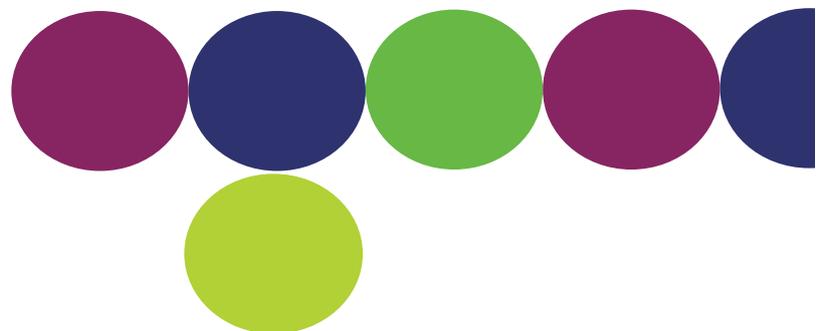




DIGITAL CONTENT IN SPAIN

Annual Report 2011



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DIGITAL CONTENT IN SPAIN Annual Report 2011

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1. INTRODUCTION







1 Introduction

Since 2008, Red.es, through the Spanish Observatory for Telecommunications and the Information Society (ONTSI), has compiled¹ an annual report on activities related to digital content in Spain.

The impact of digital content on our society is evident in its influence on consumer habits as well as its significant and increasingly larger economic dimension, as the data provided in the present report will show.

It cannot be denied that digitalisation has become the necessary driver of the new business models; it is transforming the context in which business is conducted for good. This transformation is affecting consumer relations and, logically, the growth of revenues generated.

The way in which content digitalisation generates new customer and consumption profiles may be observed, simultaneously causing existing traditional models to decline according to the nature of the content (press, music etc.), thus giving way to the implementation of new product marketing digital platforms and the content itself, which is already digitalised.

The impact on companies is obvious, with many of them in the middle of the “reconversion” process and others that have been digital natives from the beginning. The common ground that unites these two types is in the search for new, sustainable business models which will allow them to exploit their business to the full. Here, constant innovation can be an essential part of facilitating and dynamising this business development.

As pointed out previously, the economic importance of the digital content market is evident, but the key to its importance stems from the fact that digitalisation has become the main driving force not only of new operational models, but also of consumer relations and ultimately of the increase in revenues generated in the industry.

In this context, the technological convergence process has permitted and facilitated content to be consumed in a way that is completely different from to what we have hitherto known, to the point where an effective dissociation between medium and content exists. This enables digital content to be consumed anywhere, regardless of the moment, and of course using any electronic device that is technologically suitable. This new way of consuming content, which is intrinsic to digital content, constitutes in itself a genuine revolution.

The European Commission is fully aware of the importance of one of the most critical aspects in the digital content market: its distribution in the digital environment. For this reason, within the context of the Europe 2020 Strategy, a Green Paper was recently published on the online distribution of audiovisual works in the European Union: opportunities and challenges towards a digital single market². This previews and identifies challenges such as the need to adapt copyright parameters, remuneration for digital content authors who are exploited online and accessibility. It is not for nothing that the cultural industries in Europe, including the audiovisual sector, create about 3% of the EU's Gross Domestic Product.

The complex and thorny issue of piracy of digital content cannot be avoided; it is a phenomenon that undoubtedly has a negative effect on the digital content industry (on sales and distribution, as well as on the financial profitability that should be generated). This needs to be Investigated and measures and cultures introduced to prevent and stem this harmful practice, which is detrimental to all those who operate in this market. On this issue, managing digital content

¹ It may be read at <http://www.ontsi.red.es/ontsi/es/estudios-informes/principales-magnitudes-de-los-contenidos-digitales-en-espa%C3%B1a-2008>

² http://ec.europa.eu/internal_market/consultations/docs/2011/audiovisual/green_paper_COM2011_427_es.pdf



intellectual property rights is one of the points for which a profound reflection that aims to optimise, ensure and dynamise this management is required.

The European Commission has recently proposed different measures to modernise collective intellectual property rights management, such as the creation of multi-territorial copyright licences³ and the harmonisation of standards for the collecting societies who manage these rights, with the goal of encouraging their transparency and efficiency and promoting online digital content sales. These initiatives by the Commission are in line with the well-known aim to promote a European Directive to harmonise collective management, something which would undoubtedly have a strongly positive effect on the development of the European digital content market and therefore on our own market.

The mass digitalisation of content has certainly caused intellectual property rights management entities to have a serious rethink about their role, functions and abilities. This is an aspect which in the short term is especially significant for forming a global outlook on digital content.

Government initiatives designed to boost this industry⁴, as well as recent legislative measures agreed and incorporated into our legal system, are gradually starting to bear fruit. Nonetheless it is necessary to intensify efforts aimed at boosting the digital content industry in our country, with the vital cooperation of the Public Administrations, who will need to determinedly draw up public policies on the development of digital content in view of the underlying industrial implications and economic repercussions of this sector. In this sense, the Digital Agenda for Spain proposal that was published on 24 July 2012 explicitly includes in Objective 2.3 a proposal to boost production and distribution of online digital content.

³ This would enable the obtaining of copyright licences in the EU when selling digital content, for example music, to be streamlined, thereby avoiding the need to request permission in the 27 countries.

⁴ An example is the Plan for the Promotion of the Digital Content Industry 2011-2015 (Avanza 2), which is encompassed within the initiatives that are being prepared at European level, the new "Digital Agenda for Europe", and the Strategy 2011-2015 of the Avanza2 Plan.



Report structure

The 2012 edition of the digital content report is divided into 10 main sections:

- Conceptual Framework
- Trends and forecasts
- Digital Content Industry
- Video games.
- Music.
- Cinema and video.
- Audiovisual.
- Digital publications.
- Digital advertising.
- Driving digital content in Spain

The “Conceptual Framework” chapter provides a description and outlines the scope of the study; the following chapters introduce the data obtained in each of the branches of the industry.

The data presented is extracted from the results of the survey conducted by ONTSI on companies in the industry and published in the “Report on the Telecommunications, Information Technology and Content Industry in Spain. 2011 Annual Report”. This is where the digital content business part is extracted from. This enables digital business sales figures, distribution by product, digitalisation rate, digital investment and people employed to be shown. In some chapters external sources are used to obtain data. This is the case with the audiovisual sector (TV and radio) which is completed with figures from the Telecommunications Market Commission (TMC), the cinema and video market, which is accompanied with the reference of the number of digital studios from the Association for Communication Media Research (AIMC), the digital advertising sector, which has Infoadex data, and the video games market, which has figures from the Spanish Association of Entertainment Software Distributors and Publishers (ADESE).

The study includes a chapter on “Trends and forecast” for digital content in Spain, in terms of technology and important aspects for the development of the market.

In the “Driving Digital Content” chapter the industry's role in the Digital Agenda for Spain initiative is explained, with the main lines of work and specific measures that the Government is taking to consolidate further the Information Society in Spain. Specifically, Objective 2.3 of the proposal is to boost digital content production and online distribution.





2. CONCEPTUAL FRAMEWORK





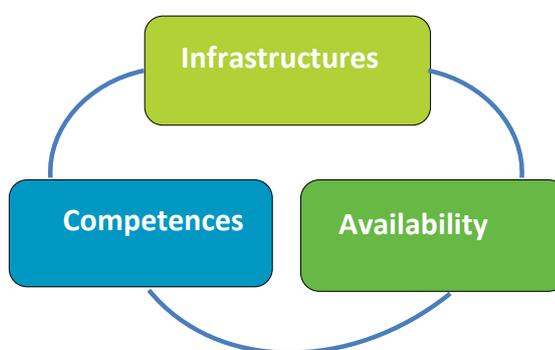


2 Conceptual Framework

A preliminary approach to the dynamic digital content industry shows that three enabling factors may be identified⁵:

- The infrastructure, which provides the physical platform on which digital content can be created, stored, distributed and used.
- Availability, understood as the production of this content and its being made available on the market in digital format.
- Competences for accessing and using digital content, which entails certain knowledge and ability to operate equipment and understand aspects like, for example, the restrictions of intellectual property rights management (a good paradigm is Digital Rights Management, better known as DRM).

