operators carry out the filming, editing, audio and video control, lighting and artistic design and any other tasks inherent to editing and recording the material. In the digital value chain this stage is carried out in digital format, which significantly reduces filming costs.

The next stage, carried out by the distributors, is **packaging** of the product for distribution, which includes adapting the content to different consumption formats, dubbing and managing distribution and sales rights. In the case of the digital value chain, these processes are carried out in accordance with the new modes of marketing, standards and technologies.

Figure 7.1. Traditional film sector / conventional digital* value chain



Source: ONTSI

Note *: The value chain of the traditional film sector and the digital sector in its conventional screening form in cinemas follow the same stages, with the difference that the latter is carried out in digital rather than analogue format.

Following this, the product enters the **distribution** stage. This starts with the job of marketing and promoting the film and distributing it through various "windows". Because this stage is carried out digitally it will lead to the greatest transformation due to the introduction of new technologies, the universalisation of the Internet and the development of computer programs that facilitate copying and distribution.

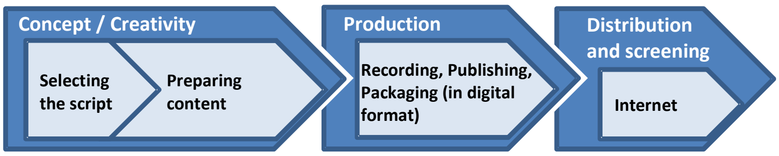
For conventional models based on viewing on a cinema screen or a TV the product is mainly distributed through film distribution enterprises, television / cable operators or retail enterprises (the sale of DVDs or other formats). With the digitisation of the industry, however, the need has arisen to distribute the content to be viewed on new media such as PCs, video game consoles, mobile phones and other viewing devices.

The final stage is that of **consumption**. This includes accessing the product through various technologies and the device needed to view the content. This stage includes the participation of cinemas and the manufacturers that provide the consumer with the technology and devices required for consumption, such as televisions, PCs, DVD players and other formats such as Blu-Ray or mobile telephones.

The stages for the digital format increase the effectiveness and speed of transport, reduce operational costs, process times and barriers to entering the sector. As a consequence, new distribution channels are appearing along with a wider range of content.

With the arrival of digital cinema, alternative ways are being identified to make films in this format, including traditional means and those for screening films produced using digital technology in conventional cinemas. On the other hand, digital cinema also enables the creation of short productions, produced entirely on a digital device, which are then distributed and screened via online media, the value chain if which corresponds to the schema in figure 7.2.

Figure 7.2. Value chain of the short film production sector



Source: ONTSI

Short films correspond to a type of cinema that is experimental, geared towards learning and finding new forms of expression in which certain stages of the value chain disappear or are combined.

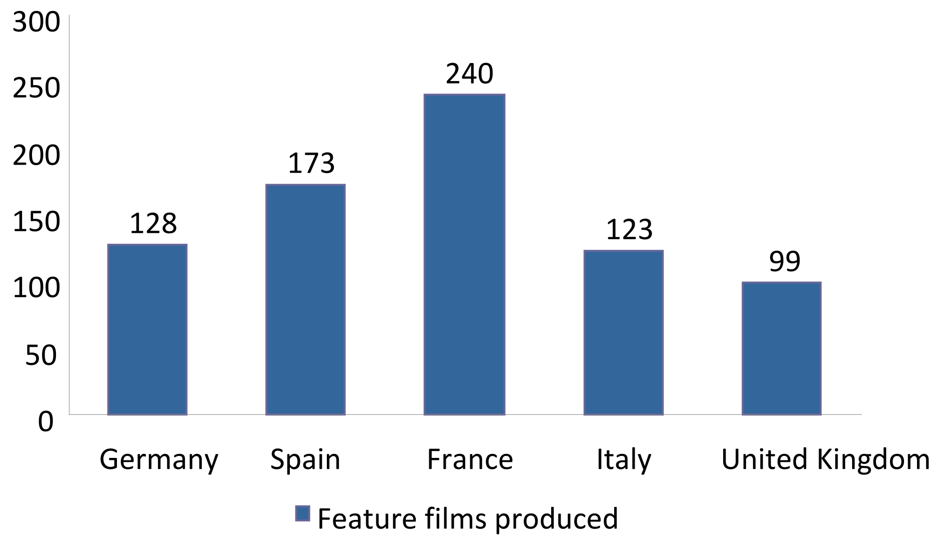
For low-cost independent productions and for film industries in less developed nations, digital film and online means of distribution offer a new way of accessing the film market. On the other hand, digital production has given way to a fresh and innovative type of film and, one would hope, also more critical and socially committed.

Taking advantage of digital technology, cinemas have started to screen films in **3D formats.** This technology, which is somewhat complex to use when producing content, covers a diverse range of subjects for screening in cinemas: opera, concerts, flamenco, films, football, video games, etc. This format has the scope to reach all tastes, types of leisure activity and audiences, and to optimise the use of screening venues as multi-content distributors.

7.3. Situation world-wide and in Europe

In 2008, film production in the main EU countries was on the rise. After France, Spain is the country that produced the most feature films in 2008, a total of 173. This means that more films were produced in Spain in 2008 than in countries like Germany, Italy or the United Kingdom.

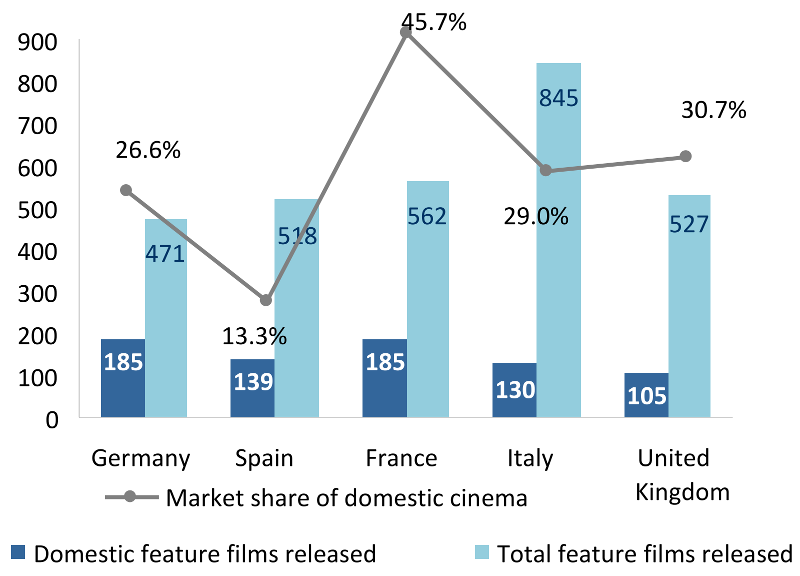
Figure 7.3. Feature films produced by nationality (2008)



Source: Ministry of Culture; CNC; UK Film Council; FFA; Ministero per i Beni e le Attività Culturali. 2009

The market share of domestic film in Spain stands at 13.32%, which shows that the proportion of spectators went to see Spanish feature films is lower than the domestic film audiences of the other four countries studied. Even so, in Spain, 27% of films screened were Spanish, a figure that is higher than that for domestic film screenings in countries such as the United Kingdom and Italy. In this respect, Germany was the country where the most domestic films were screened as a percentage of all films screened that year, 39%, followed by France with 33%.

Figure 7.4. Feature films screened and market share of the domestic film market (2008)

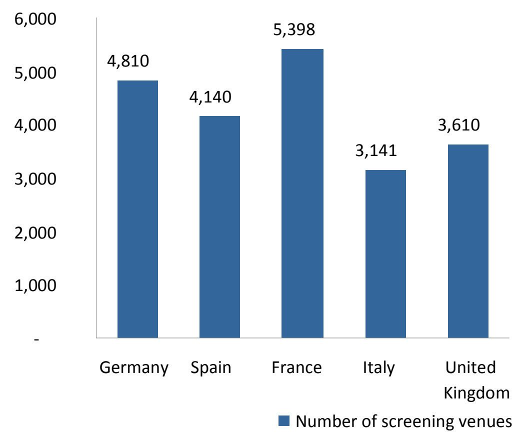


Source: Ministerio de Cultura; CNC; UK Film Council; FFA; Ministero per i Beni e le Attività Culturali. 2009

The main screening variables include the number of cinemas and the number of people who go to see them.

Out of the main European countries studied, France is the country with the highest number of screening venues (5,398), followed by Germany (4,810) and Spain (4,140). This figure places Spain ahead of the United Kingdom and Italy.

Figure 7.5. Number of cinemas in the EU countries analysed

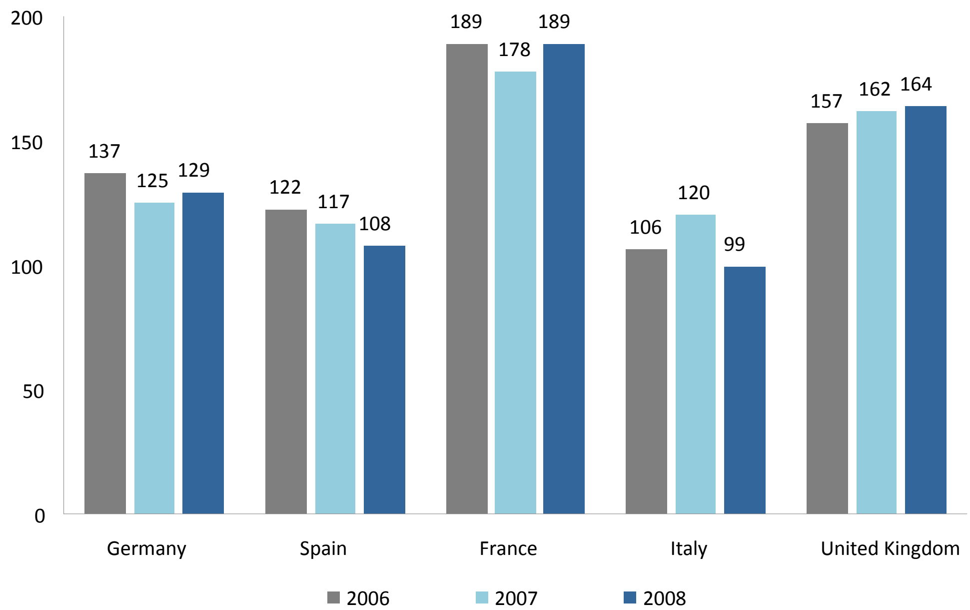


Source: Ministerio de Cultura; CNC; UK Film Council; FFA; Ministero per i Beni e le Attività Culturali. 2009

With regard to audience numbers in cinemas in the main European countries studied, France stands out with 189 million spectators, which explains why it is the country with the highest number of screening venues among the five European markets studied. On its part, the United Kingdom, with 164 million spectators, is the only country to show constant growth in the number of active screening venues since 2006.

The number of spectators that go to the cinema dropped in Spain and Italy in 2008, with 108 and 99 million respectively. However, in the first half of 2009 there has been a 13% rise in box office takings, as mentioned above.

