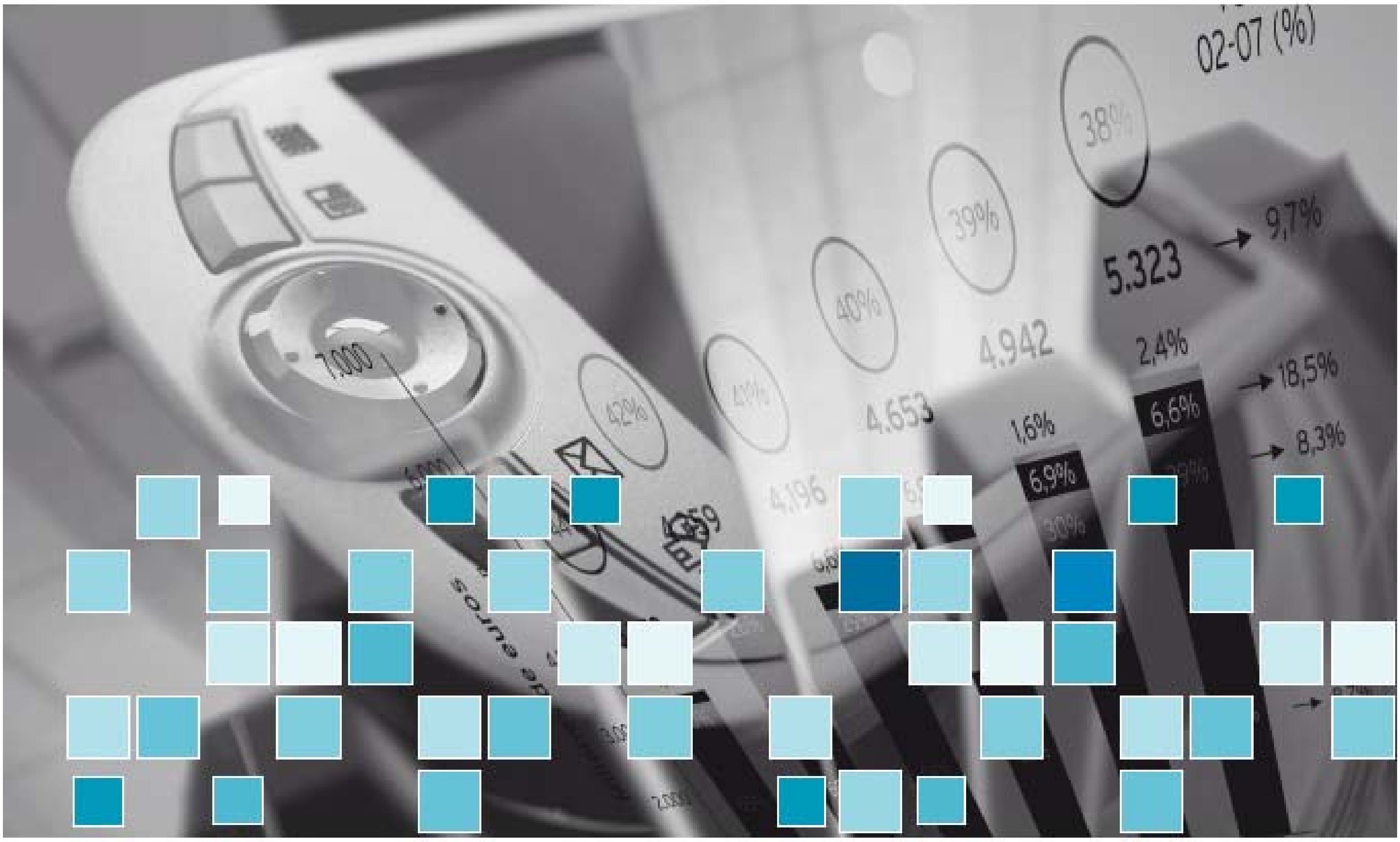
Main Figures for Digital Content in Spain

2009



GOBIERNO DE ESPAÑA

MINISTERIO DE INDUSTRIA, TURISMO Y COMERCIO

SECRETARÍA DE ESTADO DE TELECOMUNICACIONES Y PARA LA SOCIEDAD DE LA INFORMACIÓN

Main Figures for Digital Content in Spain 2009

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Introduction

Context

Following the publication in 2008 of the White Paper on Digital Content in Spain, the Ministry of Industry, Tourism and Trade has this year published an update of the figures and tendencies relating to this industry.

Year by year, digital content is becoming more and more an essential element of the Spanish business fabric and is being progressively incorporated into the lives of citizens; it plays an increasingly important role in the development of the Information Society and displays **growth in regard to digital elements**.

This content accounts for a large proportion of leisure in our society and is rapidly being incorporated into professional and information spheres and into the Public Administration.

The Spanish government considers the introduction of promotional incentives and promotion plans for this industry as a strategic priority and these are already fuelling major growth and strengthening the SME business fabric.

This report on *The main figures for the Digital Content Industry 2009*, provides a brief description of each sector and the main figures for Spain and also the conclusions drawn from the present and future strategic keys of the sectors that comprise the Digital Content Industry.

This report reviews the six sectors that currently comprise the digital content industry:

- Video games
- Music
- Audiovisual
- Publications
- Advertising
- Films

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

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.

01

General situation of the digital content industry in Spain

Global 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.

In 2008, the digital content industry in Spain had a turnover of €4.982 billion, which is 15.8% more than in 2007, and displayed growth of 82% between 2003 and 2008. The importance of the industry is reflected in the proportion of the Global Industry that Digital Content represents. In 2003, digital content sales accounted for 20% of the total industry, while in 2008 this figure stood at 31%, an increase of 11 percentage points over this period.

The evolution of the industries that produce digital content in Spain has been positive and sales figures for the different sectors that comprise the industry show that it experienced annual growth of 3% between 2004 and 2008.

This growth demonstrates the vitality of the digital dimension, which has **consolidated its position**, and should be taken into consideration along with new developments in traditional formats. The aforementioned digital formats are already one of the main sources of revenue for all the sectors.

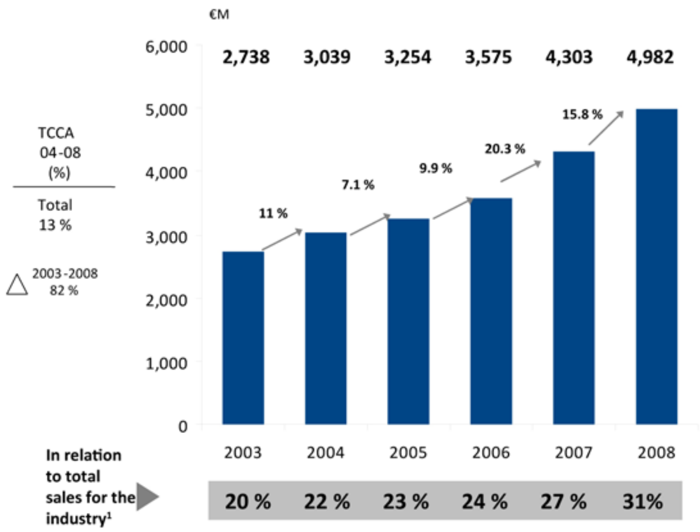
Within the digital content industry, it is the digital facet that has experienced the sharpest growth, at 15.8% in 2008 and, specifically, **on-line advertising** is the sector with the highest growth rate in 2008, at 26.4%.

The **key factors** for the advancement of the digital content industry in Spain include the continuous improvement of Internet access (both fixed and mobile broadband) and increased broadband coverage. The

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

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 that demand is met.