Figure 2.1 Enabling factors in digital content



Once the basic outline of the creation of digital content has been traced, it is no easy task to establish a clear definition of what “digital content” actually means.

A first attempt at defining it should consider exactly what the word digital means, insofar as it definitively typifies and identifies content as such. Digitalisation therefore comes from the codification, packaging or simply distribution through digital networks, which necessarily requires specific protocols to be adapted.

Traditionally, those dedicated to creating digital content have always had to offer content to anyone interested, at any time, in any place and on any device. Achieving this objective ultimately means verifying that the technological convergence process has a real and economically significant impact on the digital content industry.

Digital content features two typical aspects:

⁵Source: “OECD Internet Economy Outlook”, OECD 2012.



- **Economic importance**, which is essential for promoting the development of the Information Society and thus contributing to economic growth in Spain.
- **Potential for growth**, which comes from digitalising content, the wide variety of new mediums and adapting existing distribution networks.

2.1 Types of digital content

Constant innovation and the wide and varied supply of digital content make this industry one of the most dynamic and changing in the world of ITC, which explains why it is more difficult to come up with a standard and exact definition of it.

Following the initial recommendations of the OECD, the Content Industry is defined by the sectors and activities detailed below which are listed in the International Standard Industrial Classification of All Economic Activities (ISIC Rev. 4):

- Publishing: includes book and newspaper publishing and other publishing activities
- Cinema: includes cinema-related activities, video and TV programmes.
- Music: sound recording and musical editing activities
- Audiovisual: programming, TV and radio broadcasting activities.

Subsequent recommendations from the OECD justify the need to include the video games market as well as digital advertising, which makes a total of six sectors comprising the industry.

A specific breakdown of the products and categories considered for each branch and concept is contained in the Note on Methodology section.

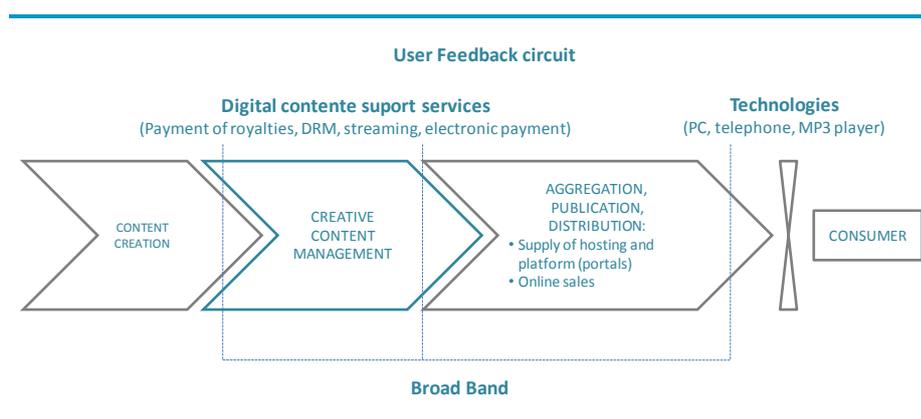
2.2 The value chain in the Digital Content Industry

Value chains are descriptive models of the economic value generated and accumulated in a given sector or industry, starting from the lowest level in terms of a specific product or service and reaching the highest level or link. The analytical function of the value chain lies in showing where and how this value is created, as well as helping to identify where and how other new values can be created (in our case in a specific digital content setting).

According to the OECD, the basic outline of the value chain in generating digital content starts with the initial creation of content; subsequently, the latter is managed, added to, published and distributed, with the assistance, logically, of secondary and supplementary tasks such as applied product marketing, before it is finally passed on to the end consumer:



Figure 2.2 Generic Value Chain



Source: OECD 2012

The functions and composition of the generic value chain are changing between the existing agents and the new players who are seeking a place in the links of this chain, at the same time as new sources of income and business models are emerging.

The distinguishing feature of the value chains for each type of product is based on their increasingly complex structure, due to more and more players being involved.

Starting from this basic outline different characteristics may be established depending on the platform used and the digital content concerned.

The transformation of the value chain and the corresponding configuration of new consumer and customer profiles resulting from the process of content digitalisation is palpable. The challenge no doubt lies in the intrinsic structural difficulty of translating certain content into economic value.

As accurately disclosed in the report on digital content produced by Gaptel (Telecommunications Sector Analysis and Forecasting Group) in 2006⁶, the effective incorporation of the new digital distribution channels is directly linked to the evolution of the revenues and profits obtained from traditional distribution channels. This circumstance has been observed in the transformation of the value chains that affected the music industry, and will presumably be seen as the cinema value chain experiences dramatic changes, given the situation, evolution and impact of traditional film distribution alternatives.

⁶ <http://www.ontsi.red.es/ontsi/es/estudios-informes/contenidos-digitales-nuevos-modelos-de-distribuci%C3%B3n-line-junio-2006>





3. TRENDS AND FORECAST







3 Trends and forecasts

The increasing availability of more and better digital content and the general public's greater use of the Internet has meant constantly changing consumer behaviour, with traditional business models being continually challenged. The future of the digital content industry in Spain will be impacted by a series of general trends related to the features and performance of communications networks, access devices, standards of distribution platforms and content copyright. These key trends in the Digital Content industry can be summarised as:

- Rapid development of high-speed networks and rollout of fourth generation mobile networks.
- Growing competition in access devices, for mobile telephones as well as for tablets, smart TVs and set top boxes.
- Need to create standards for these new distribution platforms to facilitate the development of applications and bring down costs for content providers.
- The market will revolve around who has the distribution rights and the optimisation model for content distribution.

Development of high-speed networks

The key factors that will boost the digital content industry include the possibility for higher speed and better quality in Internet access, at lower prices, better payment plans, increased Internet coverage, both for mobile and fixed broadband, and improved customer services.

Telecommunications operators have become content distributors, but in the future we will see increased competition in these services with new companies emerging that will offer video web services that can be viewed on a wide range of connected devices. Some operators have seen a business opportunity in this. Firstly, reaching agreements with the main web content generators and putting them into a services package managed by the telecommunications operator. Secondly, in distributing these information packages online, boosting the smart TV market. Thirdly, viewing the web as an alternative to IP television.

With the development of high-speed networks, telecommunications operators can continue with their strategies of offering more flexible packages, linking up a video service with their Internet access solutions. These packaging services have taken on a wide variety of formats including video distribution, voice triple play, data and TV, and packages which include mobile telephony services. These packaging strategies seek to offer users a simple all-in-one solution, increasing revenues per customer and reducing turnover rates.

In Spain there is a rapid growth in new generation networks, FTTH and cable networks. We have gone from having 59,981 FTTH lines in 2010, to 177,122 in 2011 and 270,621 in September 2012, which enables us to state that telecommunications operators' operational reach over the last two years has been considerable, with a 195% increase in the number of these lines from 2010 to 2011, and 53% from 2011 to September 2012.

It is worth highlighting the impact of broadband networks on digital content distribution methods and mechanisms: access via streaming has had a negative impact on traditional downloads, thanks to better available bandwidth, allowing consumers to access digital content without needing to download content first onto their hard disk. This is closely linked to certain types of digital content in particular (especially music and video) due to the advantages it offers compared to downloading since it does not need to be stored.



In conclusion, we should reiterate the impact of extended broadband and increased access speed, two aspects which, as previously mentioned, will have a positive effect on the expansion of digital content, enabling it to grow and develop.

More competition in access devices and development of standards

One future trend will be the option to access services through any device, wherever you are and with permanently connected users. Access to these services from multiple devices obliges providers to adapt their services so that they can be accessed no matter what device is being used, anywhere and at any time. Providers are therefore faced with the challenge of needing to reach agreements and common standards (like HTML5) and adapt their products to the different native operating systems associated with the many devices available on the market. In addition, these service providers must also effectively manage content available on the Internet, often via cloud computing services.