Figure 7.6. Audience numbers. Main EU countries studied (millions of spectators)

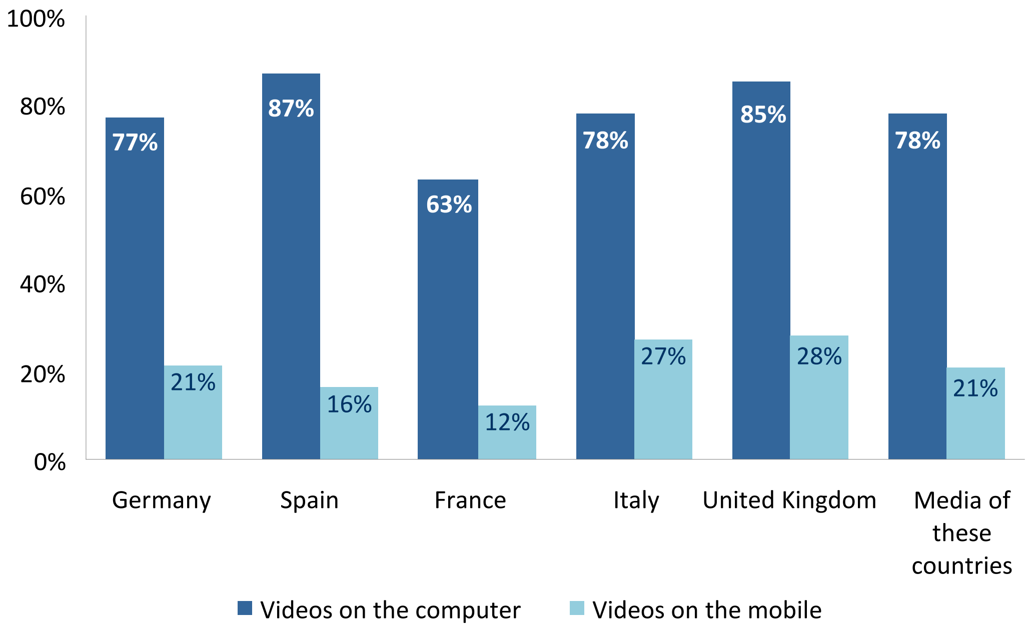


Source: Ministerio de Cultura; CNC; UK Film Council; FFA; Ministero per i Beni e le Attività Culturali. 2009

However, consumption levels for online videos in Spain are much higher than in other European countries. A total of 87% of Spanish Internet users watch videos on their computer, placing Spain ahead of the United Kingdom, Italy, Germany and France. Also, in Spain, 16% of Internet users view videos on their mobile phones, making Spanish consumers intensive users of digital content.

The United Kingdom also stands out as a country with a high level of online video consumption, on computers and on mobile phones, with both figures above the average for the countries studied.

Figure 7.7. Online video consumption in 2008 by format (% of Internet users)



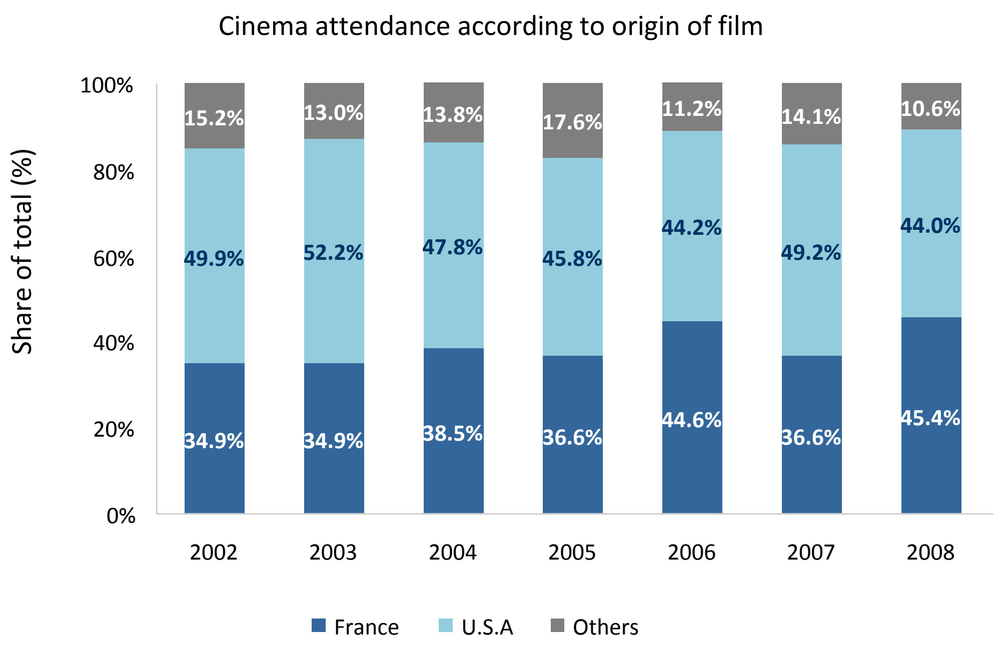
Source: eEspaña 2009 based on data from Microsoft Advertising (2009)

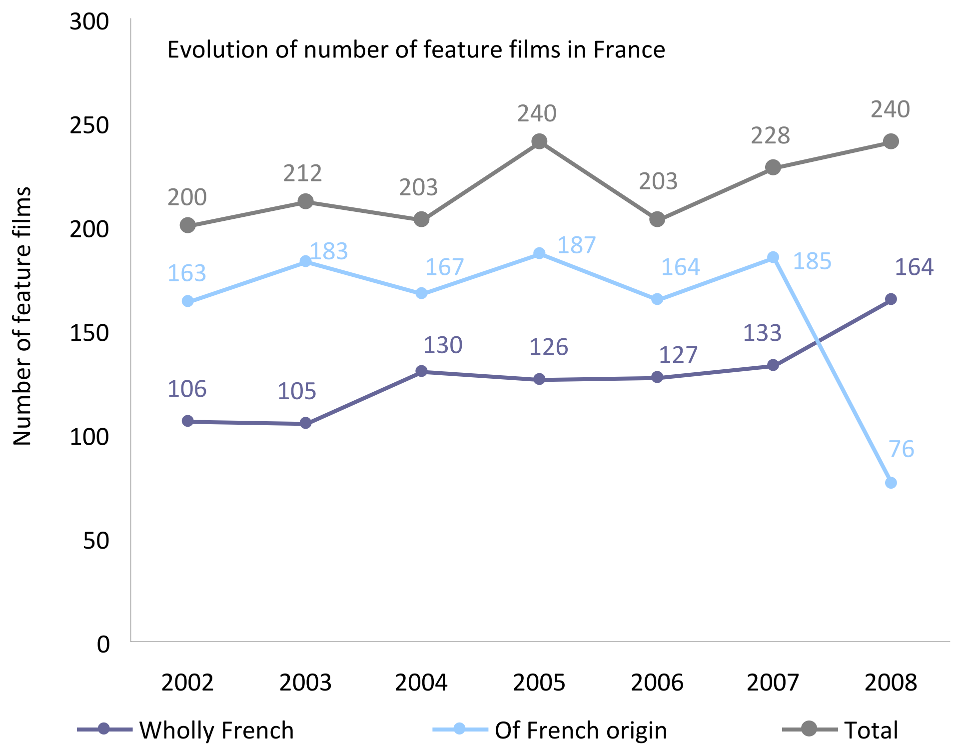
Best practices: France

As was mentioned in the White Paper on Digital Content published in 2008, France is still an interesting case to study in the European film industry. Of the 240 feature films produced there in 2008, 164 were exclusively French productions. Furthermore, in 2008 it had the highest cinema audience figures in Europe, with 189.7 million spectators and the highest market share for domestic film, which rose from 36.6% in 2007 to 45.4% in 2008[42].

[42] % of total films released. Data CNC - Centre National de la Cinématographie.

Figure 7.8. Domestic market share in France and evolution of feature film production: 2002-2008





Source: CNC (National de la Cinématographie). 2009

7.4. Situation in Spain

The film industry in 2009

Sales in the film industry in Spain for the first half of 2009 reached €296 million, 13% more than the same period of the previous year.[43] Likewise, ticket sales for this period were 48.8 million, 7.9% more than in 2008.

This has made the first half of 2009 the second best period in the last five years, only exceeded by 2006, when box office takings reached €300 million in the first six months of the year.

Factors such as the success of 3D films, the number of major film premieres and the success of Spanish films have contributed towards this reactivation.

To date, *Angels and Demons* is the highest grossing film of 2009, with almost €15 million at the box office and 2.5 million spectators. *Fuga de cerebros* heads the list of Spanish films, grossing over €6.7 million, with 1.1 million spectators. Special mention should be made of the success enjoyed by 3D films: *Monsters vs. Aliens* the year's first 3D film, has been seen by 471,000 spectators and earned €4.1 million.

The "top five" most popular films in Spain have been: *Angels and Demons*, *Gran Torino* (€12.7 million and 2.07 million spectators), *The Curious Case of Benjamin Button* (€12.2 million and 2.01 million spectators), *Slumdog Millionaire* (€10.5 million and 1.7 million spectators) and *Seven Souls* (€9.8 million and 1.6 million spectators).

As far as Spanish films are concerned, the most popular have been *Fuga de cerebros* or *Mentiras y gordas*, and films such as *Pagafantas* (already released) or the upcoming *Spanish Movie* have been well received .

The "top five" most popular Spanish films have been: *Fuga de cerebros*, *Mentiras y gordas* (€4.3 million and 715,697 spectators), *Los abrazos rotos* (€4.1 million and 671,367 spectators), *Al final del camino* (€2.67 million and 447,920 spectators) and *Che, guerrilla* (€815,879 and 136,616 spectators).

Hopes are high for the year's end thanks to the number of **new releases** still to come, the good audience figures obtained by 3D films and good contributions made by Spanish films to date, including this year's most important release, *Ágora* by Alejandro Amenábar or *Celda 211* by the young director Daniel Monzón.

For the period between 1 January and 14 June 2009 the five top ranking **distributors** in terms of box office takings were: Sony Pictures España with nearly €43 million; Hispano Fox Film, with over €42 million, Warner Bros

[43] Federation of Spanish Cinemas.

España, with €35.5 million; Universal Pictures Spain, with nearly €30 million, and Paramount Spain with over €29 million.

For the same period, the highest ranking **production companies** were: Antena 3 Films, with earnings in excess of €9 million; Charanga Films, with nearly €6.5 million; Tornasol Films, with nearly €5 million; Castafiore Films with nearly €5 million, and Agrupación de Cine 001 with €4.4 million in takings.

As can be seen, in Spain, revenue from distribution is clearly higher than that obtained by the production companies.

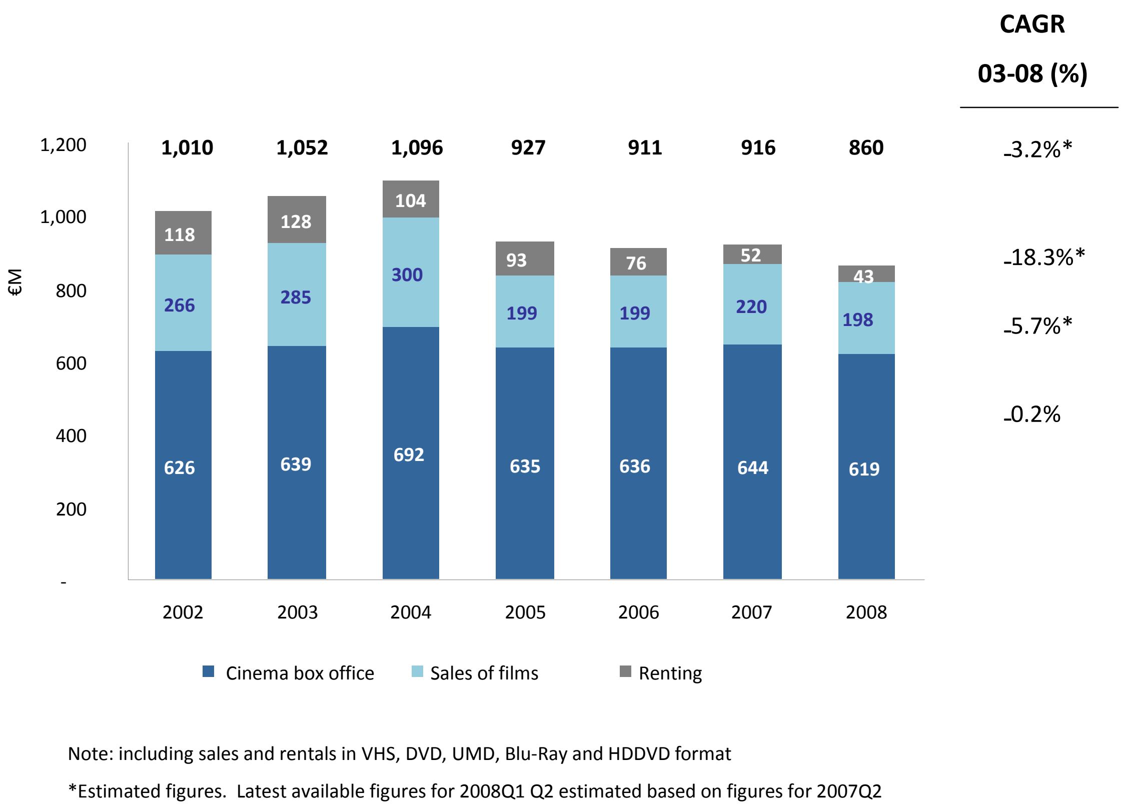
With regard to the **nationality** of the highest grossing films during the first half 2009, the five leading countries were the US, Spain, the UK, France and Sweden. On a **provincial** level, in Spain, the regions with the greatest number of spectators and highest box office revenue were Madrid, Barcelona, Valencia, Alicante and Malaga, in that order.