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



Source: prepared by ONTSI, 2009

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

	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%

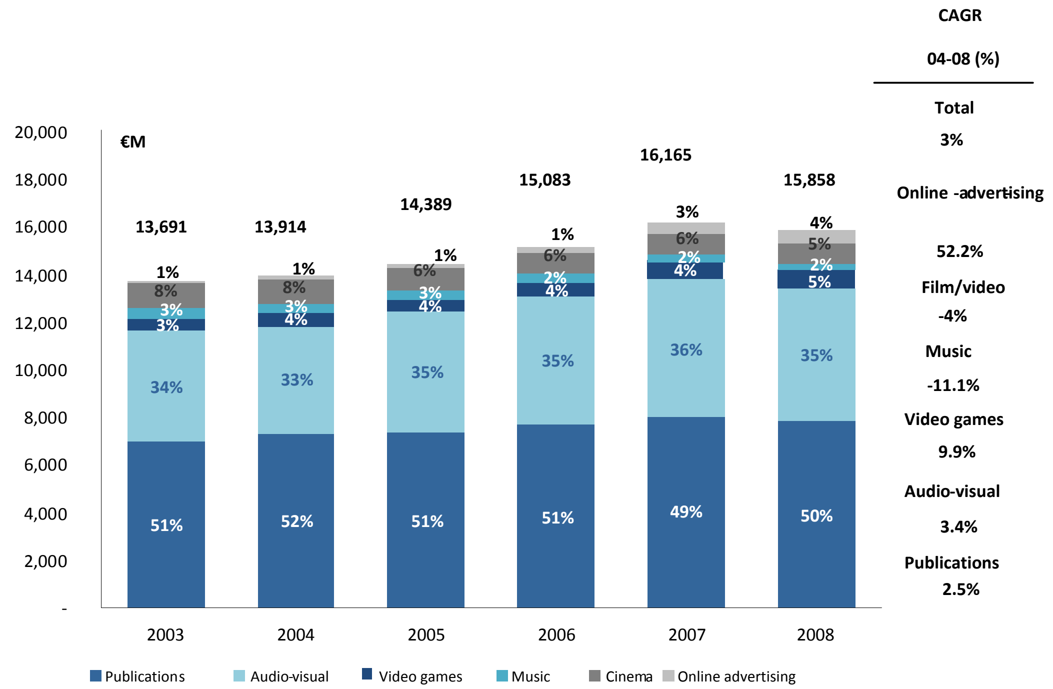
Source: ONTSI, 2009

In an international context, with the exception of the **music** sector, sales figures have continued to rise, although their growth rate has declined 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 ones, followed by the video games sector, which is closing the gap.

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. Mexico is the leading country in the Spanish-speaking region, accounting for around 25% of the global market. Spanish has strengthened its position as the third most widely used language on the Internet, with more than 455 million Spanish-speakers and around 133 million Spanish-speaking Internet users in the world. This places the Spanish digital content industry in a privileged position.

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



Source: ONTSI, 2009

Figure 1.4. Digital content production industries world-wide: turnover 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

* Television (including advertising) and radio.
** Only includes online advertising

02

Video games sector

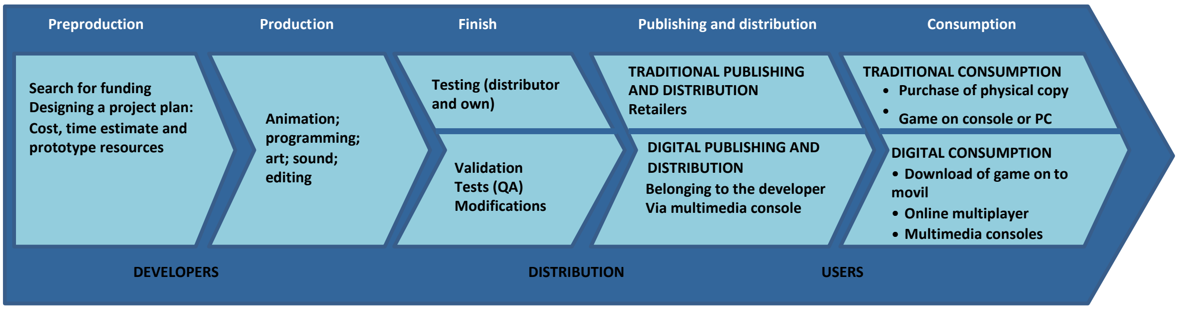
2.1. Description of the sector

The video game sector is experiencing year-on-year growth. A large part of this growth is due to the impact of the latest generation consoles which have led to profitable business models, such as the exclusive on-line download of video games, on-line multiplayer games and the success of games for downloading onto mobile phones.

The video game sector is characterised by a high business concentration and by vertical integration and a high oligopolistic component. The Spanish supply is supported by foreign distributors and tends towards diversification, into casual games, for example, and towards an investment model based on best-sellers. Also, the demand is composed of new niche users (women and older people) who are now enjoying video games. Lastly, the sector is establishing synergies between film, music and social networks.

The creation of a new video game entails at least 5 phases:

Figure 2.1. Traditional and digital value chain of the video game sector



Source: ONTSI

In Spain, the distribution agents are concentrated in the sector's multinationals, leaving a small share for Spanish distributors who rely on backing from large distributors for their funding. In exchange, the large distributors demand the intellectual property rights for the studio's works. In Spain there are currently more than 100 developer enterprises that employ more than 600 people.

As a sector, Spain hopes to get a firm boost to its business fabric, thanks to video games being classified as a cultural asset and due to increased sales.

2.2. Situation in Spain

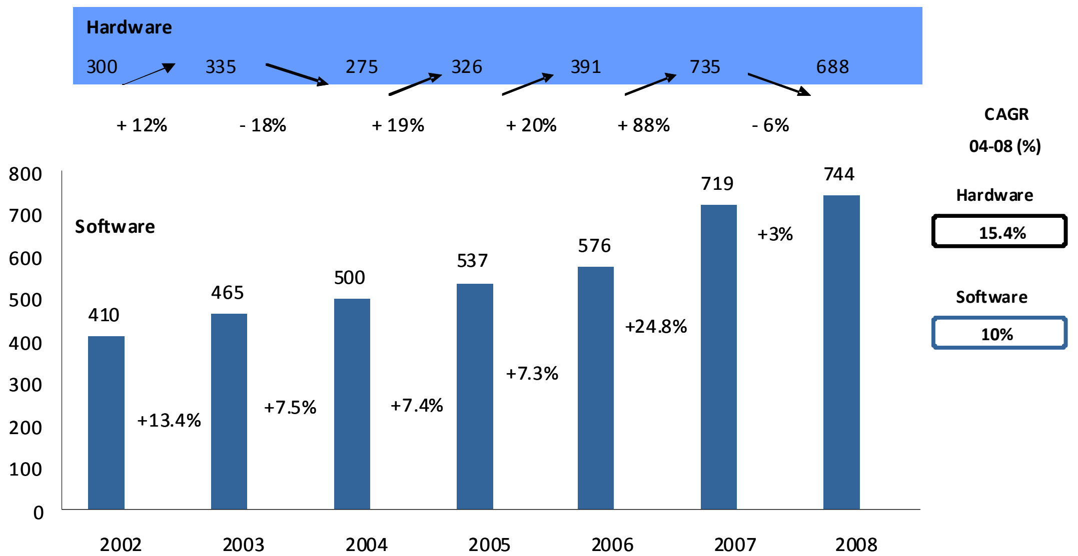
In 2008, the Spanish video game market recorded total sales of €744 million, an increase within the industry of 3.5%. Furthermore, contrary to last year, software sales exceed sales for hardware, which fell by 6%.