The quality of services offered in cloud computing will be key, requiring rigorous planning in terms of security, performance and flow of information, as well as a high transmission speed. It is important to bear in mind that the quantity of information that users are able to consume and that content providers are able to manage is going to continue to grow.

Also, manufacturers of electronic devices are fighting to keep control of the content offered via their devices, often setting conditions and prices which may make it more difficult for these types of services to be competitive.

Currently, the four key devices are smart TVs, which are starting to grow, tablets, laptops and smartphones, with a significant presence amongst the population (36.9% in the first quarter of 2012, according to ONTSI's Wave 35 Household Panel Survey).

Another current trend, related to household communication costs, is closely linked to connection costs being included in the price of mobile devices which allow digital content access. A good example of this is the e-reader or some GPS devices and their online services. The cost of these services is already included in the purchase price of the device, meaning the consumer pays an initial price and has no further costs after they own it, as these are paid for by the manufacturer.

Distribution rights and business models

All these technological developments are bringing about very rapid changes in business models. The quantity and variety of devices is growing more than ever, and this is giving rise to new uses which are being well received by users and content providers. The latter view this phenomenon as an opportunity to develop new business.

We are witnessing a transformation in content consumption habits, in what is used, how it is used and where. The growing availability of digital content, together with constant, massive-scale Internet use, is contributing to this transformation of consumer behaviour, challenging traditional business models in this market. Innovation and adaptation appear to be critical, as business models adjust quickly to allow a broad range of digital content to be developed and provided, the cultural diversity and creativity of which are two major features.

It is vital to promote new business models for digital content. They should be developed with a premise of suitable, transparent and usable content, which will no doubt be enjoyed by and create significant benefits for the potential consumers of this content.

The eight main generic categories that existing business models for broadband digital content fall into are the following (OECD 2012):



- Voluntary contributions and donations.
- Purchase or renting of digital content (pay per song, pay per view or pay to play).
- Subscription based income.
- Advertising based income.
- Sale of goods and services (including virtual articles) to the community.
- Sale of user data and custom market research.
- Licensing of content and technology to other providers.
- Partnerships with Internet service providers.

One of the most important issues for creating new business models in this industry is the need for profits to be shared fairly between the different agents that make up the value chain (creators, multimedia companies, digital services providers and search engines, etc.).

The content industry is moving from a model based on wholesale to one of a series of distributors. The shift from a traditional economy to a digital world is drastically transforming the business model for content producers and publishers. The arrival of new retailers on the digital market has caused a rupture in the link between the content producer and the end consumer.

The content producers/ distribution paradigm that has existed until now is being destroyed. This is particularly evident in cinema and TV. The traditional model for distributing films in cinemas, on DVD and on TV is turning into another kind of model based on the digital world, with different options available such as Pay per View (PPV) and Video on Demand (VOD). Even in television we are seeing a transformation, with new Internet sites specialising in television programmes such as series appearing, thus breaking the link that existed between audiovisual operators and TV producers.

Distribution models are diversifying, both in the world of cinema and TV, as well as in the music and publishing industries. The core of these new emerging models increasingly revolves around generating and optimising distribution rights.

We can see that in all of the sectors analysed, (cinema, video games, music, television) content is king. Creating copyright and optimising distribution channels have become businesses in themselves for producers and publishers. The market will revolve around who has the distribution rights and the optimisation model for content distribution.

It is reasonable to assume that the digital content industry will continue to transform in the future, due to its nature and the way it is being specially developed in Spain. We can expect new investment opportunities to be identified and jobs created.

Use of digital content

On a global scale, Internet users' consumption of digital content will generate an almost exponential growth in Internet traffic, which could reach a figure of around 82,560 petabytes per month in 2016. More than half of Internet traffic (52%) is likely to come from online games. (Cisco 2011)



Figure 3.1. User Internet traffic: 2011-2016 (petabytes per month)

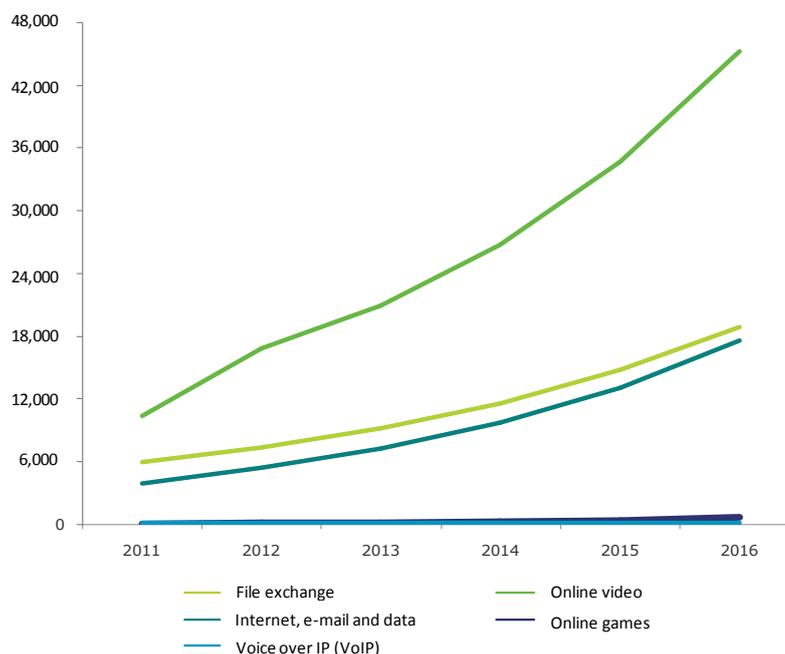


Table 3.1. User Internet traffic: 2011-2016 (petabytes per month)

	2011	2012	2013	2014	2015	2016	CAGR 2011-2016
File exchange	6,013	7,403	9,153	11,569	14,758	18,892	26%
Online video	10,423	16,880	20,904	26,722	34,755	45,280	34%
Internet, e-mail and data	3,863	5,422	7,274	9,783	13,119	17,583	35%
Online games	77	115	170	251	404	630	52%
Voice over IP (VoIP)	147	154	159	163	169	174	3%
Total consumer Internet traffic	20,523	29,974	37,660	48,488	63,204	82,560	32%

Source: Cisco Visual Networking Index: Forecast and Methodology

Note: CAGR or average variation rate

There is more and more content around created by users. This public Internet content reflects a certain degree of creative effort and is created independently from professional protocols and practices. Moreover, this content is designed for content platforms also created by users, the most common of which are: blogs, wikis (other collaborative text-based formats), photo-sharing sites, podcasts, social networks, virtual worlds and video. This content was not at first created with the expectation of making any profit or financial return; the motivation was to connect with different people in order to be known, gain prestige, or to express oneself. These sites are now awakening the interest of investors due to the impact they caused in society. These investments come mainly from the advertising industry, search engine operators and media companies.

In 2012, 45.6% of the population in Spain that has used Internet in the last three months upload their own content (text, photos, music, videos, software etc.) onto a website to be shared (INE, 2012). In 2012, 12.2% created websites or blogs; this is below the OECD average of 16% in 2011.

The increasing importance of social networks should be emphasised. In 2010, nearly 50% (49.2%) of Internet users in OECD countries were active users of social networks, and in Spain the percentage was 48.9%. For 2011 the EU average was 52%, the same as in Spain.



It is significant that for users of mobile devices, use of these devices for participating in social networks is very high, with nearly 70% (68.4%) of people who have accessed Internet using a handheld device outside of the home or place of work in the last three months.

In Spain young people aged between 16 and 24 who have accessed Internet using a handheld device outside of the home or place of work in the last three months, do so mainly (92.2%) to participate in social networks, which is above other uses such as reading or sending e-mails (76.9%), playing or downloading games, images, videos or music (59.5%).

The large number of smartphones in Spain, partly due to mobile operators' policies of subsidising handsets, has encouraged the use of these devices for this type of activity.