The film market in 2008

Some Spanish film market data from 2008 have shown slight negativity, a trend also observed in other countries. Overall revenue fell between 2004 and 2008 to an estimated compound annual growth rate of 4%, going from €1.096 billion in 2004 to an estimated €860 million in 2008. This trend is caused by the stagnation of box-office takings and the drop in the sale and rental market.

The market's main source of income in Spain is still the box-office, which fell by an estimated 4% with respect to 2007, going from €644 million in 2007 to €619 million in 2008. Box-office takings for Spanish films for 2008 have been below those of 2007, bringing in €5.1 million less than in 2007.

Figure 7.9. Evolution of the film market in Spain (2002-2008)



Source: Ministry of Culture; Unión Videográfica Española (UVE) and ONTSI. 2009

The stagnation of box-office revenue has not been offset by increased revenue from other sources: revenue from the sale of films in all formats, which showed an upward trend until 2004, has since fallen, and for the 2004 to 2008 period recorded an estimated compound annual decrease of 7.3%.

The downturn has been even more accentuated in the film rental business: in 2002 this accounted for around 12% of Spanish film industry sales, however, after an estimated drop of a little over 18.,5% between 2004 and 2008, it now accounts for barely 5% of total industry revenue.

Revenue from VoD PPV films

Technological progress and changes in lifestyle in which Internet-based business models are increasingly predominant point to traditional business models being gradually replaced in the future, at least in part.

The evolution of revenue from Video On Demand (VoD) and Pay Per View (PPV) films in Spain has recorded a compound annual growth rate of 14.5%

between 2003 and 2008, with a sharp rise from 2006, reaching sales of €58.9 million in 2008.

Figure 7.10. Evolution of revenue from VoD (Video on Demand) and PPV (Pay per view) films in Spain

Source: CMT Annual Report (2008)

Film production

The volume of Spanish film production has risen steadily since 2003, with a compound annual growth rate of 9.5% from 2004 to 2008 and 173 feature films produced in 2008 - the highest figure for 26 years. There are currently more than 100 films at the post-production stage, which will be included in the 2009 or 2010 production figures. Of the 173 feature films produced, 108 are fiction films, 10 are animated films and 55 are documentaries.[44]

[44] Ministry of Culture

Figure 7.11. Number of feature films produced in Spain (1999 - 2008 evolution)

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Films	82	98	107	137	110	133	142	150	172	173

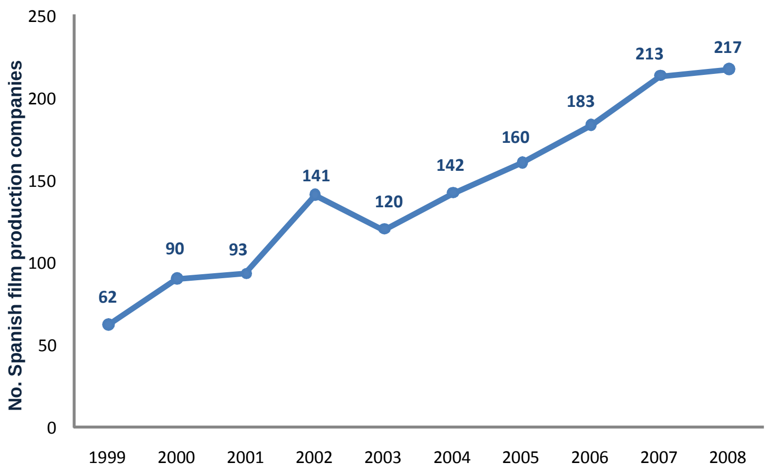
Source: Ministry of Culture. 2009

The increase in the number of films produced in recent years is no doubt due to the growth of the Protection Fund from which grants are drawn, and the involvement of television networks in funding films.

In 2008 there were 49 coproduction films, compared with 57 in 2007, although the number of projects approved using this system is still very high. The countries with which the most films have been jointly produced are Argentina, with 16 coproductions; France, with 9; Mexico, with 6; and the UK with 6. Coproductions with Italy and Germany have also increased and projects for Brazilian coproductions, inexistent till now, are also underway. Production figures for short films is far higher, with 156 made in 2007, compared to 210 for 2008.

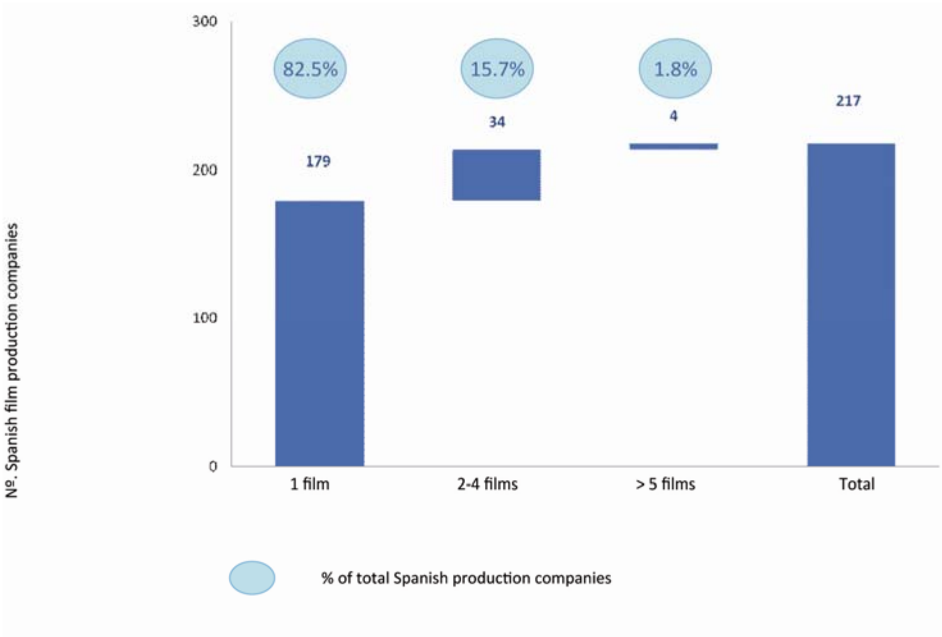
The number of production companies in operation within the film production sector in Spain (considering as such those that have participated in the year's production of films) reached its highest point in 2008 with 217 Spanish production companies, almost double the number operating in 2003 (120).

Figure 7.12. Number of Spanish film production companies (1999-2008 evolution)



Source: Ministry of Culture. 2009

Figure 7.13. Diversification of production activity among Spanish production companies (2008)



Source: Ministry of Culture. 2009

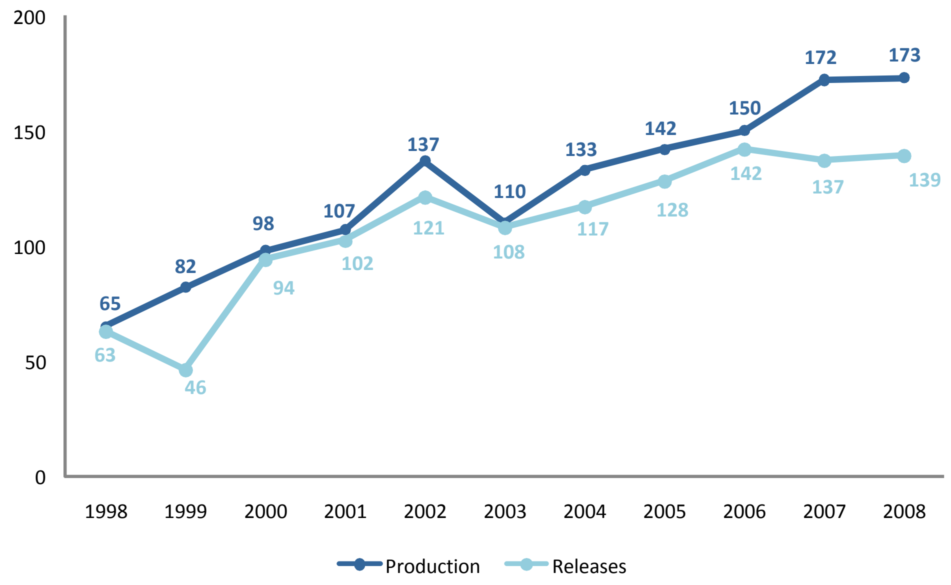
On their part, Spanish production companies focus a large part of their activity and derive much of their income from just a few films. Taking as an example some of the highest grossing Spanish production companies in 2008, it can be seen that Zeta Audiovisual S.A and Tripictures S.A. focussed 100% of their yearly box office earnings on a single successful film (*Mortadelo y Filemón misión: Salvar La Tierra* and *Asterix en Los Juegos Olímpicos* respectively).

Even in the case of production enterprises that participate in more than one film, most of their sales are usually concentrated in a single film. Such is the case with Mediaproduccion S.L, which took part in 14 feature films, thought its production of the film *Vicky Cristina Barcelona* in 2008 brought in nearly 80% of its total earnings.

Film distribution

With regard to the distribution of Spanish films in cinemas, in 2008 a total of 139 Spanish feature films were released, a figure very similar to that of the previous year, in which there were 137 new releases.

Figure 7.14. Number of Spanish feature films produced and released (1998-2008 evolution)



Source: Ministry of Culture. 2009

Of the 518 films screened, 379 were imported foreign films and 139 were Spanish, giving domestic production a market share of 13.32% compared to the 71.51% accounted for by American films and 12.95% corresponding to European films. Of the 379 foreign films imported for viewing in cinemas, 118 were dubbed, 69 subtitled and 192 both dubbed and subtitled.

The number of copies of foreign films available for screening in cinemas continues to rise. Of the 44,856 copies made, 57 films have been released with over 300 copies (49 in 2007) and 12 films had more than 500 copies. The number of copies of Spanish films has reached 7,419, of which 7 films have been released with over 300 copies, compared to 6 the previous year. None have been released with more than 500 copies except for *Mortadelo y Filemón,* included in 2007 figures, although the copies were made in 2008.

With regard to **films not for cinema release**, on video or DVD, 5,831 films were released in 2008, of which 998 were Spanish, 1,436 were from EU countries other than Spain and 2,192 from the USA, slightly lower than in 2007 when a total of 6,600 films were released on these media, of which 961 were Spanish, 1,948 from EU countries other than Spain and 2,543 from the USA.

Cinemas

A slight fall in the number of cinemas in 2008 has been observed, with 4,140 operating in this year compared to 4,296 in 2007. Cinema owners have shown their preference for the multi-screen theatre format.

Foreign investment in the industry continues to have a heavy influence on the opening of new cinemas, a factor that also gives rise to a saturation of cinemas in certain areas, with the resulting competition causing some to shut down. The proportion of cinemas per habitant continues to be higher in Spain that in any other European country.

The quality of cinema theatres throughout Spain is a measure of the level of investment made by Spanish businessmen. Spanish theatres can compete with those in any other European country.