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 reached 644 million euros. 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.

Figure 2.2 Software and hardware consumption sales in Spain (€M)



Source: ADESE "Annual Results 2008"

2.3. 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 has the fourth highest sales figures in Europe and in 2012 expects to achieve growth of 9%, with the sector consolidating its position and specialising above all in mini games and casual games in small-scale formats which are less costly and more profitable.

Consumption of video games 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. Hardware has returned to its usual trend: it is exceeded by software sales.

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

03

Music sector

3.1. Description of the sector

Over the last decade, the Spanish music market has been steadily declining 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 form of listening to music via streaming in exchange for advertising.

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.

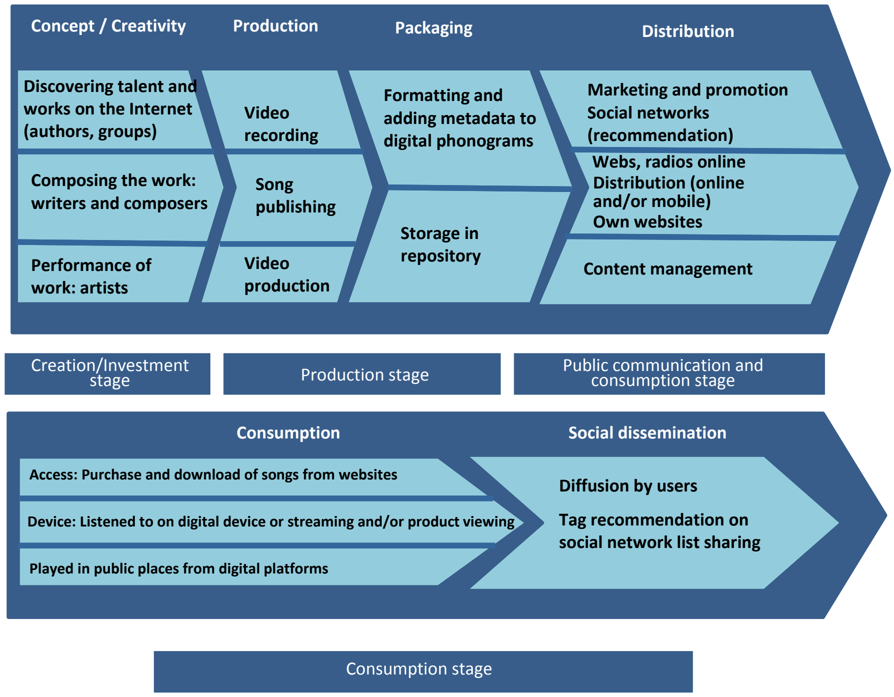
The sector's large multinationals form alliances which benefit both leisure consumers of digital music and the creators of quality music configured in the *Long tail*.

The value chain is beginning to move away from traditional models. At the talent discovery stage, the Internet is home to authors, performers and groups who use the Internet as an alternative means of making their work known and as an alternative means of funding.

At the **packaging** stage, the works are no longer produced in physical formats. Instead metadata files are created by the aggregators and these are stored in repositories which can be accessed by the label, the sales portals and websites through which they can be played via *streaming.*

In the **consumption** stage, users decide on the place of purchase and the format, be it of individual songs or albums, and also opt to consume without downloading. 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 3.1. Music sector digital value chain



Source: ONTSI

3.2. Situation in Spain

In 2008, the music market in Spain achieved 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% decline in 2008 compared to 23% in 2007. This is due to the growth in digital businesses.

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

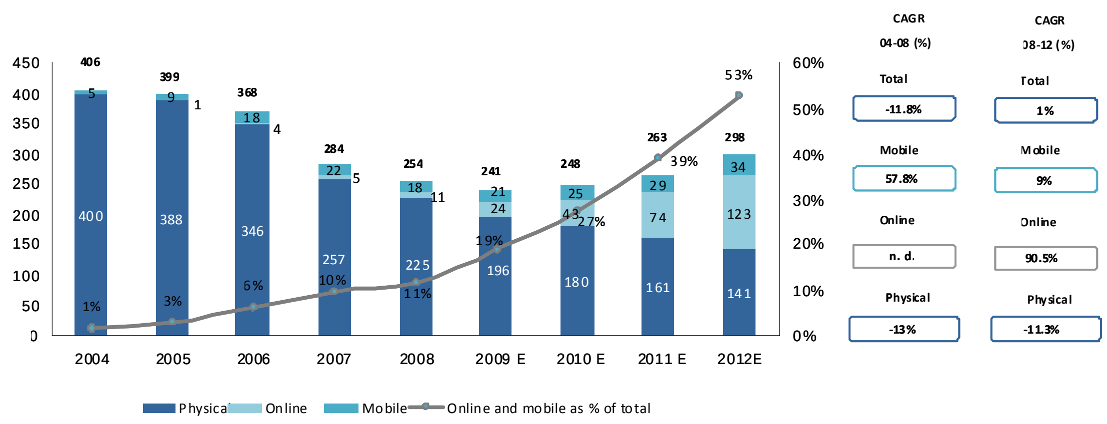
Although there was a 17% decline in the number of mobile downloads in 2008, this type of downloads still leads the Spanish market, given the high mobile penetration rate in our country. As regards online downloads, in 2008 there was a sharp increase of 120%, representing sales of €10.8 million.

The polytones market is still an attractive niche market for record companies, operators and mobile manufacturers. In the European Union, this business accounts for around €750 million.

Along with this change in consumption habits, there has also been a growth in revenue from live concerts, which continue to play a significant role, with an estimated turnover of more than 300 million euros in 2008.

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%. Forecasts suggest a discreet aggregated growth rate, corresponding to a CAGR of 1% between 2008 and 2012. The sharpest growth will be in the on-line format, with a CAGR of 90.5% between 2008 and 2012.

Figure 3.2 Evolution of the music market in Spain 2006-2012E (€M)



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

3.3. Conclusions

The music sector is continuing its transformation towards business models that abandon the CD format in favour of others based on *streaming* and funding through advertising and monthly subscriptions. Mobile manufacturers and service providers have established trade alliances whereby song repertoires or unlimited downloads can be obtained for a monthly fee.

The introduction of these new 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 to online music festivals or concerts broadcast live online, which provide new sources of revenue for the sector.

In Spain, as in the rest of the world, the sector continues to shrink due to the fall in physical sales. However, 2012 is expected to be the year in which markets begin their recovery.

Ubiquity will have to 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.

04

Audiovisual sector

4.1. Description of the sector

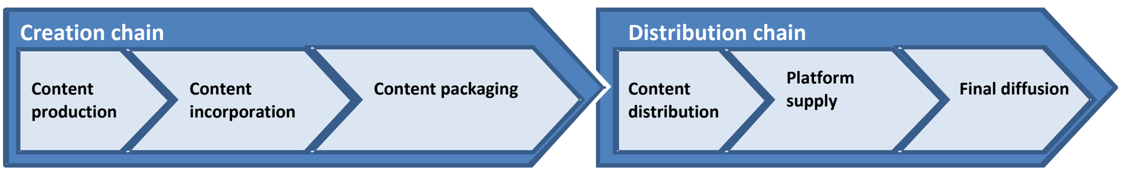
The audio-visual sector is comprised of the television and radio markets in both their analogue and digital formats. The television sector is divided into two main types: freeview and subscription. Depending on the broadcasting method used, the sector is further divided into terrestrial television (analogue and digital), cable television, satellite television, IP television and mobile television.