It is estimated that the worldwide sales of smartphones in 2011 reached 31% of the total mobile telephones sales, and for 2016 this is predicted to reach 58% (IDATE 2012). In 2010, 410 million of these types of mobile were sold, while this is expected to reach 1.2 billion in 2016.

In 2012, of the people who have used Internet in the last three months, 56% have used some type of mobile device to access the Internet outside the home or place of work. Handheld devices are the most widely used and of these mobile telephones are the most common. 35.4% use a laptop while 10.2% use a tablet (INE 2012).

In terms of age, younger people are those who access the Internet most intensively using these devices.

Furthermore, of Internet users in the last three months, 75.8% used it to read and download news, or online newspapers and magazines, 8.6% more than in 2011 and 13.8% more than in 2009.

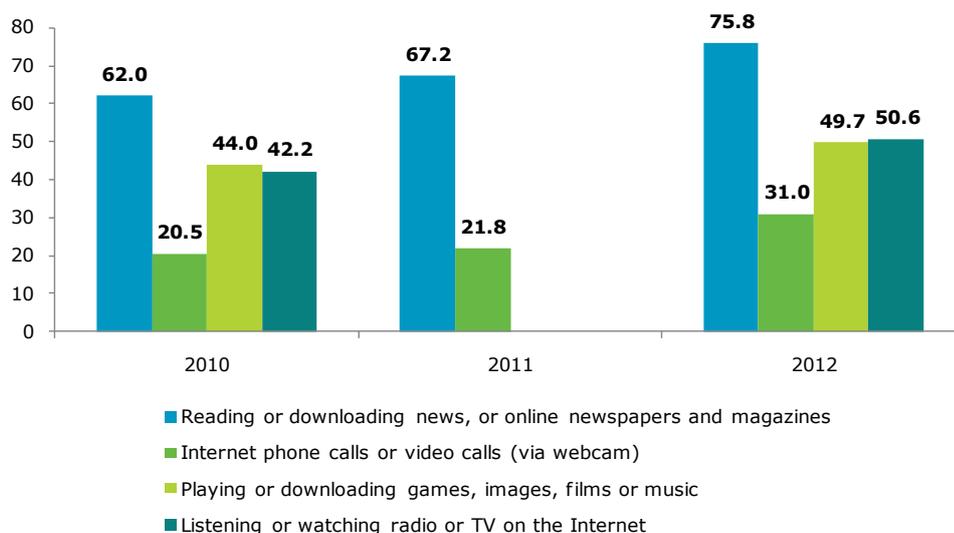
Another of the most common activities for almost half of Internet users is to listen to or watch Internet radio and/or TV (50.6%) and to play or download games, images, films or music (49.7%).

31% of Internet users go online to make calls or video calls (via webcam), an increase of nearly 10% from the previous year.

Much of what is currently done on laptops will be done in the future on mobile devices such as tablets or smartphones. We are entering the Post-PC era. New mobile devices integrate new technologies in a more innovative way, such as GPS, WIFI and Bluetooth.

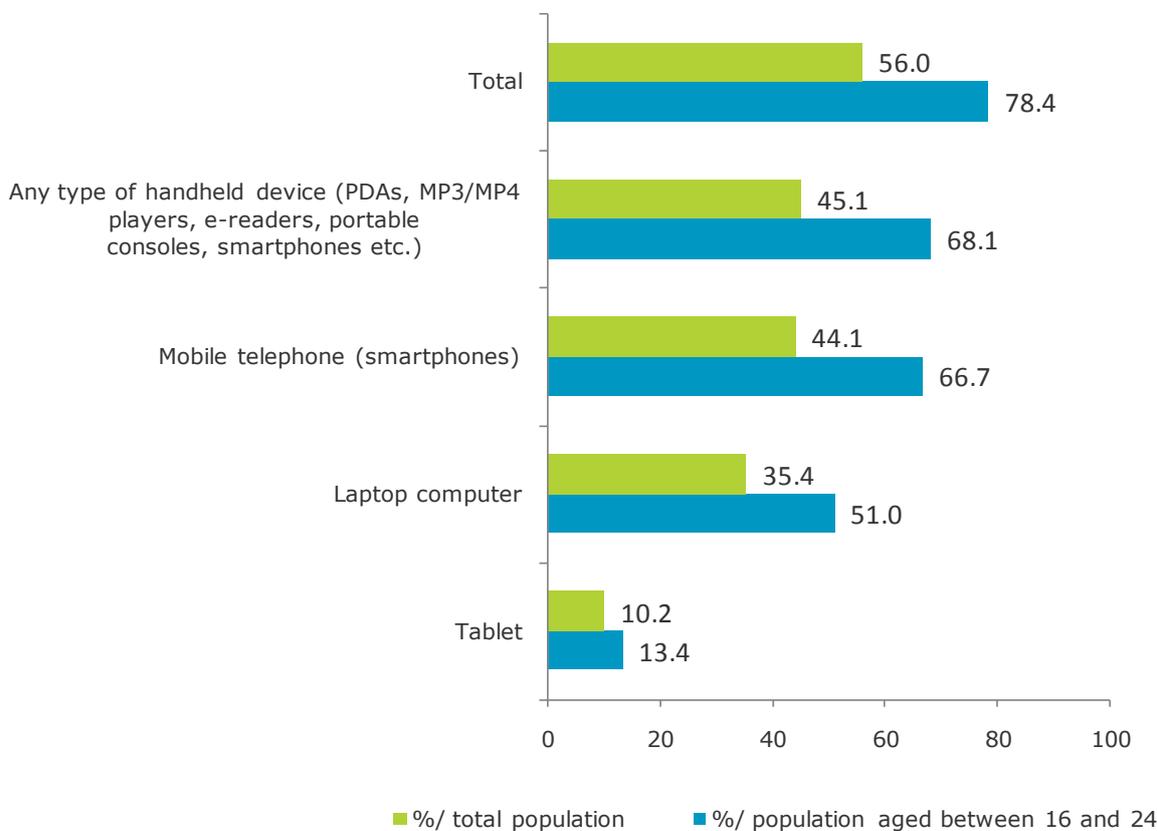


Figure 3.2. Internet services used for individual reasons in the last three months (% individuals who have used the Internet in the last 3 months)



Source: Survey on Equipment and Use of ITC in the Home, INE 2012

Figure 3.3. Use of Internet in the last 3 months and types of mobile devices used to access the Internet outside of the home or place of work (% individuals who have used Internet in the last 3 months)



Source: Survey on Equipment and Use of ITC in the Home, INE 2012



Trends per sectors

Video games

In 2011, in the video games market, half of the earnings generated in the world came from the distribution of online services. (IDATE, 2012)

Spain is tending towards an increased use of social networking and playing on mobile devices; laptops and consoles are being abandoned, thereby reducing physical distribution.

For the period 2012-2015 a new generation of video games consoles is envisaged as well as a trend consisting of convergence between smartphones and handheld consoles, which will have wireless connections or 3G. Also noteworthy is the boom in tablets, making new usages possible and becoming an ideal medium for video games.

Social networks have become one of the most popular platforms for games; they are free of charge for the time being. Another trend that has been observed is that of asynchronous mobile games where the same game can be accessed via different platforms. The user has one centralised account, but can access and play from different platforms, such as social networks, smart TV, smartphones etc.

Video games represent an entire segment of economic activity with a specific weight within the digital content industry that has not stopped continually evolving. One trend that is growing is that of providing these games with an Internet connection, thereby enabling users to interact via social networks with multiple players. It will also enable the manufacturers of this type of software to monitor and configure their platforms in real time, from the knowledge they obtain from how their users are using them.

Smart TV is also bringing about a new wave of games for this platform, and this is expected to experience strong growth over the next few years. We must also stress the rise and importance of Serious Games, games designed to educate by entertaining, with a mix of computing, engineering, design of virtual worlds, communication and business (healthcare, energy, training, education etc.).