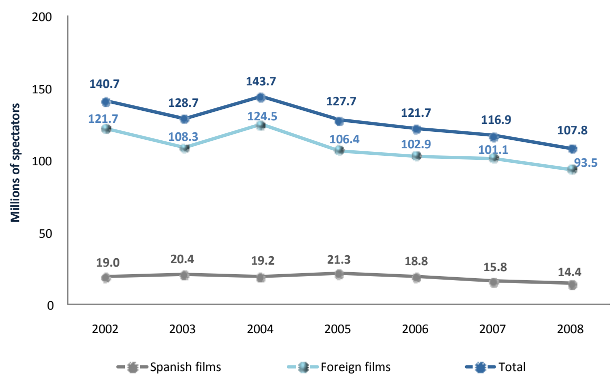
Figure 7.15. Evolution of the number of active cinemas in Spain

Year	1992	1996	2000	2002	2005	2006	2007	2008
No. of screening venues	1,881	2,125	3,500	4,039	4,401	4,299	4,296	4,140

Source: Ministry of Culture. 2009

Recent years have not been positive for cinemas all over the world, and the situation in Spain echoes this trend. Since the all time high was reached in 2001, with nearly 147 million spectators, the number of Spanish cinema goers has fallen steadily, with spectator figures going from over 140 million in 2002 to just under 108 million in 2008.[45]

Figure 7.16. Evolution of the number of spectators in Spain by origin of the film



Source: Ministry of Culture; FAPAE. 2009

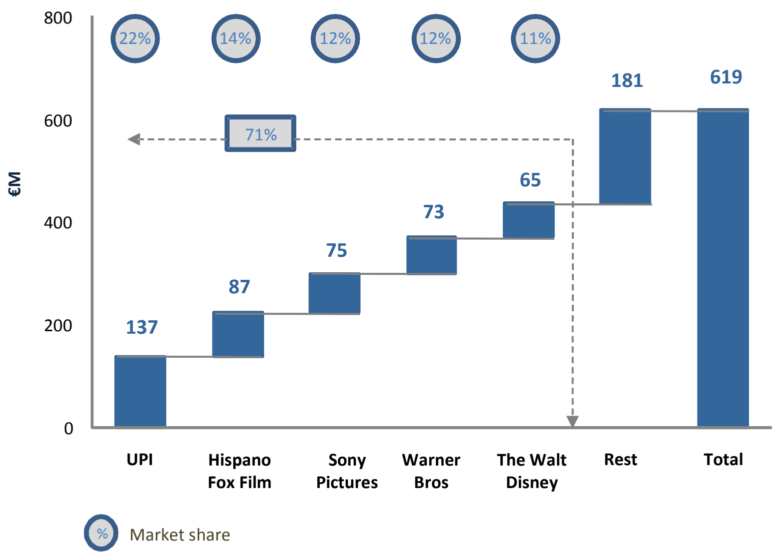
[45] FAPAE, 2009

Box office sales, however, have fallen slightly following the stagnation of recent years, reaching €619.2 million in 2008, compared to €643.7 million the previous year. Revenue from Spanish films in 2008 fell below that of 2007, dropping from €86.7 million in 2007 to €81.6 million in 2008.

Multinationals, above all from the US, account for a large portion of industry revenue in Spain. In 2008, following the trend set in recent years, five multinationals took nearly 71% of box office revenue for the entire year.[46]

In 2008, the months when more people went to the cinema were August and December. For the Spanish film industry, the months with the greatest number of spectators have been September and February, coinciding with the release of high box-office films.

Figure 7.17. Distribution of box-office takings in Spain by the major multinationals (2008)



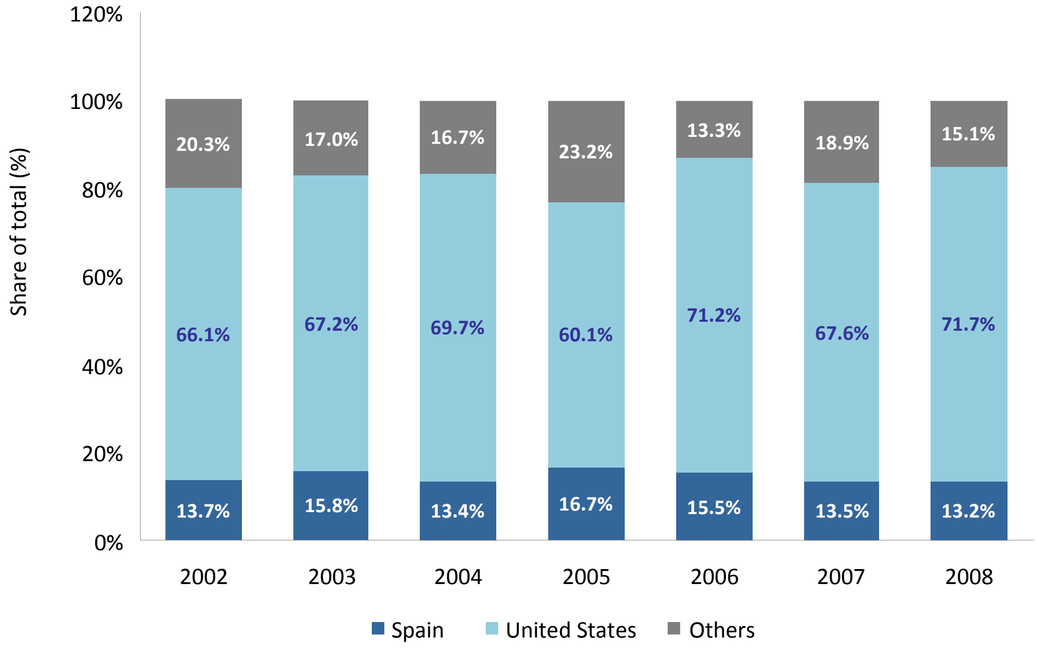
Source: Ministry of Culture. 2009

With regard to revenue according to country of origin, US productions accounted for much of the year's takings (71.7% in 2008), exceeding the maximum income recorded in 2006 (71.2%).

Spanish films had 13.2% of market share in 2008, compared to 13.5% in 2007, second only to the US. Box office revenue from European films as a whole was 26.15% of the total, compared to 30.3% the previous year. European films as a whole, including Spanish films, have lost ground to US films, the revenue for which increased from the previous year.

[46] Ministry of Culture, 2009

Figure 7.18. Takings according to film origin (2002-2008 evolution)

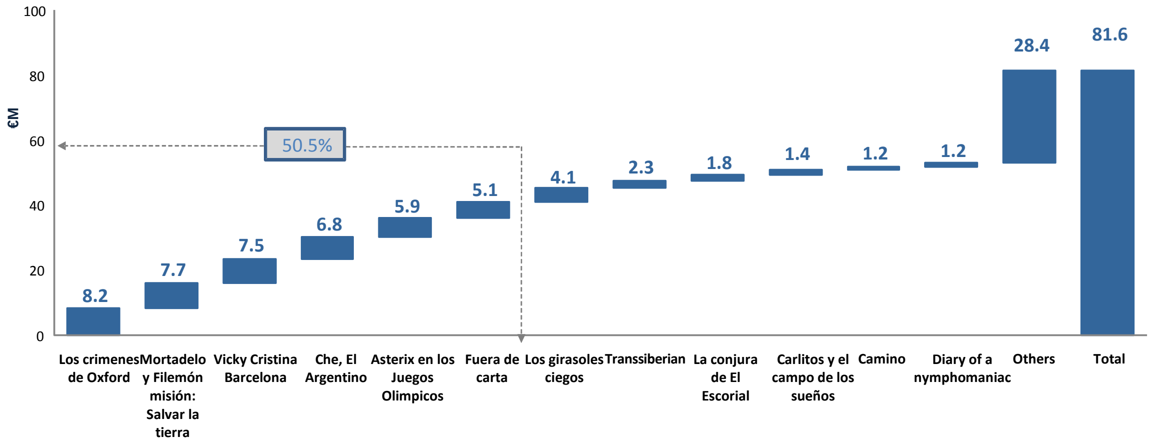


Source: Ministry of Culture. 2009

The highest grossing film in 2008 was the US production *Indiana Jones and the Kingdom of the Crystal Skull*, earning nearly €21 million at the box office and seen by 3.5 million spectators. *Los crímenes de Oxford,* was the highest grossing Spanish film in 2008 and 15th in the list of most popular films, with takings of more than €8.2 million and 1.4 million spectators, followed by *Mortadelo y Filemón misión: Salvar la tierra,* which earned more than €7.7 million, and three places further down, at number 18, was *Vicky Cristina Barcelona,* which grossed nearly €7.5 million.

Box office takings of Spanish films have followed the same trend as the previous year. In 2008 earnings were concentrated among a small group of films, with the 6 highest ranking films accounting for 50.5% of all box office earnings, totalling €41.2 million.

Figure 7.19. Revenue from the most popular Spanish films (2008)



Source: Ministry of Culture. 2009

7.5. Relevant data for the sector in 2008-2009

In addition to new business models arising from the evolution of the new technologies and the importance of Internet for leisure and entertainment, there are some notable new business models or trends. Some of these are based on online rental or sale of Video on Demand (VoD) films via the TV or mobile, or downloaded directly by users on specialised websites.

New screening technologies

According to the ICAA, computerisation of box offices with a view to calculating takings in Spanish cinemas is now widespread. Currently, cinemas with computerised box offices account for 95.5% of all the takings.

Throughout 2008 cinema owners have continued to adapt their facilities to the new digital systems. These first steps need to be taken with care as a trial and learning period is required. Nevertheless, the sector is well poised to implement the required technological improvements, for which joint funding and investment agreements are yet to be reached to adaptation of existing infrastructure to the new digital technologies.

Streaming films

Viewing online streamed films is common practice among Internet users. According to the Orange Foundation report (eEspaña 2009), 47.8% of Internet users view films via streaming.

The online streaming market is becoming increasingly popular and is now a quality option for distributing online consumer content. Improved Internet connection has aroused interest in this technology. The advantage of this media is that the file can be viewed immediately, with no need to wait until downloading finishes.

Although there are still relatively few platforms providing this service, in Spain the most important ones are Filmotech, La Central Digital, Filmin or Yodecido.com.

The new business line for cinemas: presenting alternative content

Cinemas, in their search for new ways to attract customers, have decided to diversify their content and branch away from the film industry. These formulas are based on presenting alternative content, such as concerts, circus performances, sports, opera, flamenco, video games or TV series.

Yelmo Cines is one of the companies most heavily committed to this change. Artists such as Monica Naranjo, Heroes del Silencio or El canto del Loco have launched DVDs of their concerts in cinemas, and in almost all cases during the first performance the cinema was packed.

The same was true for the screening of Michael Jackson's *Live in Bucharest* concert, for which the demand for tickets on the first day was so great that two screens had to be used to cater for the size of the audience.

In Spain the big screen has also been used to for non-cinematographic content. An example of this is the emergence of Spanish production and distribution companies providing alternative 3D content for digital cinemas.

Music has become the main alternative to films in cinemas. Both singers and groups have made use of this option to promote their work, and other, more traditional music has also found its niche. In 2008 alone more than 50,000 people from all over Spain went to see opera performed in cinemas.[47] The success of this venture has been such that in some cinemas twice as many tickets have been sold for opera performances than for the highest grossing film, in spite of the fact that tickets are double the price.

Sport is another important alternative activity, even enabling spectators to view events live, thanks to satellite reception. In April of this year Mediapro started to screen football matches, such as Madrid vs. Barcelona, in cinema complexes located in large cities using the HD and Dolby Surround system. During the 2006 world cup in Germany football matches were screened in the Cinesa and Yelmo cinemas in some Spanish cities, including Madrid, Barcelona, Malaga and Avila.

Circus performances have been one of the most innovative alternatives for cinemas. In this case the performance is not screened but viewed live on stage.

3D films

Box office sales have risen significantly with the widespread screening of 3D films in Spanish cinemas. According to the Federation of Spanish Cinemas (FECE) ticket sales in Spanish cinemas over the first quarter of 2009 have risen by 7.9% over last year's figure, with nearly 50 million spectators.

A key factor in this increase in audience figures has been the success of 3D films such as *Beowulf* or *Monsters Against Aliens*, which provides spectators with a unique experience that, for the time being, can only be had in cinemas. Catalonia leads the field in implementing 3D films in Spain, largely driven by the success of the latter film, which was the first animated film made exclusively in 3D. When the film was released on 3 April 2009 the number of cinemas in Spain offering 3D viewing almost tripled. The film also became the sixth most popular foreign film that year in Spain, where there are over 150 cinemas equipped to screen 3D films.