The value chain for the **audio-visual** sector is divided into two phases, one being creation and the other distribution. The creation chain consists of three main phases, the production of content, incorporation (which includes purchase and management of rights) and packaging.

The distribution chain process is divided into three phases: The distribution of content (where distribution agreements are reached with cable channels, distribution via television, via VoD IP or via Internet and the sale of rights), supply of the platform and dissemination.

DTT sees the emergence of the multiplex manager 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. Manufacturers must provide users with a suitable receiving system.

Figure 4.1. Audiovisual sector value chain



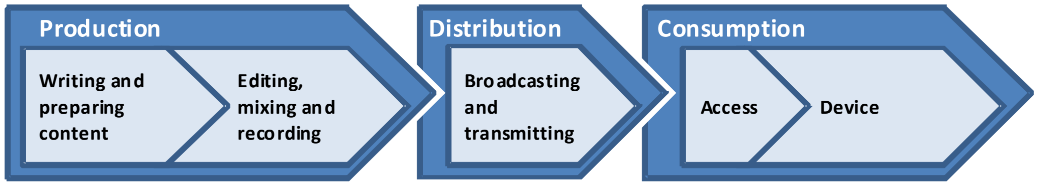
Source: ONTSI

The **radio** sub-sector in Spain is based on a business model which features advertising as a source of revenue (more than 99% and excluding subsidies).

The value chain for radio varies if the audio is broadcast in digital format. 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.

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

Figure 4.2. Radio sector value chain



Source: ONTSI

4.2. Situation in Spain

Revenue from the **audiovisual** 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.

Between 2004 and 2008 the **television** sector grew at a rate of 3.1% per year and achieved revenue of €5.084 billion in 2008, of which 41% came from pay TV. For its part, the **radio** segment's share of revenue for the audiovisual sector is similar to that for 2007, standing at 8% of the total.

Freeview television earned €2.994 billion, which represents 54.2% of total audiovisual sector revenue. **Pay** TV, based on income from subscriptions, accounted for 37.8% of the total.

Satellite television achieved revenue of 1,542.3 million, accounting for 30.3% of total turnover, and grew by 19.8 million euros more in 2008 than in the previous year. **Cable television** achieved turnover of 346.7 million euros in 2008. Revenue from **IP television** or via ADSL, was 41.8% higher than in the previous year, with turnover of 185.1 million euros. Revenue from **television via mobile**, stood at 16.2 million euros in 2008, corresponding to growth of 86.7% in relation to the previous year.

In 2008, for the first time, the number of pay TV customers exceeded 4 million. The platform which managed to attract the most subscribers was satellite TV, accounting for almost half.

TV consumption in 2008 increased to 227 minutes per viewer per day, an all time high which exceeds the 223 minutes recorded in 2007.

Audience evolution since 2002 shows that in that first year the main channels (La Primera, La 2, Telecinco, Antena 3 and regional channels grouped around Forta) accounted for 91.1% of the market share, while in 2006, the market share of these 5 channels was only 78.8%, and in 2008 it fell to 69.9%. Cuatro and La Sexta, increased their audiences by 0.9 and 1.5 percentage points in 2008. Theme channels recorded an increase of 2%.

In October 2009, 5.4 million households were already digitised, which shows how rapidly the transition to **DTT** is taking place. Household penetration at the end of September 2009 stood at 70%[2] and 96.3% of the population had DTT coverage by July 2009. The Autonomous Region leading digital adaptation in Spain is the Canary Islands, with 80.5% penetration (in households). Second on the list is the Autonomous Region of Madrid (76.3%),

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

followed by Catalonia (75.8%) in third place.

More than a third of the country's total audience watches television on DTT; the figure stands at 45.3%, to be exact. 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.

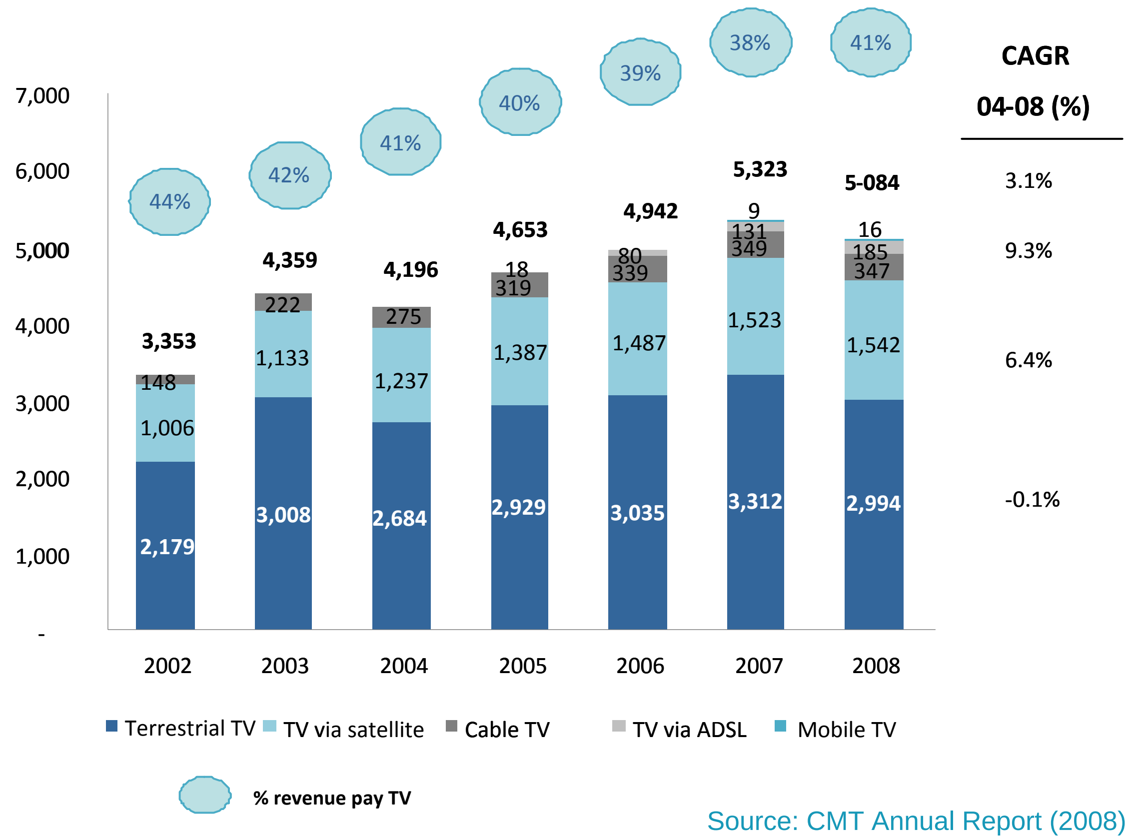
DTT's increase in screen share has come about to the detriment of analogue television, which stands at a historic low of 31.5%. Also, the consumption of pay platforms has stabilised, accounting for 21% in 2009. The proportion of pay TV ratings in October was 21.4%.

The **Radio** sector achieved revenue of 442 million euros in 2008, a fall of 0.4% in relation to total sales for 2007 when the sector witnessed growth of almost 10%. The CAGR for the sector between 2004 and 2008 was 6.8%.

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.