Music

Online music stores are the emerging model and they currently share advertising revenues with record companies. Ring tones have now become a marginal segment of digital music; income from ringtones now represents just 7% of digital music in the United States and has been replaced by sales of albums and songs, which generate 78% of digital music earnings (IDATE, 2012).

The main challenge facing these record companies is user migration from unlicensed services to a legal digital service.

The latest trends are showing a new up-and-comer: households, where companies will focus a good deal of attention. Music providers seek to ensure the validity of agreements that permit them to "get inside" homes through decoders or mobile devices which accompany users wherever they go (OECD 2012).

Likewise, cloud-based music services are deemed to be a strategic element for the future of music, as the many different initiatives currently marketed on platforms of well-known content engines brands and software and hardware manufacturers bear witness. Especially significant are efforts to promote young artists through these platforms.



The growing demand of online music has facilitated the creation of new music streaming and downloading consumption models, with novel approaches such as those based on advertising support services. Other broadband-based business models such as Internet radio are helping to generate income for the music industry and are developing at a rapid pace. However, the most reliable online music sales are still pay-per-song or pay-per-album download services.

Four online music business models can be identified:

- Purchase of digital content. This is a pay-per-song business model, dominated by a small number of companies that are not necessarily linked to the music industry but that generate income from the sale or reproduction of music on portable players, or that have a particular interest in defining certain software standards in the market.
- Subscription-based income. This business model has firmly established itself in the market and with consumers; yet mobile subscriptions that are compatible on several devices are now starting to be launched. These services offer two possibilities: a free streaming service based on advertising and a Premium paying service.
- Advertising based income. Models that offer free streaming on demand and pay royalties for the music via revenues from advertising. Social networks and the potential they offer are becoming more attractive within this business model.
- Collaboration between the music industry and ISPs (Internet Service Providers). Two main models are usually followed: Internet service providers develop their own digital content brand, or some of the Internet Service Provider partners already have a pre-existing musical content service.

In 2011 spending on online music in the United States overtook spending on physical recorded music, and some forecasts say that by around 2015, 70% of total spending in the music recording industry will come from online music sales. In Spain online music distribution platforms have grown, much to the detriment of physical music sales, which have dropped sharply. According to ONTSI, online digital sales now make up 35.6% of music income, mainly coming from paid downloads and streaming.

The industry depends heavily on income from live concerts and has been able to increase earnings by putting up the price of concert tickets. The music industry is also analysing the possibility of getting revenues from sponsorship by commercial brands, linked to financial aid for advertising purposes.

Cinema and Video

The basic foundations of the cinema and video industry are in crisis for the following reasons (IDATE 2012):

- Firstly box office earnings are experiencing a marked stagnation, at least in the most developed countries, although they are showing considerable growth potential in developing countries. The increase in ticket prices is not accompanied by an increase in box office earnings, and this may be due to the proliferation of multiplexes that include additional services such as viewing films in 3D.
- The analogue video market is in decline, if not in volume at least in terms of earnings. DVD sellers are setting increasingly lower prices in a constant effort to sustain the market.
- The role of TV channels in distributing films is under review. TV film premieres are being gradually replaced by other types of programmes, such as drama series.

The cinema and video market has changed significantly since a series of large electronic and IT distribution groups came into the market; they have had a profound impact on cinema and video



distribution activities. According to various forecasts, digital distribution will be the most rapidly growing segment in the North American film industry between 2011 and 2015. (OECD 2012)

Also worth mentioning is the innovation within the film industry with the introduction of digital cinema, following developments in industry standards and the barrage of new mechanisms for financing the digitalisation of traditional cinemas. Two business models may be identified:

- Rental of digital content. The film is downloaded for viewing during a specific period of time only. The rental price is approximately the same as for renting a DVD, but the viewing period is usually less.
- Purchase of digital content. The film purchased is supplied to the buyer online. The price is approximately the same or even slightly less than that of a hard copy film.
- Content subscription based earnings. This model allows consumers to access a wide variety of content on a monthly or yearly basis in exchange for a subscription fee. Internet providers of "Triple-play" (telephone + Internet + TV service packages) are increasingly adding an unlimited VOD (Video on Demand) service to their broadband subscriptions.
- Advertising-based income. This business model was initially only used by independent productions with low budgets. However, it is a model that has been progressively incorporated into the strategies of big producers and of different television productions.

Latest trends reveal a transformation in the film and video industry's traditional business model, which allows it to distribute content through digital platforms. An interesting trend is that of the development of download-to-own services, which consists of downloading a digital audiovisual file.

Other trends seen in the video market include digital migration to improve the viewing experience; digital technology is being used to modernise a large number of cinemas worldwide. Different initiatives to maintain and develop customer loyalty are also being rolled out.

Audio-visual

Smart TV is taking shape to become one of the most important trends in the audiovisual sector over the next few years. One of the principal features of smart TV is the quality of the user interaction service. It must be of good enough quality to ensure user-friendly access to the content it offers. It must incorporate systems for browsing, search, text editing as well as robust and innovative interactive applications. This requires new remote controls to be created which simulate incoming data via the keyboard and/or by voice and gesture recognition.

Various smart TV service models may currently be seen:

- A model based on a device which the user can purchase or rent. This hardware offers premium video services and quality multimedia entertainment (music, social networks, photos).
- Another service model is the connected media centre, from which all home digital content can be managed. Content can be transferred, viewed and accessed from any screen (TV, PC, mobile telephone) in the home, in a way which is transparent for users.
- The third model is the TV app store, which attempts to reproduce the app store model in Internet-enabled television. The aim is to allow access to Internet services via the television. The model is similar to the app store on the main mobile platforms, where you can download applications for free or for a fee.



In 2016, financially speaking, turnover in the global smart TV market will reach €2.4 billion. Estimates for Spain are that in 2012 the smart TV video services market will be worth €2 million, and in 2016 the figure is expected to reach €74 million (IDATE 2012).

In the development of smart TV, Europe lags behind the US, where a varied supply of content is distributed via the television set (over-the-top content) without passing through the television and telecommunications operators. This is due partly to the fact that there is more content available, and also to the fact that TV manufacturers have to compete with a wide range of independent STB (set top boxes) manufacturers (IDATE 2012 (2)).

Smart TV and 3D viewing will be two of the factors stimulating sales of TV sets and smart devices in the coming years. It is therefore precisely these TV manufacturers that are driving this television market, without underestimating the work that broadcasting and telecommunications operators are doing to promote the model.

Manufacturers have been responsible for rolling out the first smart or Internet-enabled TV solutions, all of them as owners of what is commercially known as "Smart TV", and the most varied range of solutions from content providers (OTT, over the top). This is giving rise to the following situations in the market (IDATE 2012 (2)):

- The difficulty for Internet companies (Google, Yahoo! etc.) to become solutions providers for smart TV, since manufacturers already have their own solution.
- The need for STB manufacturers to incorporate in their hardware improvements and facilities that differentiate them from what TV sets offer, and that is normally not related to the exclusive distribution of specific premium content.
- The temptation for TV manufacturers to cash in on aggregation and distribution services offered by content providers, whether by generating their own services or by developing an online store (apps store).
- The crucial necessity to create a standard that can be used on different platforms, which will allow applications to be developed. In Europe, the solution proposed by the HbbTV Consortium competes with YouView in the UK and MHP in Italy.

Regarding HbbTV (Hybrid Broadband Broadcast TV), it should be pointed out that this open and business-neutral standard offers a bidirectional communication model via the Internet with which broadcasters present content additional to their conventional programming, together with interactive user services. The main advantage of this system, with technology based on HTML Internet standard, lies in its simple content development, as well as how it facilitates the integration of conventional TV with online programme viewing. This system offers broadcasters catch-up content, VOD, video games, interactive advertising, recommendations, voting, social networks and broadcast enhancement, as well as the incorporation of paid services.

HbbTV has been adopted in various neighbouring countries, such as France and Germany, and other European countries are currently in the process of introducing it.