The number of 3D cinemas in Spain has risen sharply since 2007. In December of that year, with the release of *Beowulf*, there were only 10

[47] Arts Alliance Media

cinemas equipped for this type of film in Spain. Nearly one year later, in October 2008, 25 were able to screen U2's 3D concert, and by December, with the release of *Bolt*, 30 3D cinemas were in operation.

In 2009 a total of 83 screens were adapted to screen *Monsters against Aliens*, 86 for the *Jonas Brothers* musical and 124 for the third film in the *Ice Age* series, released in July. In less than one month (with the release of *Up*), a further 30 cinemas have been adapted to 3D films. Currently, there are 154 such cinemas, and the number is increasing daily.

Catalonia and Madrid have the greatest number of 3D cinemas and ticket prices vary from €5.50 to €10.80.

Because of the rising popularity of the 3D format, *YouTube* has added this new viewing experience to its catalogue and now offers a large number of 3D videos that can be viewed and enjoyed in several formats, as special glasses or various viewing techniques are required in order to see films in 3D.

7.6. Challenges and opportunities

The film industry is Spain continues to face the challenge of creating a solid corporate infrastructure. There is still only a small group of Spanish companies making a significant and continuing contribution to film production and distribution. Nearly 82.5% of Spanish production companies took part in only one film in 2008, a clear indication that production companies should increase the number of films and so diversify investment risks.[48]

Thanks to new technologies, independent productions can be made at lower costs and this gives film companies in less developed countries an opening into the industry. For example, companies in the European film industry are taking advantage of digital distribution to change the current market imbalance in which the US multinationals account for a major share in the sector.

Another important challenge is to boost ticket sales at cinemas, due to the decline in the number of cinema goers in recent years. Likewise, the increasing digitisation of cinemas should be an incentive to bring audiences to cinemas: increased image and sound quality and the inclusion of innovative products such as video game competitions, football matches or 3D films. The creation of more alternative content for digital cinemas using 3D or conventional technologies attracts a wider public and awakens new interest in going to the cinema.

The new and attractive trend in cinemas is the screening and development of 3D technologies. The industry must be aware of the need to align the technology with the creation of products technically adapted to these formats.

Efforts must be made, therefore, to continue to progress towards new digital distribution business models based mainly on the Internet, and to promote consumption of online pay video or other film streaming based platforms.

With regard to the production and distribution of films, the emergence of new digital technologies have increased the effectiveness and speed of delivery, reducing operative costs, process times and the obstacles to entering the sector. It is hoped that this will result in increased distribution channels, a large catalogue of films and boost demand.

Furthermore, a restructuring of viewing space based on demand, paying particular attention to anticipating online viewing demands, will improve profitability and efficiency of companies involved in this sub-sector: online, cinemas and sale of DVDs.

[48] Ministry of Culture, 2009

8. HABITS OF DIGITAL CONTENT CONSUMERS

8.1. Key points

- In Spain the number of consumers of digital content has increased by 5.9 percentage points with respect to 2008, with 70.3% of the population consuming some kind of digital content.
- A total of 60.4% of the population, 24.3 million Spaniards, are already Internet users.
- Spanish Internet users are becoming among the most active world-wide and is now second behind Brazil in the use of social networks: 3 out of every 4 Internet users use one or more of these networks.
- A further significant fact is that children between 7 and 14 years of age mostly watch films and series (69.9% of digital consumers in this age group), followed by video games (68.7%) and music (68.3%).
- In 2009, films and series were the most popular digital content, with 53.6% of Spanish users, 6.8 points higher than in 2008. A total of 49.4% Spaniards declared that their most frequent use was viewing content on DTT and real-time online media (streaming).
- As regards the devices used for receiving music, the use of CD/DVD has fallen notably, from 71.2% in 2008 to 61.7% in 2009, although it continues to be the most widely used device in 2009.
- The fastest growing way of accessing music is streaming (eliminating the need to download the content or have it on physical media), increasing at a rate of 6.1% compared with 1.1% in 2008.
- There is a growing trend towards using devices for playing *on the go* video games, although this increase is mostly due to portable consoles (14.4%) and to a much lesser extent mobile phones (1%).
- Incentives for users to take part in web 2.0 will facilitate the move towards semantic Internet and intelligent searches, taking advantage the initiative of users as *taggers* and content evaluators.

8.2. Introduction

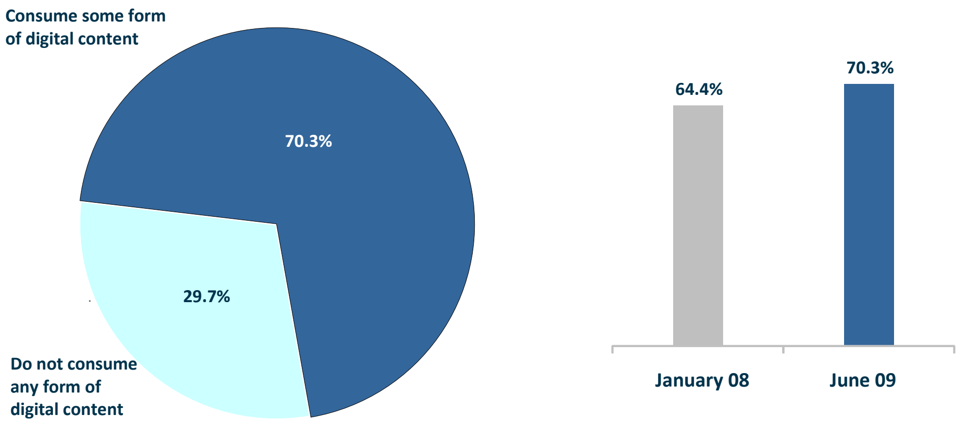
It is essential for any industry to be aware of the current and future habits of its customers or potential customers in order to grow and take strategic business decisions. For this reason, a survey was conducted on a representative group of the population of Spain to reveal how they use different digital content, at a time when new types of consumption is being widely debated.

What contents are consumed, how they are accessed, and why acquisition of some is no longer widespread, are relevant data analysed below, differentiating between the most representative sectors of the industry from the point of view of **demand**.

For the purposes of the survey, digital content is taken to mean any content transmitted to or consumed on digital devices such as CDs, DVDs, Mp3, hard discs, or through digital media such as the Internet, digital TV, pay TV, consoles and mobile phones; consumption of digital content is taken to mean the use, purchase, downloading, and transfer of digital content to be viewed, read, listened to, played, recorded, lent or gifted.

In 2009 the percentage of the Spanish population consuming digital content increased by 5.9 percentage points compared to 2008, with 70.3% of the population now consuming some kind of digital content. This is mainly due to the extension and increase of broadband Internet connection and the growing use of DTT throughout Spain; consequently, the most consumed digital content in Spain is for the first time film/series, relegating music to second place. Even so, the percentage of the population consuming digital music continued to increase by 2.1 percentage points between 2008 and 2009.

Figure 8.1. Percentage of Spanish population aged 15 or over consuming** some kind of digital content

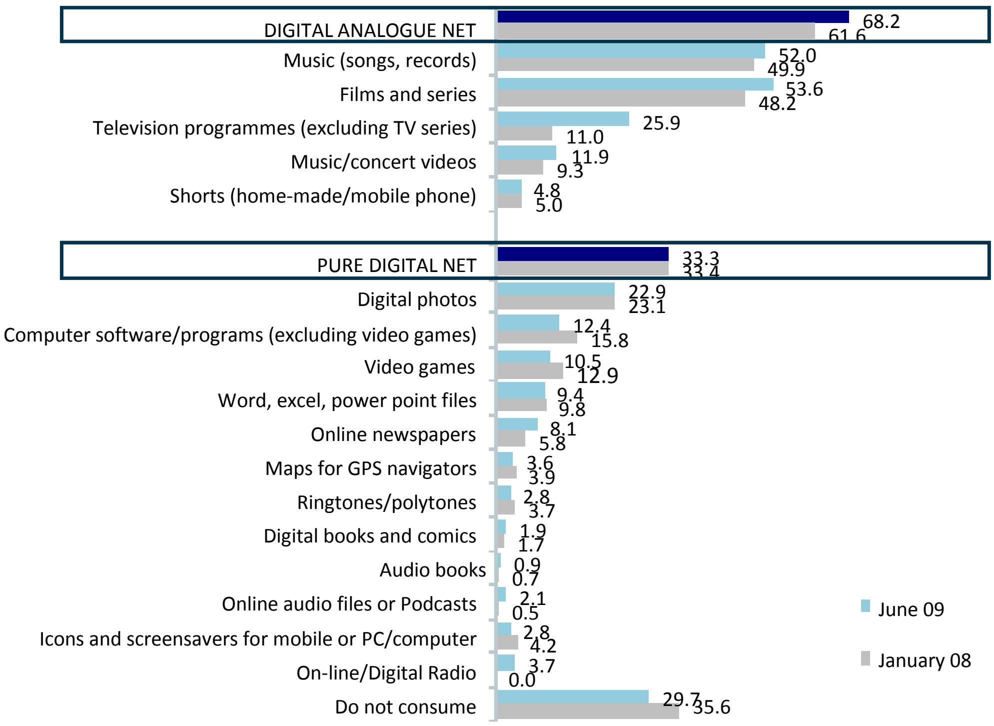


Base: June '09 (n= 3981); January '08 (n=4067) representative interviews of the Spanish population aged 15 and above = 38,338,000 people (*)
(*) Source: Spanish National Institute for Statistics (INE) Official estimate at 1 July 2007
(**) Definition of consumption: Makes regular use of some form of digital content (watches, listens to, uses, purchases, downloads, etc.)

Source: ONTSI

Lesser used digital content (consumed by less than 10% of the population) includes short home movies or videos for mobile phones (4.8%), icons and screen savers (2.8%), navigation maps (3.6%), tones and polytones (2.8%), and digital books and comics, audio books and podcasts, All of these fall below 2%.

Figure 8.2. Digital content consumer habits of the Spanish population aged 15 or over



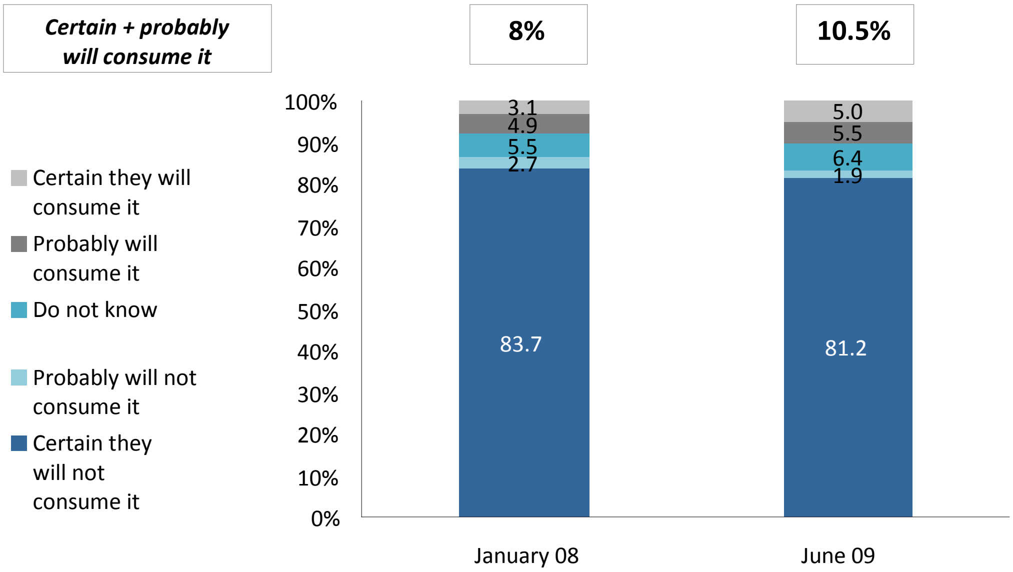
Base: June '09 (n= 3991); January '08 (n=4067) representative interviews of the Spanish population aged 15 and above = 38,338,000 people (*)
(*) Source: Spanish National Institute for Statistics (INE) Official estimate at 1 July 2007

Source: ONTSI

Consumer habits vary greatly according to age groups, with the younger group (from 15 to 34) making most use of this media. This age group mainly uses video games, digital comics, icons and screensavers, short videos, audio books, tones and polytones and online radio, while documentaries, TV programmes, films and series, and digital books are consumed more by users over the age of 55. A further significant fact is that children between 7 and 14 years of age mostly watch films and series (69.9% of digital consumers in this age group), followed by video games (68.7%) and music (68.3%).