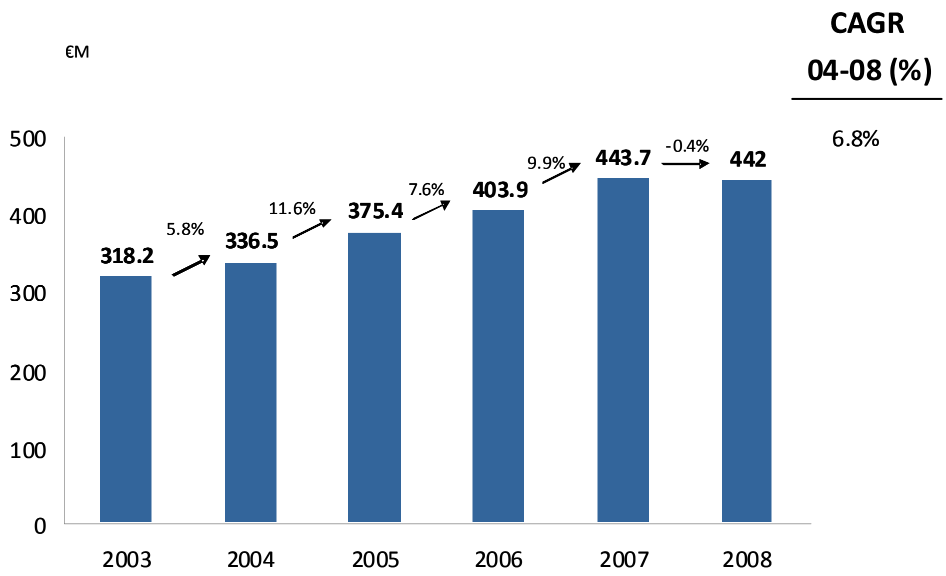
Radio consumption stands at an average of 107 minutes per person per day, of which 51 minutes correspond to general interest stations and 53 to theme stations.

Figure 4.3. Television revenue by transmission medium 2002-2008 (€M)



Source: CMT Annual Report (2008)

Figure 4.4. Advertising revenue of radio sector in Spain 2003-2008 (€M)



Source: CMT Annual Report (2008)

4.3. Conclusions

In 2008 Spain has witnessed significant growth in the number of Internet users accessing radio or television websites; it is 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. In turn, DTT has boosted growth in audiovisual consumption, thanks to the greater variety of content available. The future of audiovisual content lies in self-programming (a la carte content) and use of the return channel as a business model.

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 has increased its coverage with new channels broadcasting and these increase the competitiveness and quality of the content.

There is the possibility of increasing business opportunities within the sector through new services based on interactive content and its digital derivatives, which to date have been very limited, and through digital radio, DTT or pay television. For example, revenue from television via mobile is increasing and is benefiting from the increase in the number of telephony lines. On the other hand, ADSL television should benefit from the increase in the number of Internet users and improved broadband services.

05

Publications sector

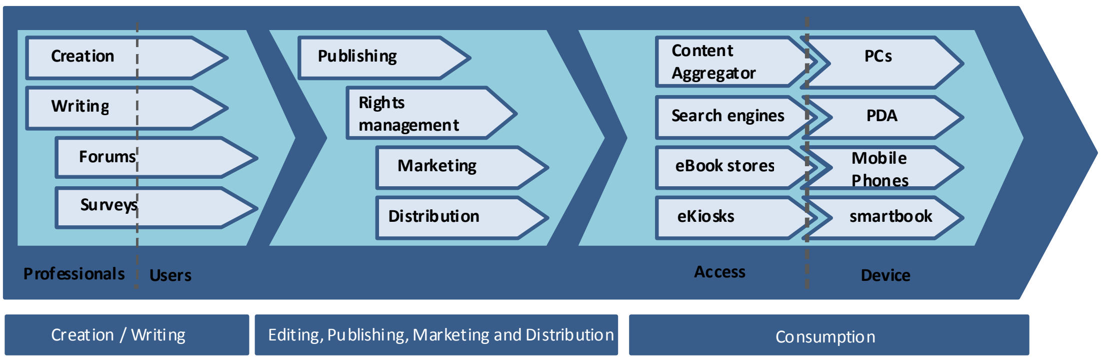
5.1. Description of the sector

The publications sector media are evolving towards digital devices.

For agents in the sector, electronic publishing 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 of the possible development routes for the digital publication market is alliances with technological companies or service providers.

This sector encompasses books, newspapers and magazines online in a unique value chain as these three components are practically identical and respond to similar production processes. It must be remembered that the production of physical publications is already electronic up to the distribution phase, which is when paper is used.

Figure 5.1. Digital value chain of the publications sector



Source: ONTSI

The first stage is the creation and writing of the content, produced by writers, journalists, experts, institutions, etc. In the digital model, multimedia content has to be added, such as video and audio, and space needs to be made available for user generated content.

Online distribution is leading to the disappearance of the traditional intermediaries, except in the case of books on physical digital devices, which gives rise to new agents in the sector, such as content aggregators, search engines and online book stores and kiosks.

In the consumption phase, the online model requires a device for accessing said content and it is therefore further removed from the end consumer than the traditional model.

With regard to the magazine sector, it is worth mentioning the recent online news-stand phenomenon. These news-stands distribute digitised copies of the printed versions of magazines, which are available to download for a subscription fee.

5.2. 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.

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 euros in 2008, accounting for 15% of the total revenue of this sub-sector.

Electronic books, which in Spain were worth 321 million euros, have started to overtake the print versions in some countries, in the case of highly successful literary works[3]. Electronic publishing in Spain in digital formats such as CD-Rom or DVD and online publishing displays an upward trend and currently accounts for 8.1% of all publications (8,447 new titles) and 10.1% of turnover of the Spanish domestic book trade, representing a total of €321.73 million.[4]

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

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, which is 10 points more than the previous year.

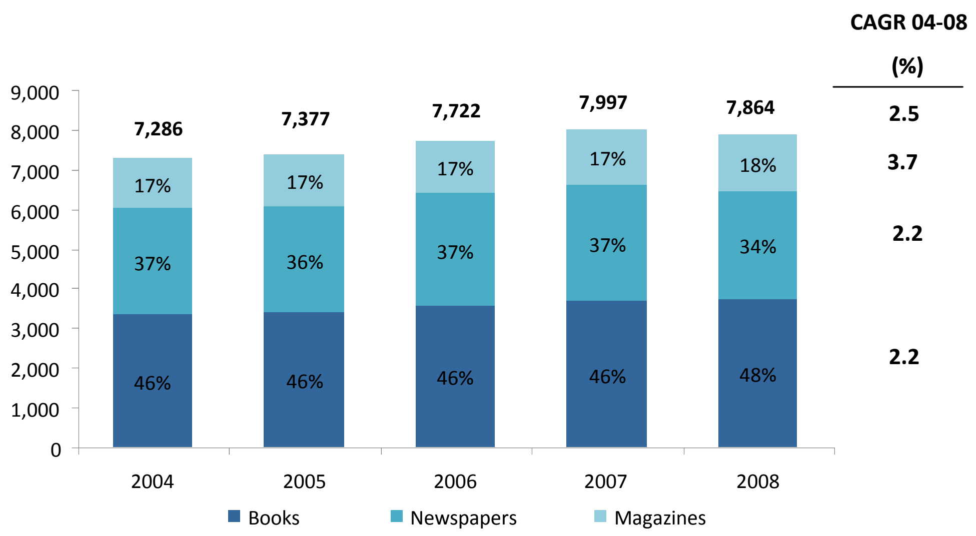
Despite this increase, the 8% decline in the press sub-sector in 2008 has had an impact on the whole publications sector with total revenue down by 1.49%.

The turnover for online **magazines** is in the early stages of its development. In 2008 this format experienced growth in revenue of 44%.