In Spain HbbTV was recently adopted by our broadcasting industry, thanks to the work put in during the Technical Forum on Digital TV that was coordinated by the State Secretariat for Telecommunications and the Information Society. In August 2012 the last DDT equipment specification for interactive applications was approved during the Technical Forum.

To summarise, the existence of these Internet-enabled TV services, together with cloud-based services, is leading to a situation where users can access content directly without passing through the audiovisual operator. This may mean a change in audiovisual operators' monopoly of access to content. The manufacturer becomes the new agent who can impose or facilitate the



distribution of different content. All of this will have an impact on the way that advertising is managed since content providers will have access to earnings for this type of service.

On another note, both the emergence of multiple DDT channels, and the multitude of different equipment on which they can be viewed, is fragmenting television's viewing figures, and also affecting the advertising market. Other factors to consider are the change in user habits brought about by the use of techniques such as time-shifted viewing, digital video recorders (PVR) and webcasting.

In the future traditional audiovisual operators are likely to see competition increasing in video broadcasting and films on demand, focusing their activity on broadcasting live programmes such as game shows, news or live transmissions, including sports and music events.

In 2011 live TV viewing figures were 239 minutes per person per day, continuing the slight upward trend of the last few years: in 2009 it was 226 and in 2010 234 minutes per person per day (CMT 2012). The advent of smart, connected or Internet-enabled TV is expected to substantially increase digital content consumption.

Another trend related to the audiovisual world is the emergence of the tablet and smartphone used as a TV screen. Here there is growing convergence thanks to which content can be shared between different devices in the same house, meaning a tendency to use cloud-based services which allow access to all content regardless of the device used (TV, tablet, smartphone, computer). To achieve this integration standardisation is vital, among both hardware manufacturers and applications developers.

There is also a marked trend consisting of using the television at the same time as laptops, multimedia players, smartphones or tablets, leading to multitasking media consumption, i.e., a simultaneous use of various media, normally the TV and the Internet, which increases ratings for both media. In the US, 40% of mobile telephone and tablet users say they use these devices while watching television (IDATE, 2012).

Lastly, Internet-enabled TV is expected to generate the need to bring in effective mechanisms for labelling digital content, as this looks like being the only possibility for informing consumers properly about this content and for strengthening protection measures for sections of society that are more vulnerable to unsuitable content (minors).

This future content labelling will not only lead to technological standardisation and the digital literacy of the consumer - it will also bring about the drafting of a legal agreement and consensus about this labelling which, in any case, should be implemented with the active cooperation of digital content producers.

Publications

It is a fact that sales figures for newspapers and magazines have continued to decrease in spite of occasional upturns caused by especially major current events. Apart from the decrease due to the loss in subscriptions, reduced turnover due to declining circulation is having a direct effect on advertising revenues. This decline is being particularly felt in the majority of regions except Latin America, North Africa and the Middle East (IDATE 2012).

Classified ads, the third most important source of earnings for newspapers, are rapidly moving to the Internet, where much better offers and functionality based on geolocation can be found. Even taking into account the revenues that newspapers are getting from their web versions, these earnings are not compensating for the loss of profits generated by the loss of income in printed versions. Furthermore, the evolution from a model based principally on text to one based on video is penalising newspapers in terms of the time spent on their "sites".



Latest trends indicate the gradual incorporation of user-generated content that would be on an open access basis in the first instance, prior to an investment in low cost videos (such as those acquired from press agencies). Some points of sale are choosing to create a wide variety of specialised sites in order to attract specialised advertising. At the same time they are trying to further develop news associated with the provision of services which will become, mainly for printed media, their main business model. In mobile versions of publications, printed media is becoming immersed in a direct power struggle with sales and application distribution platforms looking to get a commission for each sale made.

The existing balance between printed and digital newspapers and magazines is being tipped in some cases (mainly small or local newspapers and niche magazines) towards getting rid of the printed version and distributing exclusively in digital format.

Digital versions of newspapers available on the Internet are based on business models of a free service paid for by advertising or subscriptions.

A critical element for encouraging digital publishing instead of traditional paper publishing is the market penetration of touchscreen devices (tablets, smartphones etc.), which facilitate access and encourage the demand for digital content. Digital newspaper applications contain the same news that appears in the printed version the next day, but with the opportunities this next generation technology offers such as being able to share articles on social networks, save the most interesting content or send an article by e-mail. What is more, the reader can increase the size of the text, read at their leisure or print the pages exactly as they appear in the paper version. Hence the possibility of offering new multimedia resources which enhance the product and offer new options.

In 2011 platforms were created, increasing content available by including about thirty newspapers and over a hundred magazines from different fields to reach an increasingly mainstream audience, thereby enabling different media sources to be consulted from a single access point.

The digital book publishing market is booming, with a growth rate of 20% worldwide and over 60% in Europe in 2011. The market is mainly dominated by English-speaking countries, clearly led by the United States. The three main factors which explain the English-speaking market's dominance of the digital books business are:

- The wide range of products on offer.
- Attractive prices.
- A wide variety of reading devices.

Business models in the e-book market are changing rapidly, moving from the traditional model of billing per book sold to new formulas based on subscription, rental and advertising. The cloud model, making content available from any electronic device, is also being driven by large global companies, promoted by benchmark brands and manufacturers. Another important factor for market development is the price, and this is evolving rapidly; it is approaching the price of a printed book, especially that of paperbacks.

Authors are starting to explore new opportunities offered by self-publishing in digital format, some publishers are distributing their content directly on the Internet (foregoing intermediaries like distributors and bookshops) and some bookshops are beginning to explore publishing business opportunities.

All of this will bring about changes in the value chain affecting retail distribution. Along with big, traditional companies, new retail distribution sites directly linked to the author are springing up



in order to take advantage of what the digital world can offer. Telecommunications operators are also expected to break into the market, creating new retail sales platforms.

So we can see a whole new series of players beginning to emerge throughout the digital book publishing value chain, including manufacturers of electronic devices, content providers and telecommunications operators.

Latest developments show that prices of digital books are coming down (in countries where regulations allow this), with e-books now often being priced below printed books. This will lead to a loss of competitiveness for printed versions compared to the digital version.

Similarly, many changes are occurring in the value chain in this segment. Thanks to these changes, in each link of the value chain books in digital format can be offered directly to end consumers. These changes can be summarised as follows:

- Authors will be able to publish content themselves.
- Some bookshops are gradually launching their own e-books onto the digital book market, usually as exclusives.
- At the same time, some of the publishing companies belonging to big groups are trying to avoid traditional distribution channels, so that they can provide their content directly on their own websites.
- And finally, manufacturers of electronic devices have a growing interest in providing e-books as part of their own ecosystem, using this as a means of promoting their own products.

Digital advertising

The online advertising market has developed at fast as the Internet, so much so that developments and improvements made in this market have contributed to a complete reform of the industry in just 15 years. Internet is evolving much more rapidly than other media, like television advertising; in particular, online advertising has been gaining market share, to the point where an average annual growth of 14.6% from 2010 to 2013) is estimated (OECD 2012.

The main existing business models in digital advertising can currently be classified into five groups:

- Search advertising. Involves advertisers bidding to position the advertisement text on users' results page.
- Displaying adverts. Normally static banners or hyperlinks which the advertiser pays an online company to publish on their websites.
- Classified ads. Lists of products or services displayed on a website.
- E-mail advertising. Adverts sent through any type of e-mail.
- References. A method which allows advertisers to pay fees to online companies, who in turn provide information to the customer, or mention or comment on shopping experiences.

Latest trends show that different social network pages on the Internet have taken up a great deal of user browsing time. This has not gone unnoticed by advertisers, for whom positioning their brand in the right way has become one of the main goals in their marketing strategies. Similarly, the different inherent functionality of social networks have enabled advertising companies to "migrate" from one social network platform to another, allowing them to diversify and win over a huge market share.



Another interesting trend, described in the aforementioned OECD report, consists of advertising platforms that are helping websites created by individuals or small businesses to be able to give as much publicity as possible to the services they provide.