In addition to these data, an analysis must be made of why 29.7% of Spanish inhabitants do not consume digital content (among the 15 or over age group). This percentage has decreased by 5.9 percentage points with respect to the previous year, and is mainly applicable to the 65 and over age group (40.9%), with a larger percentage of men than women nonusers (54.3% vs. 45.8%).

Figure 8.3. Possibility of future consumption of digital content



Unit: %

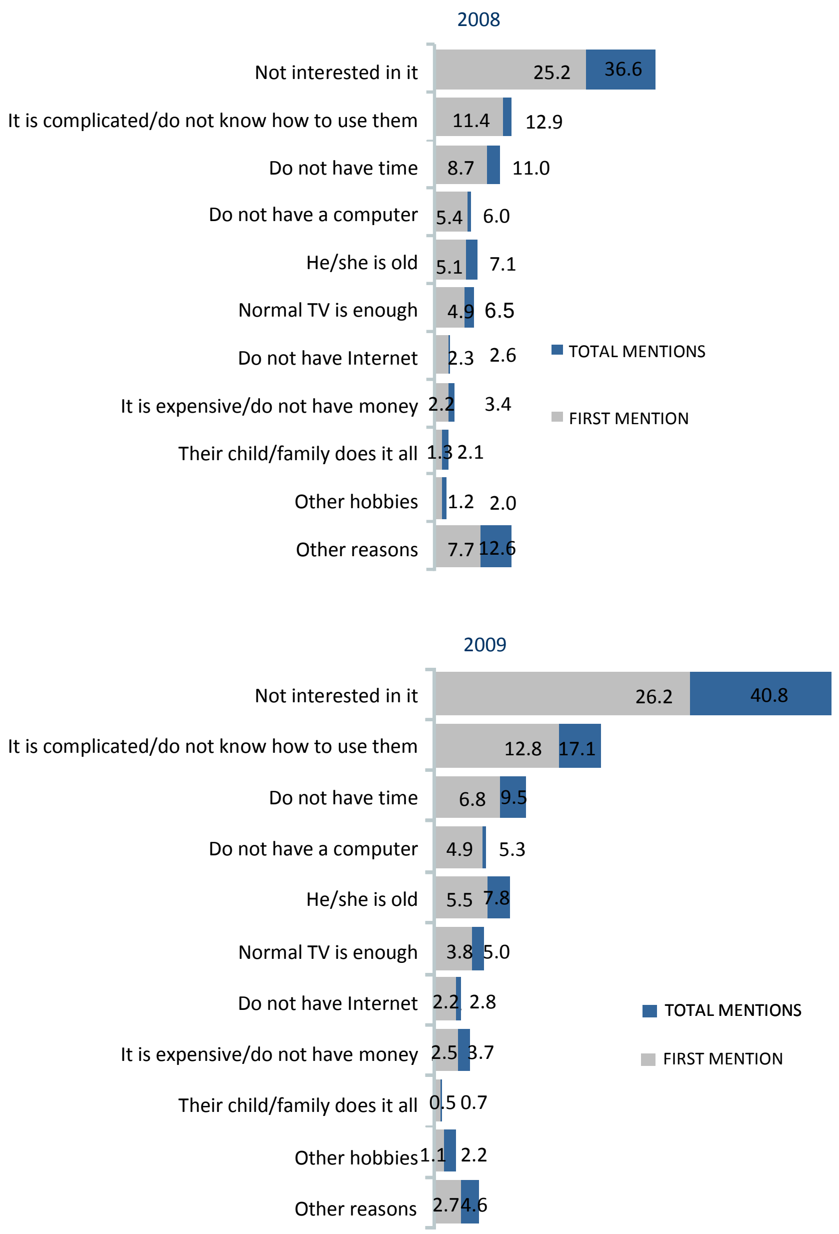
Base: Nonusers of digital content

Source: ONTSI

Among the reasons given by non-consumers the most prevalent is lack of interest (40.8%), while 17.1% “find it complicated, or do not know how to use it”, and 9.5% who have “no time” to use it

These data, in addition to the positive evolution, with a 6 percentage point increase in consumption by the population of Spain compared to 2008, indicate increased demand for these products in Spain.

Figure 8.4. Reasons for not consuming digital content (%)



Unit: %

Base: Nonusers of digital content weighted n=1449 interviews Base: unweighted n=1387 interviews

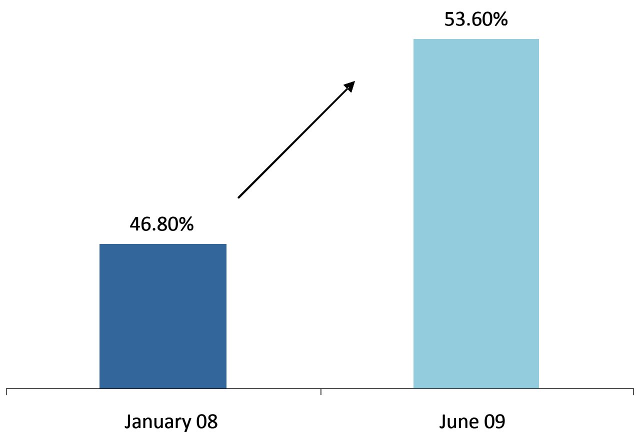
Source: ONTSI

The following is an analysis by sectors of the most significant features of said demand, with a description of the characteristics of each sector.

8.3. Films and series

In 2009, films and series were the most popular digital content, consumed by 53.6% of Spanish users, 6.8 points more than in 2008. This increase can mainly be attributed to widespread implementation of broadband in Spain and increased reception of DTT or pay TV for viewing films and series, which has grown from 30.6% in 2008 to 57.6% in 2009.

Figure 8.5. Percentage of Spanish population of 15 and over that consume films and series (%)



Base: June '09 (n= 3991); January '08 (n=4067) representative interviews of the Spanish population aged 15 and above = 38,338,000 people (*)

(*) Source: Spanish National Institute for Statistics (INE) Official estimate at 1 July 2007

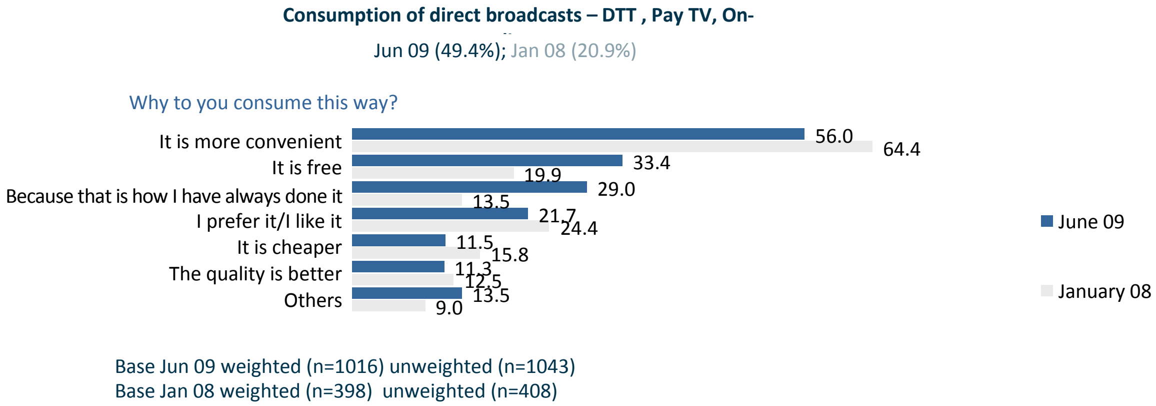
Source: ONTSI

At the same time, other indicators have declined: purchases made in physical shops, with 30.5%, recorded a drop of 7.5 points with respect to 2008, while the number of films rented went from 33.5% in 2008 to 22.5% in 2009. A total of 49.4% Spaniards declared that their most frequent use was viewing content on DTT and real-time online media (streaming).

Again, both age group and gender are key to understanding the consumer habits of this digital product. Women are more traditional in their choice of the device used for viewing TV, and the older age group spend more time in front of the television.

It is significant that the most common reason given for watching films and series on DTT/pay TV is convenience, both in obtaining these contents and viewing them, thus highlighting the growing importance among users of ease of access to the corresponding technology.

Figure 8.6. Reasons for using DTT, pay TV or online TV among the Spanish population aged 15 or over (%)



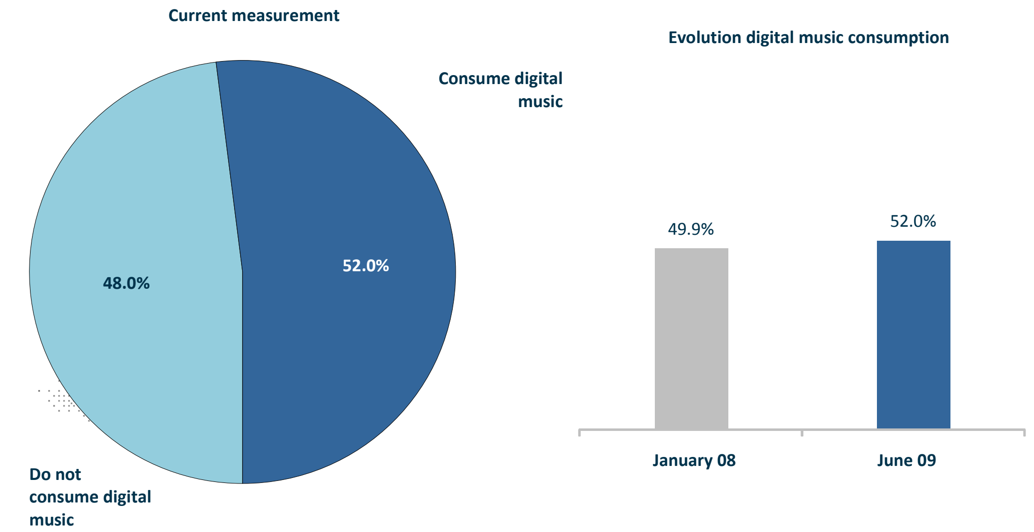
Source: ONTSI

One of the physical devices for storing content that has suffered the greatest decline has been the CD, which has gone from 68.5% in 2008 to 43.6% in 2009; this decline is proportional to the increase of online consumption or non-stored content (TV), which increased from 14% to 41%. Another significant datum is the decline in the use of DVD players, which have gone from 82.4% to 65.1%, offset by the increase in DTT or pay TV, which has gone from 22.8% to 55.2%, and viewing films or series on laptops, which has gone from 5.9% to 11.3%.

8.4. Music

Although the percentage of people consuming digital music increased by 2.1 percentage points in 2009, the increase in the number of films and series has prevented music from keeping its number one spot as the digital content of choice, with 52% of the Spanish population consuming digital music.