[3] The Lost Symbol, by Dan Brown, version for Kindle by Amazon.

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

Figure 5.2. Publications market in Spain: evolution 2004-2008 (€M)



Source: ONTSI based on 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

5.3. Conclusions

Within the sector, off-line consumption still leads 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. This is reflected in the increase in revenue from electronic publishing and the increase in digital readers.

The sharpest growth is in the number of users who choose to read the press online each day, a number that has grown exponentially and stands at 6.4 million readers. This figure amounts to 47.5% of readers of traditional press, 10 points more than the previous year.

These consumption habits are leading the press sub-sector towards a new business model that will allow it to adapt to future consumer demands. User-readers are one step ahead of the online press, with users themselves generating news, as in the case of *microblogging* tools.

Electronic publishing is showing symptoms of incipient development, having achieved a turnover of more than 300 million euros in 2008. Subscriptions to online magazines are starting to take off. Both of these platforms offer online advertising an alternative market.

The electronic book market is benefiting from the increase in the supply of reading devices, which reduces their price and stimulates consumption.

The linking of off-line and online formats will revitalise the sector in both formats, generating new business based around web communities of Best-sellers or *bidibooks*, books that enable readers to link their content with videos, photographs and texts via mobile as a complement to the printed book.

06

Advertising sector

6.1. Description of the sector

Advertising is at the core of the sectors that comprise the industry and is the main source of funding for new business models; for this reason advertising is undergoing the same conversion process as the industry.

Advertising is marked by two different stages in the way it is carried out: the pre-revolution stage, in which there was no immediate feedback from the customer and the post-revolution stage of the digital era in which the two-way relationship is a basic feature of advertising communication.

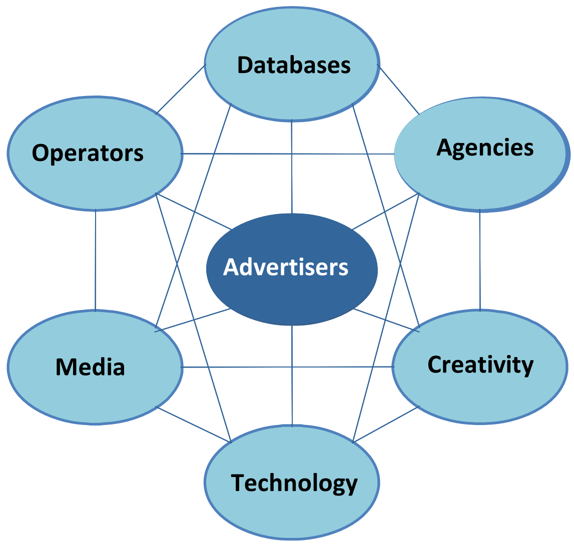
The second distinguishing feature of the digital revolution is the way in which communication is carried out, moving from mass campaigns to segmented campaigns which have a smaller number of impacts but which are more effective. Thus, geolocation as a communication strategy together with the mobile as the instrument for said strategy, is becoming a future advertising channel. This way, revenue is defined by information which is interesting and non-intrusive to the consumer.

The traditional linear chain of agents has changed, giving way to a relationship of interdependence between all the existing agents and the new ones (agencies, media, operators). Also included in this context are the transfers of audiences from one medium to another. A degree of customer loyalty has occurred, or rather, characterisation of the consumer and their consumption objectives in relation to the medium used.

Thus we are observing a clear migration trend among some advertisers who are moving away from investing in more traditional forms of media in favour of more interactive forms. In Spain more than 50% of advertisers expect to increase their investment in interactive media this year.

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.

Figure 6.1. Value chain of advertising on mobile phones



Source: Mobile World Conference 2008

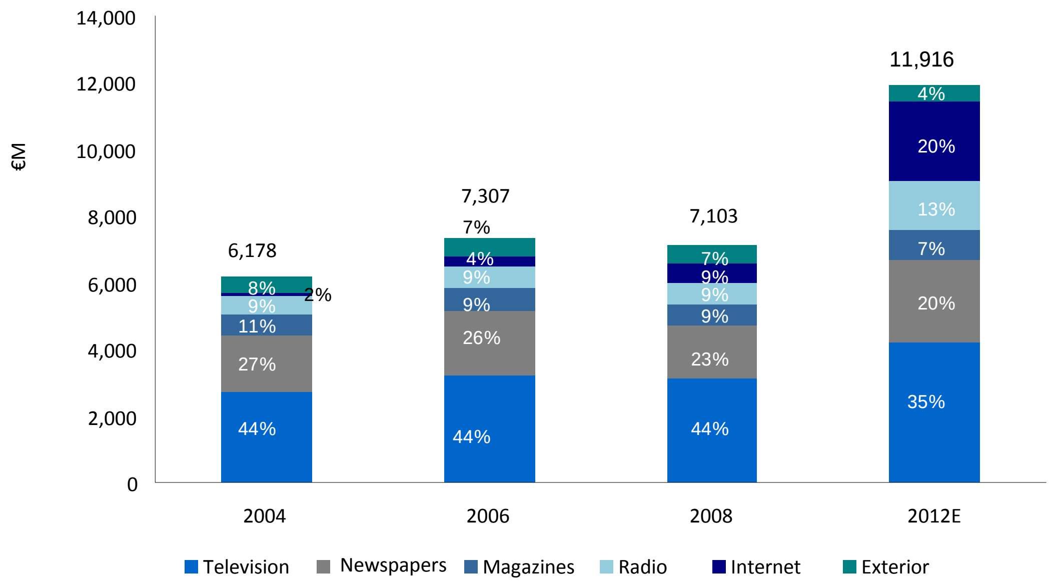
6.2. Situation in Spain

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, going from 2% of total advertising expenditure in 2004 to 9% in 2008; it is forecast to reach 20% by 2012, taking away 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 and was worth an estimated 3.102 billion euros in real investment. This is followed by newspapers, worth 1.612 billion euros and in equal measures by magazines, radio and Internet with estimated investment standing at just over 600 million euros 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 6.2. Conventional advertising market in Spain (€M)



Source: Infoadex 2009 and PWC

Despite the decline caused 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%)[5]. Conventional advertising will be worth 11.916 billion euros, with Internet becoming the medium with the third highest investment levels behind television and newspapers, the latter taking just 128 million euros more in revenue than the online medium.

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%.

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 spatio-temporal dimensions of each individual.

In 2010, the global mobile marketing market will be worth around 5.846 billion euros. In Spain it is forecast that investment in 2010 will reach 105 million euros, which means an average annual growth rate of 100%, with the market volume in 2008 standing at 28.6 million euros.

Within mobile marketing there is a type of campaign known as mobile advertising. This covers Internet searches and *Display,* which in 2008 were worth 9.5 million euros. In second place in terms of importance is proximity marketing, carried out using *bluetooth* or *geomarketing*, which was worth 9 million euros. In third place, applications and specific advertising content for mobiles is estimated to have been worth 6.5 million euros that year. This

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

includes *advergaming* or specific video game advertising for mobiles. Finally, messaging, both SMS and MSM, was worth 3.4 million euros.

6.3. Conclusions

The global economic crisis experienced in 2008 has led to a reduction in investment in advertising. However, online advertising is one of the sectors that has fared best in 2008 and in Spain is the medium that recorded the highest growth. Despite this, it still accounts for less than 10% of the total for the sector.

By way of an example of the potential of online advertising, in some countries, such as the United Kingdom, for the first time investment in this platform has overtaken television advertising, with a growing tendency towards using interactive media which have a greater impact and are more effective.