Likewise, pricing models based on the effectiveness of online advertising campaigns are catching on, including cost per click (CPC) and cost per action (CPA) models which only create a profit for the advertiser when specific actions occur that benefit the advertiser's customer.

Partnerships between Internet Service Providers (ISPs), content developers and distributors or hosting services have significantly increased the amount of available digital content.

The numerous companies that offer marketing involving online targeting and segmentation services are encouraging the design of better, more effective marketing campaigns. These ensure that the message reaches the target audience. A significant development in marketing strategy is crowdsourcing, a collaborative problem-solving and production model which has emerged strongly over the last few years.

Crowdsourcing allows a company to broadcast a topic to a diversified audience (using collaborative web solutions) and ask the consumers and/or users to contribute their ideas (PWC 2011). This type of collaboration is being used in product design and in marketing.

4. DIGITAL CONTENT INDUSTRY



4 Digital Content Industry

Digital content sales figures

TURNOVER

€8,553

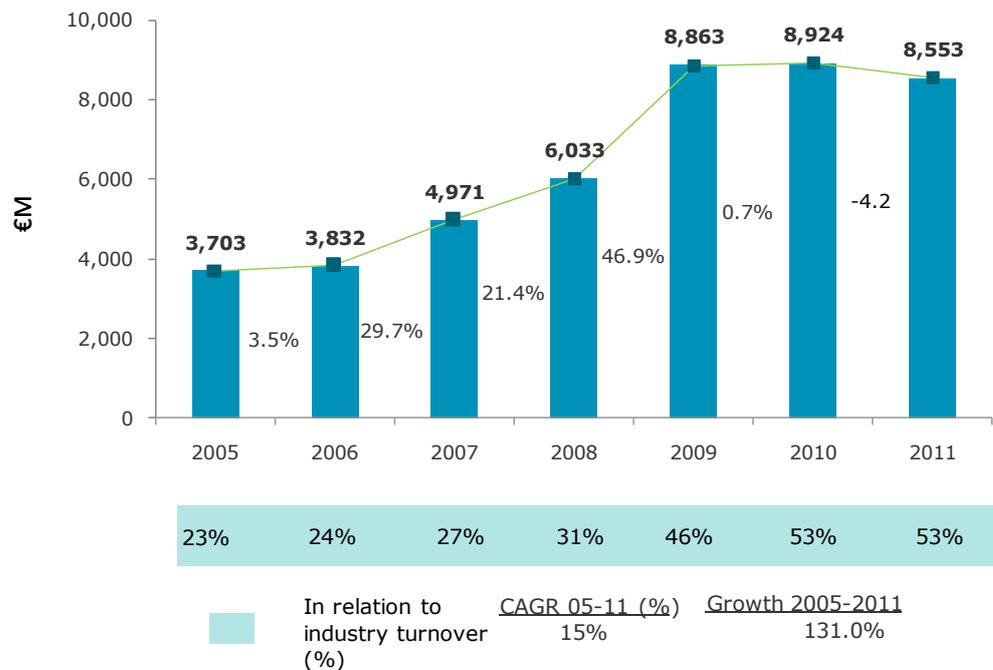
million represents total digital content SALES in Spain for 2011

In 2011 the digital content industry broke with the upward trend of the last few years, with sales going down to €8,553 million, a year-on-year fall of 4.2% from 2010.

Nevertheless in the period from 2005 - 2011, the digital content industry was characterised by its rapid growth, showing a compound annual growth rate (CAGR) of 15% in this period.

The trend towards the gradual digitalisation of the industry remains at the same level as in 2010. In 2011 the digital component of the sectors which make up the content industry represented, as in 2010, 53% of sales of audiovisual content and services, which in 2011 was €16,209 million.

Figure 4.1. Sales of digital content: evolution 2005-2011 (€M)



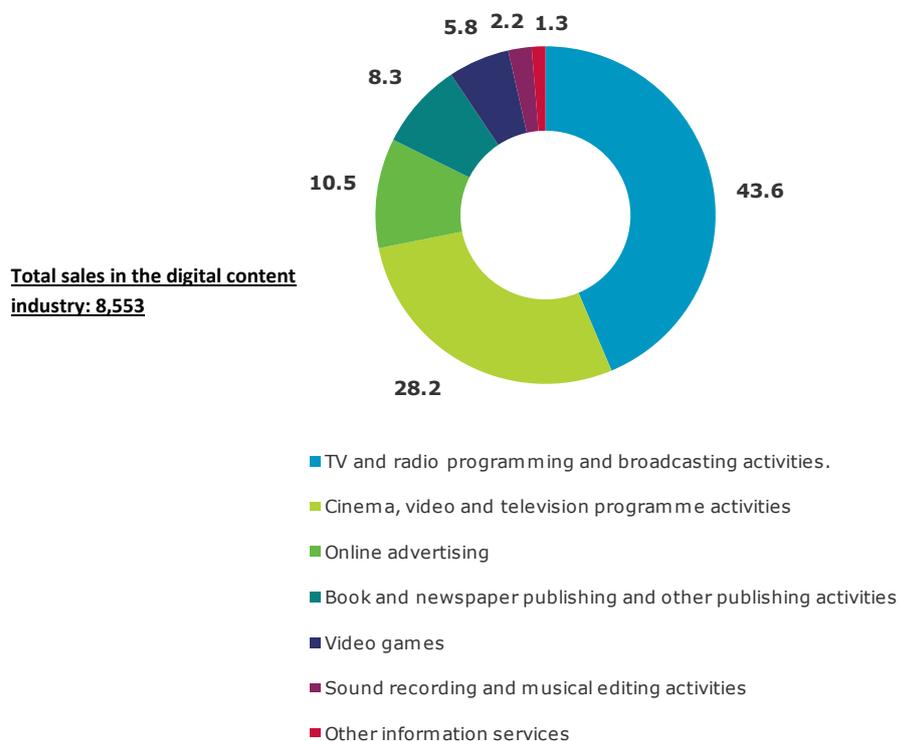
Source: ONTSI

Online advertising activity is the only sector which increased its sales from 2010

The programming activities sectors, radio and television broadcasting along with film, video and TV programme activities, continue to make the biggest contribution to the total sales of the digital content industry. In 2011 they represented 43.6% and 28.2% respectively, together making up 71.8% of digital content sales. Online advertising generated 10.5% of total sales and publications 8.3%.

The remaining 9.4% was shared between video games (5.8%), music (2.2%) and other information services such as news agencies (1.3%).

Figure 4.2. Breakdown of sales in the digital content industry by sector in 2011 (total %)



Source: ONTSI

Turnover for digital audiovisual content and services

Sales for audiovisual services companies and content providers were €16,209 million in 2011. By sector, once again book, newspaper and other types of publishing stood out, earning €6,788 million and bringing in 41.9% of the total sales for audiovisual content and services. Once again, radio and television broadcasting and programming came second in contributing to sales of audiovisual content and services, bringing in €4,125 million, 25.4% of total sales. Film, video and television made up 20.3% of total sales, bringing in €3,296 million. Musical editing and sound recording, with €340 million, brought in 2.1% of total sales and other information services with €263 million represented 1.6% of total sales.

€499 million from the video games sector and €899 million from the online advertising sector must be added to this.