Figure 8.7. Consumption of digital music among the Spanish population aged 15 or over



Unit: percentages

Base: June '09 (n= 3991); January '08 (n=4067) representative interviews of the Spanish population aged 15 and above = 38,338,000 people (*)

(*) Source: Spanish National Institute for Statistics (INE) Official estimate at 1 July 2007

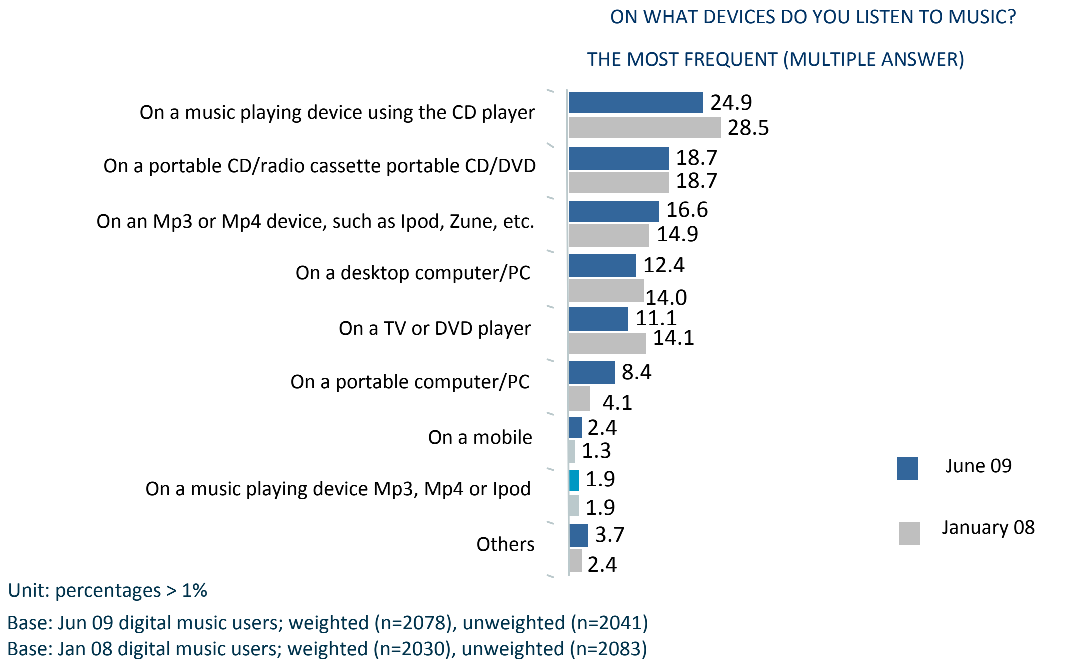
Source: ONTSI

The use of music through DTT, pay TV, online and streaming is even lower, 2.6%, although this has increased by nearly two points over the previous year's figures due to new means of consumption provided by these media, and the success of these initiatives among users.

With respect to the devices used to play music, a decline in the use of CD/DVDs has been observed, going from 71.2% in 2008 to 61.7%, although these continue to be the most widely used devices in 2009; however, online access has become more popular, with an increase of 6.1% compared with 1.1% in 2008, making streaming-based business models the best adapted to future consumer habits. The number of consumers who still listen to and store music has been reduced by 8.1 percentage points. This is mainly due to the increased consumption on computers. The ever increasing presence of web 2.0 software is favouring the use of non-stored music due to the permanent accessibility of the content on the Internet.

The most widely-used device for listening to music continues to be the CD player, 24.9% of users declare this to be their main device, although these devices have seen the greatest decline in use in favour of the laptop computer as a music player (8.4%) and Mp3, Mp4 players, etc. (16.6%).

Figure 8.8. Percentage of use of music devices among the Spanish population aged 15 and over



Source: ONTSI

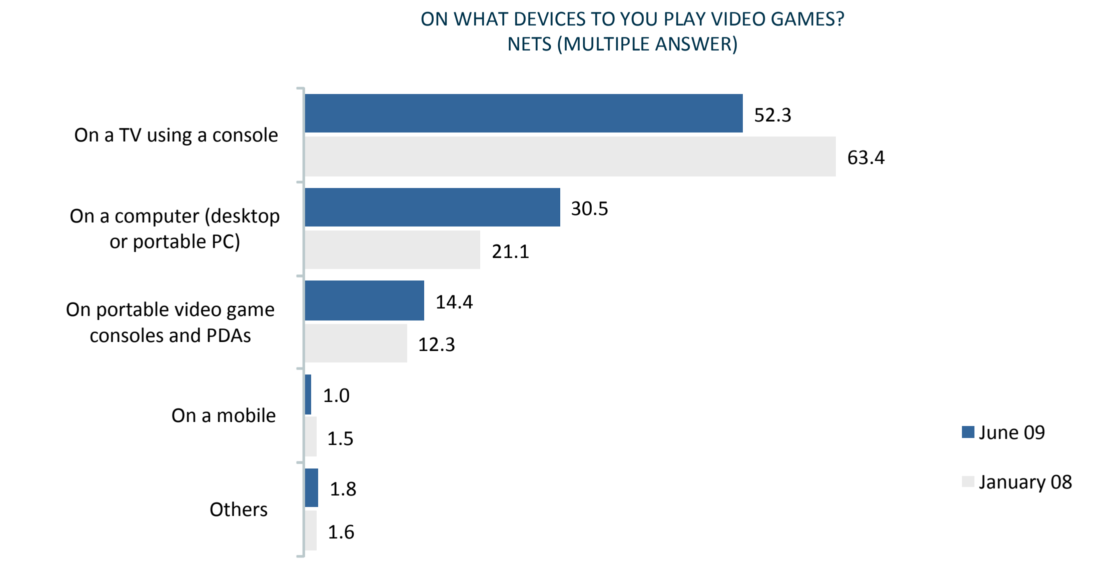
Thus, consumption of *on the go* music in 2009 increased through the consumption of music on portable devices, while at-home consumption has fallen slightly, in spite of the fact that 95% of consumers listen to music in their home, with 71.1% declaring it to be the place where they most frequently listen to music.

8.5. Video games

Adult consumption of video games in Spain is still in its infancy, with 10.5% of the Spanish population aged 15 and over consuming these products. However, the age factor is essential for the penetration of video games and, for example, 68.7% of the population aged between 7 and 14 are users of these products.

A twofold change is taking place with respect to the device used by the population aged 15 and over to play video games. On one hand, the percentage of users playing in the "traditional" way, using a console and a TV screen has fallen in favour of new methods of consumption, mainly using either a desktop or laptop computer, which has increased by 9.4 percentage points over the last year. On the other hand, there is a growing trend towards using devices for playing *on the go* video games, although this increase is mostly due to portable consoles (14.4%) and, to a much lesser extent, to mobile phones (1%). Nevertheless, no variations have occurred in the place chosen by consumers to play video games. A total of 97.7% declared that they play in the home (either their own or someone else's).

Figure 8.9. Devices used to play video games among the Spanish population aged 15 and over



Unit: %

Base: Jun 09 video game users; weighted (n=419), unweighted (n=422)
Base: Jan 08 video game users; weighted (n=523), unweighted (n=530)

Source: ONTSI

Finally, with respect to the use made of video games, as is the case with other contents, the use of physical media for storage (CD/DVD) is declining. This is due to:

- Less use of the CD/DVD as the device on which consumers obtain their video games.
- Increased consumption of computer-based video games and use of computer memory to store them.
- Certain portable video consoles that do not use this type of storage media.
- The trend towards “non-storage”. In 2008 a total of 86.3% of consumers declared they used and stored video games, in 2009 this percentage had fallen by 6 percentage points. At the same time, the percentage of individuals declaring they “use and discard” video games increased by 10.4 percentage points in 2009 compared to 2008.

The population aged between 7 and 14 buy video games in physical shops (58.4%) or receive them as gifts (36.5%). Individuals using consoles has risen from 45.4% to 61.8% in detriment to the PC, which has dropped from 31.8% to 27%.

8.6. Challenges and opportunities

The main incentive to encourage users to use web 2.0 will facilitate progress towards the semantic web and intelligent search engines, taking advantage of the initiative of users as *taggers* and reliable evaluators of content that is, in turn, generated by them.

The digital content consumer is clearly moving towards the use of virtual, non-stored leisure, shared among contacts and members of social networks. The latter are becoming the main platforms used by consumers during leisure time and for this reason contents (not all of which are entertainment-based) find in social networks an extremely effective channel for promoting and disseminating music, news, games, videos or establishing relations.

In order to adapt their product to consumer habits, all sectors of the content industry will take into account that users shun non-digital formats, demand quality content, consume this content without downloading (streaming) and play it *on the go*, i.e. on devices that allow consumption to take place anywhere, anytime.

9. CONCLUSIONS

This report includes an analysis of each sector of the digital content industry, which can be used as a tool by different agents. The following are the **main conclusions** reached:

- In the digital sphere, Spain is a **well-established market** with excellent opportunities for growth both at home and abroad.

  This favourable scenario is based on a number of critical factors that have helped shape a digital content industry that is increasingly finding an echo among users - the driving force behind the industry - and a group of quality content providers.

- Other equally important factors have created a digital context in Spain with excellent potential. These factors include **growing demand**, stimulated by ease of access to contents and their interoperability in different technologies, as well as the quality of the infrastructures available to transmit this content.

- The industry has been attracting a growing number of **new economic sectors** in Spain, such as healthcare or transport, which have implemented digital formats originally designed for the sectors included in this report. For this reason, and also due to the rapid progress of digital transition in industry, it is important to study the near future of this market, not only within the sector itself, but taking into account new sectors from non-leisure spheres.

- In the light of the current trend towards convergence and digitisation in the content industry, an analysis should be made of the importance of digital content both from the perspective of its contribution to the **creation of wealth and employment** in the Spanish economy, and considering its key role in the **Information Society**. The allure of quality content, as society's main leisure and entertainment tool, is attracting new digital users every day. Of the Spanish population aged 10 and over, 60.5% are Internet users.

- Immersed in the digitisation process, the digital content industry has seen revenue **increase** by nearly 16% compared to 2007 and in 2008 it was the segment of the content industry that recorded the greatest growth. In 2008 revenue from the contents sector totalled €15.858 billion, 31% of which corresponded to digital content. In 2003 this percentage was 20%, an increase of 11 percentage points.

- This year the industry has been **driven by two sectors**: **online advertising and DTT**, which, with annual growth of 26% in the case of advertising, and 70% penetration of DTT in Spanish households, have enabled the digital content industry to record sales of nearly €5 billion.

- It is also important to note that the percentage of the **Spanish population** consuming digital content has increased by 5.9 percentage points with respect to 2008. Currently, 70.3% of the population consume some kind of digital content, with films being the most popular content. In 2003, half of all Internet connections took place over narrowband; today, broadband accounts for 97% of all connections. In Spain, 99% of the population have broadband coverage, one of the highest percentages in the world.

Other reasons for the growth include: new electronic devices capable of playing all kinds of content (text, music and videos), improvements to mobile and wireless communications, cheaper services and the high penetration of the mobile phone in Spain. It is significant to note that in the latest report drawn up by the European Commission (January 2009), Spain emerges as the country with most broadband users, with 25.9% of the population using this type of connection, compared to the European average of 13%.

A sector by sector analysis reveals the following conclusions:

- The Spanish **video games** sector has established itself as an attractive market of growing importance due to its potential and its recent classification as a cultural asset. Spain is fourth in Europe in terms of sales. The video games sector also shows vigorous growth world-wide due to the increase in the number of users.

  Consumption of video games in Spain grows every year, supported by distribution platforms based on new market niches. One of these is the mobile phone platform, which is growing rapidly due to the high rate of mobile phone penetration in Spain. Both formats, mobile and online, are gaining ground to the detriment of PC video games. In the latter case, hardware follows the trend of recent years and has been superseded in 2008 by software sales.

- The **music** industry continues to change towards business models that increasingly ignore the CD format (with an increase of 8% this year in Spain of both mobile and online formats). As a result, new opportunities for monetisation and improved profitability of music sales are arising based on streaming and funding from advertising or reasonable monthly subscription payments. This new way of listening to music will also stimulate music sales over the Internet or mobile phones, and these are expected to be the fastest growing formats, with the consequent readiness of users to establish legal links with content providers. In Spain, as in the rest of the world, the sector continues to decline due to a drop in physical sales. However, a turning point is expected in 2012 enabling markets to start to recover, with forecasts pointing to the online and mobile market occupying over 50% of the recorded music market. Ubiquity should be an absolute precondition both for the professional use of content (libraries) and for the normal consumer who demands that all content available on music platforms should be interoperable.