More than 50% of Spanish advertisers expect to increase their investment in interactive media in 2009. This presents the companies with new funding opportunities and also provides the sector with new development opportunities.

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.

Mobile phone advertising is increasingly used by companies as a communication strategy to conduct high impact campaigns, making particular use of location tracking tools to further streamline advertising messages.

07

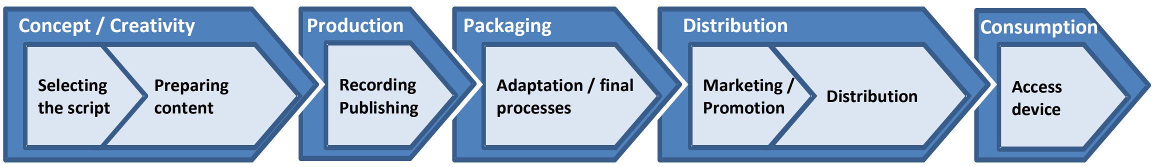
Film industry

7.1. Description of the sector

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 euros 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.

There is a wide variety of 3D material which can be screened in cinema venues: opera, concerts, flamenco, films, football, video games, etc. which caters for all tastes, thus optimising the use of cinemas.

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, the difference being that the latter is carried out in digital rather than analogue format.

The most significant changes in the value chain have been in the production phase, in the case of 3D films, and in the distribution phase for all types of content within the sector. 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 production processes, 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. Lastly, there is the **consumption** phase, which includes accessing the product using the different technologies and devices mentioned.

7.2. Situation in Spain

Turnover in the film industry in Spain for the first half of **2009** was 296 million euros, 13% more than the same period of the previous year.[6] Likewise, ticket sales for this period were 48.8 million, 7.9% more than in 2008.

The “top five” most popular films in Spain were: *Angels and Demons* (15 million euros and 2.5 million spectators), *Gran Torino* (12.7 million euros and 2.07 million spectators), *The Curious Case of Benjamin Button* (12.2 million euros and 2.01 million spectators), *Slumdog Millionaire* (10.5 million euros and 1.7 million spectators) and *Seven Pounds* (9.8 million euros and 1.6 million spectators).

The “top five” most popular Spanish films were: *Fuga de cerebros* (6.7 million euros and 1.1 million spectators), *Mentiras y gordas* (4.3 million euros and 715,697 spectators), *Los abrazos rotos* (4.1 million euros and 671,367 spectators), *Al final del camino* (2.67 million euros and 447,920 spectators) and *Che, guerrilla* (815,879 euros and 136,616 spectators).

The film market in Spain in **2008** experienced a slight decline. Overall revenue fell between 2004 and 2008 to an estimated compound annual growth rate of 4%, going from 1.096 billion euros in 2004 to an estimated 860 million euros in 2008.

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 (81.6 million euros) were below those of 2007, bringing in 5.1 million euros less than in 2007. Spanish films had 13.2% of market share in 2008, compared to 13.5% in 2007, second only to the US.

Sales of films on all media have been experiencing a decline in revenue since 2004 which has meant that up to 2008 the estimated compound annual rate of decline has been around 7.3%.

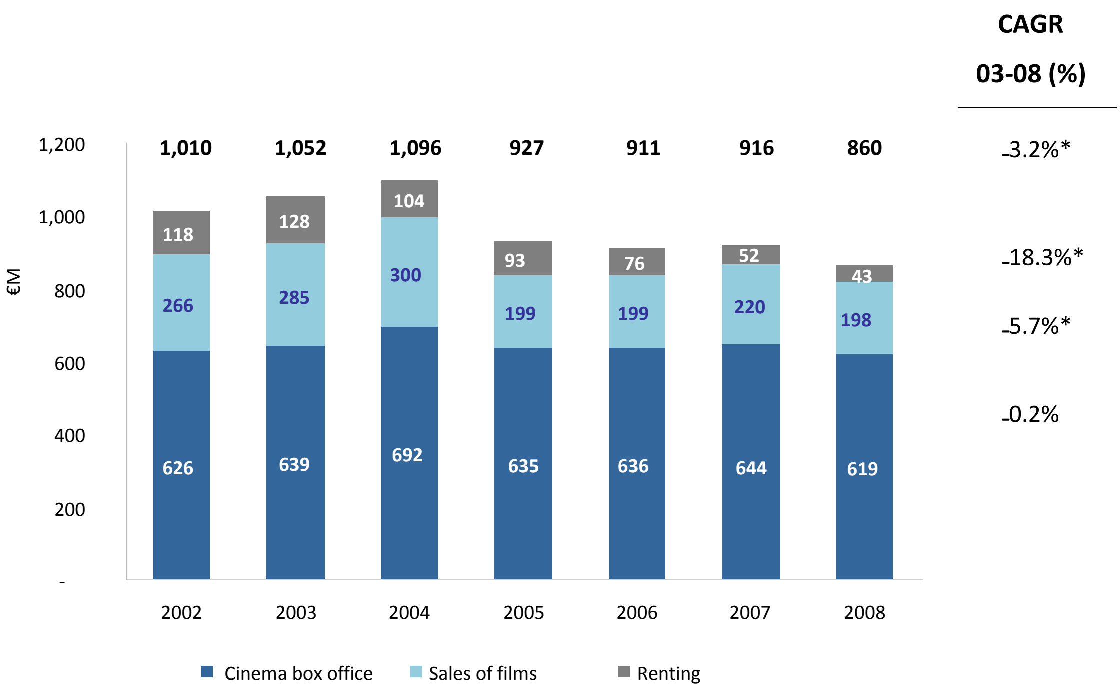
The downturn has been even more accentuated in the film **rental** business: in 2002 this accounted for around 12% of Spanish film industry sales; however, after an estimated drop of a little over 18.5% between 2004 and 2008, it now accounts for barely 5% of total industry revenue.

The evolution of revenue from **Video On Demand** (VoD) **Pay Per View** (PPV) films in Spain registered a compound annual growth rate of 14.5% between 2003 and 2008, with a sharp rise from 2006, reaching a turnover of 58.9 million euros in 2008.

Since 2003, Spanish film **production** has experienced continual growth, with a compound annual growth rate of 9.5% from 2004 to 2008 and 173 feature films produced in 2008. In 2008, 49 films were **co-productions** while in 2007 the number was 57. Production figures for short films are far higher, with 156 made in 2007, compared to 210 for 2008.

[6] Federation of Spanish Cinemas 2009

Figure 7.2 Evolution of the film market in Spain 2002-2008 (€M)



Note: including sales and rentals in VHS, DVD, UMD, Blu-Ray and HDDVD format

*Estimated figures. Latest available figures for 2008Q1 Q2 estimated based on figures for 2007Q2

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

The **number of** active production **companies** (those that participated in the production of at least one film), reached a record high in 2008, with 217 Spanish film production companies compared to 213 in 2007 and double the figure for 2003 (120).

With regard to **distribution,** of the 518 films screened, 379 were imported foreign films and 139 were Spanish films.

In 2008 there were 4,140 active **screening venues** compared to 4,296 in 2007. The proportion of cinemas per inhabitant continues to be higher in Spain than in any other European country. The number of **3D** cinemas grew from 101 in 2007 to 1,541 in July 2009.

Since the all-time high was reached in 2001, with nearly 147 million **spectators**[7], the number of Spanish cinemagoers has fallen steadily, with spectator figures declining from over 140 million in 2002 to just under 108 million in 2008.

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%).