- The **audio-visual** sector during 2008 in Spain has seen significant growth in the number of Internet users accessing radio or television websites, above the European average and far ahead of countries such as Germany, France and Italy. In the transition to DTT, Spain is in an advantageous position with the inclusion of pay DTT, thus strategically positioning itself on an equal footing with other European countries already implementing this combined mode.

  New opportunities are opening up with the development of infrastructures, the sale of new devices and the growing number of services and subscribers. Digital radio extends coverage and includes new broadcasting channels.

- The digital **publishing** sector is rapidly expanding, with particular growth noted in the digital books sub-sector, which has grown by 100% with respect to the same period of the previous year. This growth has been possible due to the development of playing devices and the digitisation of libraries undertaken by private companies.

  The number of users reading online newspapers every day has risen sharply: 24% with respect to the previous year, with 6.4 million readers, corresponding to 47.5% of the readers of traditional newspapers, a 10 points increase over the previous year.

  These consumption habits are leading the sub-sector towards a new business model that will allow it to adapt to future consumer demands. Newspaper users-readers are ahead of the online press, being themselves the creators of news, as in the case of *Twitter*, an ultra-fast news service that reaches users even before the news agencies themselves.

- Significant changes will be seen in the **advertising** sector in Spain over the next three years thanks to the recently approved Law 8/2009 on the Funding of the Spanish Radio and Television Corporation, making it possible to transfer advertising assigned to this medium to other channels such as, for example, the Internet. It is interesting to observe how online advertising, which has risen sharply (26.5% in Spain), now exceeds spending on TV advertising in some countries such as the UK.

  In addition, mobile phone advertising is increasingly being used by companies as a communication strategy to conduct high impact campaigns, making particular use of location tracking tools to further streamline advertising messages; this trends increased by 89% during 2008.

- The **film** industry in Spain is on the upturn, in part due to the new 3D film format, which is attracting new content and boosting box office sales. The number of 3D cinemas has increased from 101 in 2007 to 1,541 in July 2009. As in previous years, the number of Spanish feature films and production companies continues to rise. Furthermore, the consumption of online videos by Spanish Internet users is above that of other countries. New business opportunities continue to emerge due to changing patterns in leisure and entertainment in Spain

The contents industry is rapidly digitising its value chains: recording, playing, distribution and sales. Because of this, the traditional side of the contents industry is losing market share to digital media, which gain ground daily.

A moment should be taken to analyse these digital contents and their classification according to platform type, as totally digital sub-sectors such as entertainment software or music are beginning to emerge. Furthermore, non-digital versions of these traditional sub-sectors continue to lose ground in the industry.

The future clearly points to the importance of the widespread digitisation of elements of our daily lives through the “Internet of things”, the increasing interiorisation of content in coming generations and, therefore, the redesigning of deep-rooted industry structures.

The leading role played by users as those responsible for configuring and generating their own **a la carte content** will one of the bases of future digital consumption. Users are at the forefront of a change in consumer habits, being responsible even for arranging the contents of their favourite websites to their taste, based on simplicity and user-friendliness. This new kind of **personalised consumption** will not only gain adepts in newspaper circles, but is already a reality in music and other highly interactive sectors.

Finally, the digital content sector is in a state of constant evolution, with space for new sectors, the contents of which will be incorporated in the industry. These new trends aim to satisfy consumer demand that is increasing moving towards online, personalised and quality consumption.

10. NOTE ON METHODOLOGY

GENERAL NOTE

A large number of different information sources were used for preparing and updating this report: official statistics, as well as sectorial reports drawn up by the employer's associations of each sector.

For the purpose of this edition, it has been decided to include Internet advertising as part of the digital content industry. Up until now, advertising had been considered a cross-sector, and was excluded in order to prevent it from being counted twice. However, this is no longer true for this sub-sector, as some include online advertising in their revenue, as is the case of digital newspapers.

This report has taken very much into account the information included in the "Networked Society 2008" report published by the ONTSI, which reports a 1% growth rate for the digital content industry. Said report focuses on a certain number of sectors included in the following CNAEs (National Classification of Economic Activities):

CNAE (Spanish National Classification of Economic Activities)	Manufacturing
2214	Publishing of sound recordings
2231	Reproduction of sound recordings
2232	Reproduction of video media
2233	Reproduction of computer media
	Audio-visual services
9211	Motion picture and video production
9212	Motion picture and video distribution
9220	Radio and television activities

This report, however, extends the number of sectors analysed, as is the case of the White Paper on Digital Content published in 2008, to include a wider group of sectors taking into account the dynamics of the industry and its wide scope.

FORMULA FOR COMPOUND ANNUAL GROWTH RATE

The following formula has been used to calculate the compound annual growth rate, with "n" being the number of years between the two years to be calculated:

TCCA= 100*((Future value / Value prior to the year of reference)^(1/n)-1).

OUTLOOKS AND FORECASTS

Following the same method used in the previous edition of the White Paper, calculations for forecasts for trends and outlooks (previous years), have been based on increases or reductions reported in the GEMO 2008-2012, and then applied to the data supplied by the employer's associations.

EXCHANGE RATES

To quantify the different markets in the digital content industry different information sources were used; in the case of data obtained in dollars, the exchange rate used was 0.79703 dollars to the euro.

In the conversion of yen to euro or pounds sterling to euro, the following exchange rates were used:

- pounds sterling to dollars: 0.49987 dollars = 1 GBP
- yens to euro: 0.008258 euro = 1 yen

OTHER SECTORIAL CLARIFICATIONS

In the **music** sector, revenue from concerts has been calculated by applying an average rate of 10% to revenue published by the SAGE in their annual reports, respecting the two real data from 2005 and 2006 published by the organisation.

11. GLOSSARY

2D: two dimensional.

3D: three-dimensional, in three dimensions.

3G: third generation of mobile telephony standards (UMTS).

ARPU: Average Revenue per User.

ADSL: Asynchronous Digital Subscriber Loop. Internet connection standard that uses the subscriber telephone loop (copper pair).

API: communications interface between software components.

Blogroll: collection of blog links.

B2B: Business to Business, it refers to transactions between enterprises.

B2C: Business to Consumer, it refers to transactions between enterprises and consumers.

Broadband: name given to the array of Internet access technologies that transmit information using several channels to increase effective transmission speed.

Banner: Internet advertising format consisting in the insertion of a piece of advertising on a web page.

Blockbuster: successful production. applied to films, TV productions, video games, etc.

Briefing: a document summarising the basic information necessary to carry out a campaign.

CD/CD-ROM: Compact Disc-Read Only Memory.

Cannibalisation: a phenomenon that occurs when one product makes another obsolete, increasing sales of the first at the expense of the second.

Casual game: online video game or game aimed at a wide range of users, featuring simple rules and no record of previously played games. They do not require specific skills and are produced and distributed at low cost.

Catch-up TV*:* a la carte TV.

Commodity: homogeneous or low differentiation product, the sales of which are based almost exclusively on the price.

DAB: Digital Audio Broadcasting, (digital Radio).

DRM: Digital Rights Management.

Dual licensing: It refers to the distribution of software by dual licensing schemes (two different sets of licences), one normally being open and the other with restrictions.

DVB-H: Digital Video Broadcasting - Handheld. Standard for the distribution of the TV signal specially adapted for portable devices.

DVR: Digital Video Recorder.

DVD: Digital Video Disc.

e-Administration: used to designate the presence of the public administration on the Internet (online services, websites, etc.).

E-learning: Electronic Learning.

EBITDA: Earnings Before Interests, Taxes, Depreciation and Amortisation.

EMEA: Europe, Middle East and Africa .

GPRS: General Packet Radio Service; it is the main communications protocol for second generation (2G) mobile telephony.

GRP: Gross Rating Point. Measurement of advertising audience of a medium, equivalent to 1 per 100 of the potential total audience universe. Duplications are not considered for these purposes.

HDTV: High definition TV.

Hosting: a service giving Internet users a system enabling them to store information, images, video or any other web-accessible material.

R&D+i: research, development and innovation.

IPTV: Internet Protocol TV . Television signal that is transmitted digitally via the Internet. Also called ADSL TV.

Synchronisation licences: a kind of contract authorising the use of phonographic material or musical compositions in other audio-visual content on media such as television and other interactive media. E.g. Using a song by a group in an advert or film.

Mashup: website or web application that uses content from other web applications to create completely new content.

Metadata: the information that describes an electronic resource. For example, the metadata of a music file are: duration, format, year of publication, etc.

Minigame: a kind of casual game developed for a single player and lasting for a short time. Examples of these are the games that come already incorporated on mobile phones.

Moviesodes: episodes or series adapted for the mobile telephone.

Multiplex: radioelectric frequency channel allowing the grouping of between 4 and 6 digital TV programmes and other digital services using digitisation techniques and data compression. The multiplex manager controls the different TV channels, gathers information from all these and arranges the information shown on the Electronic Program Guide - EPG.

PC: Personal Computer.

PDA: Personal Digital Assistant, initials commonly used to refer to electronic diaries.

Podcast: sound file distributed via the Internet through content syndication (users subscribe and receive the new podcasts when they are broadcast).

Wap Portal: Wireless Application Protocol. A standard defining a way of accessing data using a mobile phone.

PPV: Pay Per View.

Product Placement: positioning a product in content for advertising purposes.

Quality Assurance: in the video game and other computer sectors a process or programme by which a product is attributed the quality and reliability needed for its use and the purpose for which is has been manufactured.

Semantic radio: online music services offering or suggesting content that could match the musical taste pre-set by the user, or the kind of music the user has been listening to.

Serious game: a game designed for purposes other than pure entertainment, such as education, advertising, health, etc.

Non-linear services: non-programmed audio-visual services requested or chosen by the user, such as a la carte video.

Spam: unwanted electronic mail.

STB: Set Top Box. A device used to connect a television set to an external signal source. It is commonly used to receive a television signal in cable networks.

Streaming: technology used to transmit digital files in real time (mainly music or videos). It may or may not include storage on the destination media, and is used by different website to transmit their material, such as Spotify.

CAGR: Compound Annual Growth Rate.

DTT: Digital Terrestrial Television

Testing: part of the manufacturing process of a video game or computer product where the correct working of a program or application is checked, subject to a certain level of demand.

ICT: Information and Communications Technology

UMTS: Universal Mobile Telecommunication System. Third generation mobile telephony standard.

UGC (User Generated Content): basic element for stimulating interest in social networks. The content could be photos, videos, documents, links, comments, etc., and are related to a particular content or subject. Depending on the service clause, the licence for these contents can belong either to the user or to the host.

VOD: Video On Demand.

Web 2.0: it refers to the second generation of web-based services and communities, which enables collaboration among users (wikis, social networks, etc.)

Webcam: video camera that is connected to a device with an Internet connection, so that the images may be accessed online, electronic mail, etc.

Wi-Fi: Wireless Fidelity. Marketing name used for the family of local wireless network standards 802.11.

Wiki: collaborative website that may be edited by various users. The users of a wiki can create, edit, delete or modify the content of a web page, interactively, easily and rapidly.

Wireless: without wires.

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13. LIST OF TABLES AND FIGURES

GOBIERNO DE ESPAÑA MINISTERIO DE INDUSTRIA, TURISMO Y COMERCIO

Digital content has been progressively incorporated into the lives of citizens and plays a fundamental role in the development of the Information Society. This content in the form of blogs, photos, music, electronic books, articles, reports, films, video clips, minigames, etc., not only accounts for a large portion of leisure activities in our country but also plays an important role in professional and information spheres and in the Public Administration.

All agents involved in the industry that produces digital content are aware of the important role they play in the development of this industry and numerous efforts are made to implement improvement strategies that facilitate content accessibility.

In light of the challenges faced in this context, public institutions are key to establishing the regulatory frameworks and fostering measures that favour the development of this industry. The Spanish government believes that a strategic priority for the sector is to introduce promotional incentives and plans, which are already fuelling sharp growth, and to strengthen the SME business fabric in this sector.

The report presented below gives the present and future strategic keys for the sectors that comprise the digital content industry. It gives a detailed description of the situation of each sector, offering an analysis that will doubtless serve as a reference manual both for the agents involved and for consumers and organisations.