[7] FAPAE, 2009

7.3. Conclusions

The film market in Spain seems to have picked up in the first half of 2009, showing revitalisation in a sector which is also moving towards digital formats due to the proliferation of 3D cinemas. The development of these more technically ambitious formats and evolution of the sector requires technological solutions, as well as the creation of adapted content.

Within the phases of the new digital format value chain there have been increases in the effectiveness and speed of distribution, reductions in 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.

The sector is also evolving in relation to the quality and variety of the content it offers (3D films, opera, concerts and football), which is attracting larger audiences to cinemas and is leading to a more diverse range of content aimed at reaching all audiences.

The consumption of online videos by Spanish Internet users is above that of other countries. Given this trend, new business opportunities continue to arise, based mainly on the Internet as a new screening venue.

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08

Habits of digital content consumers

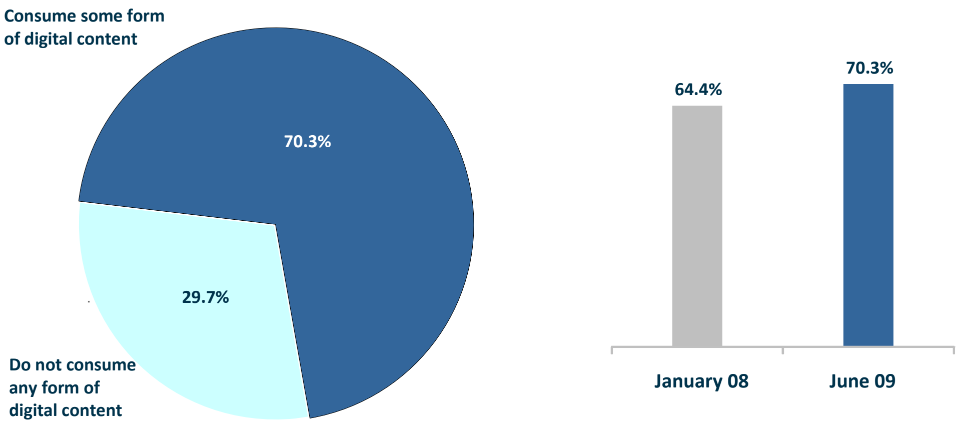
8.1. Current context

It is essential to be aware of the current and future habits of clients or potential clients in order for the digital content industry to grow and take strategic business decisions. For this reason, the survey conducted analyses what contents are used, how they are accessed, and why acquisition of some is no longer widespread, differentiating between the most representative sectors of the industry from the point of view of demand.

Furthermore, the community of Spanish Internet users now accounts for 60.4% of the population (24.3 million Spaniards); it is consolidating its position as the most active in the world in the use of social networks after Brazil, with 3 out of every 4 Internet users taking part in one or more of these networks.

In 2009 the percentage of the Spanish population consuming digital content increased by 5.9% with respect to 2008, with 70.3% of the population now consuming some kind of digital content. This is due to the spread and increased availability of broadband and the progressive introduction of DTT.

Figure 8.1. Percentage of Spanish people 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,*

Marked differences in consumption habits can be observed according to **age**. Young people (aged 15 to 34) are the group who make most use of content. This age group 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. Children aged 7 to 14 are the biggest consumers of films and series (69.9%), followed by video games (68.7%) and music (68.3%).

Among the population aged 15 and above, 29.7% **do not consume** content, a fall of 5.9 percentage points compared to the previous year, with the majority of these being people aged 65 and over (40.9%) and a greater percentage of men than women (54.3% vs. 45.8%).

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% have "no time" to use it

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.

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% of Spaniards declared that their most frequent use was viewing content on DTT and real-time online media (streaming).

Both age group and sex are key to understanding the consumer habits of this content. Women are more traditional in their choice of the device used for viewing TV, and the older age group spends more time in front of the television.

The physical device for receiving content which has experienced the greatest decline in use is the CD, which fell from 68.5% in 2008 to 43.6% in 2009; this fall is reflected in the increase in online consumption which has risen 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%.

Music

The percentage of people consuming digital music increased by 2.1 percentage points in 2009, but 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.

The consumption of music through DTT, pay TV, online and via *streaming* is still low, at 2.6%. However, growth of almost two percentage points has been recorded in relation to the previous year.

With regard to playing devices, use of CD/DVDs has fallen from 71.2% in 2008 to 61.7%, although it is still the most widely used device in 2009. Online access has experienced sharper growth, with 6.1% compared to 1.1% in 2008. The number of consumers who listen to and store music has declined by 8.1%.

The most widely-used device for listening to music continues to be the CD player. A total of 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, etc., players (16.6%).

In 2009 consumption of music *on the go* increased with the consumption of music on portable devices, while consumption at home went down despite being the place where 95% of consumers listen to music, (71.1%).

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. Age is a determining factor for the penetration of video games. For example, 68.7% of the population aged between 7 and 14 are users of these products.

With regard to games equipment, the number of players among the population aged 15 or above who play using traditional media (television and consoles) has fallen in favour of new forms of consumption, such as *on the go* games devices. These have grown as a result of the use of portable consoles (14.4%) and to a small extent, mobiles (1%). No variations have occurred in the place chosen by consumers to play video games. A total of 97.7% say that they play at home (either at their own home or the homes of others).

As with all other kinds of content, there has been a decline in the use of physical storage devices (CD/DVD), due to the reduced use of the CD/DVD as a device for getting games and the increase in the consumption of video games on the computer and use of the computer hard drive for storing them.

In 2008 a total of 86.3% of consumers declared they used and stored video games. However, in 2009 this percentage has fallen by 6 percentage points. 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%). The figure for individuals using consoles has risen from 45.4% to 61.8% to the detriment of the PC, which has dropped from 31.8% to 27%.

8.2. Conclusions

Digital content is now an evident form of leisure among 70% of the population, with films and series being the content most in demand.

With regard to devices for receiving music, there has been a sharp fall in the use of physical devices (although they are still in the lead) with *streaming* being the consumption format that has experienced most growth. For viewing films and series, *streaming* and DTT are the most widely used formats.

In the case of video games, the tendency is to use devices for playing *on the go*, due mainly to portable consoles, which highlights the importance of mobility in leisure.

Young people (aged 15 to 34) are the biggest consumers of digital content, the biggest consumers of films and series and video games are children aged 7 to 14 and those who do not consume state lack of time, lack of interest or finding it difficult as their reasons for not doing so. These groups should be the targets of custom made campaigns of varying intensities to boost consumption of digital content.

On the other hand, incentives for users to take part in web 2.0 will facilitate the move towards semantic Internet and intelligent searches, taking advantage of the initiative of users as taggers and content evaluators.

These figures, together with the fact that there has been positive evolution in consumption among the Spanish population of almost 6% compared to 2008, highlight the increased demand for digital content.

09

Note on Methodology

A large number of different information sources were used for preparing and updating this report: official statistics, 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 contents industry. To date, 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 subsector, as some include online advertising in their revenue, as is the case of digital newspapers.

This report has taken into account the information included in the "Networked Society 2008" report published by the ONTSI which reports a 1% growth rate of the digital contents industry. This report focuses on the sectors that correspond to the following CNAE (Spanish 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, a wider-ranging group of sectors taking into account the dynamic 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:

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

PERSPECTIVES AND FORECASTS

Following the same method used in the previous edition of the White Paper, calculations for forecasts for trends and outlooks have been based on increases or declines 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 euros to the dollar.

In the case of changing yen to euros or pounds sterling to euros the following exchange rates have been used: pounds sterling to dollars: 0.49987 dollars = 1 pound and from yens to euros: 0.008258 euros = 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.

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.