The global digitalisation rate for audiovisual content and services was 52.8% of total sales in 2011

Digitalisation rate

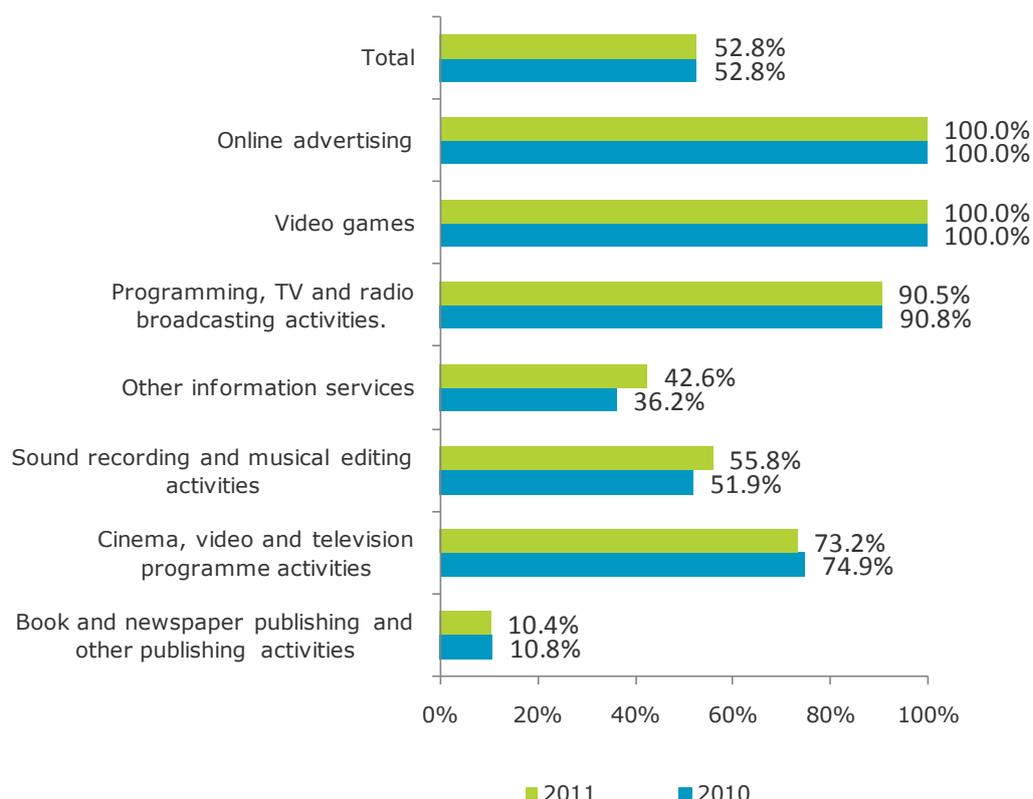
The global digitalisation rate for audiovisual content and services was 52.8% of total sales in 2011, which implies that the industry has maintained the historic milestone initially reached in 2010 when digital sales exceeded non-digital sales for the first time.

Sectors with another boom year in digitalisation rate are video games and online advertising. Also noteworthy, although slightly lower than 2010's figure, is the digitalisation rate for radio and television broadcasting and programming, which is 90.5%.

Regarding 2010 data, the increase in digitalisation rates for the sound recording and musical editing sector is worth pointing out, with an increase of 3.9%, as well as other information services which went up by 6.4%.

A slight decrease, 0.4%, was recorded in the digitalisation rate for the publishing sector.

Figure 4.3. Digitalisation rate by sector: 2010-2011 (total %)

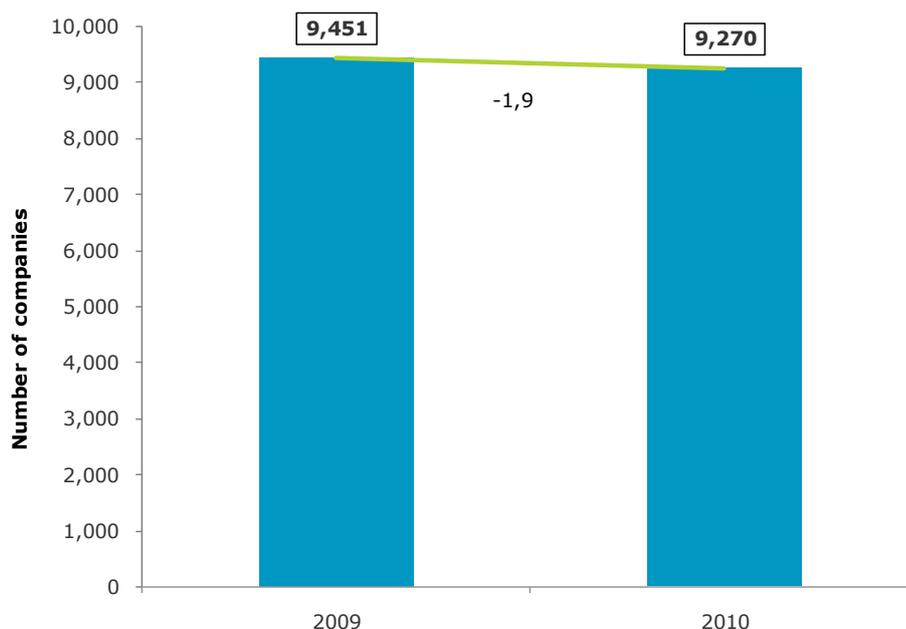


Source: ONTSI

Companies

The total number of content and audiovisual⁷ companies in Spain was 9,270 in 2010 (latest available data), a decrease of 1.9% in the census of Spanish companies in the industry from 2009. It represents 0.7% of companies in the services industry (INE 2010)⁸.

Figure 4.4. Number of audiovisual content and services companies 2009-2010



Source: ONTSI

COMPANIES

The number of audiovisual content and services COMPANIES is

9,270

The segment most capable of creating companies was the publishing market

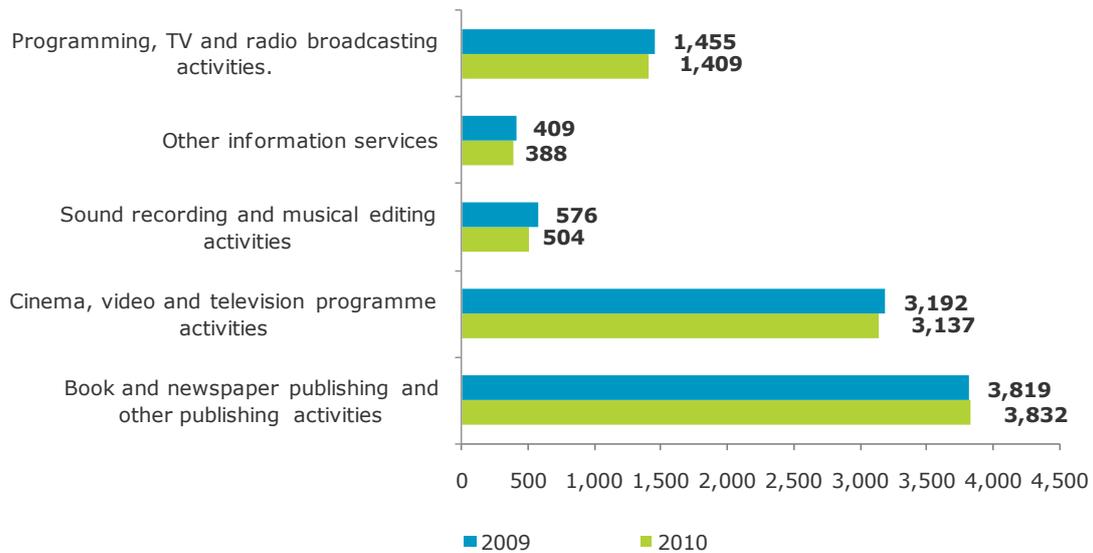
In terms of type of activity, once again the segment most capable of creating companies was the publishing market, where 41.3% of the total number of audiovisual content and services companies operate, with 3,832 companies (0.9% more than in 2009); this is followed by the film, video and TV industry with 3,137 companies, representing 33.8% of radio and television broadcasting and programming activities with 15.2%.

Sound recording and music editing activities add up to 5.4% and other information services make up the remaining 4.2%.

⁷ This figure comes from the Companies Directory created by ONTSI, which is drawn up using both its own directories and registration information from the Mercantile Register. The number of advertising and video games companies is not known.

⁸ According to the 2010 Services Survey by the INE (National Statistics Institute) the total number of companies in the services industry was 1,269,762.

Figure 4.5. Number of audiovisual content and services companies per activity: 2009-2010



EMPLOYMENT

Source: ONTSI

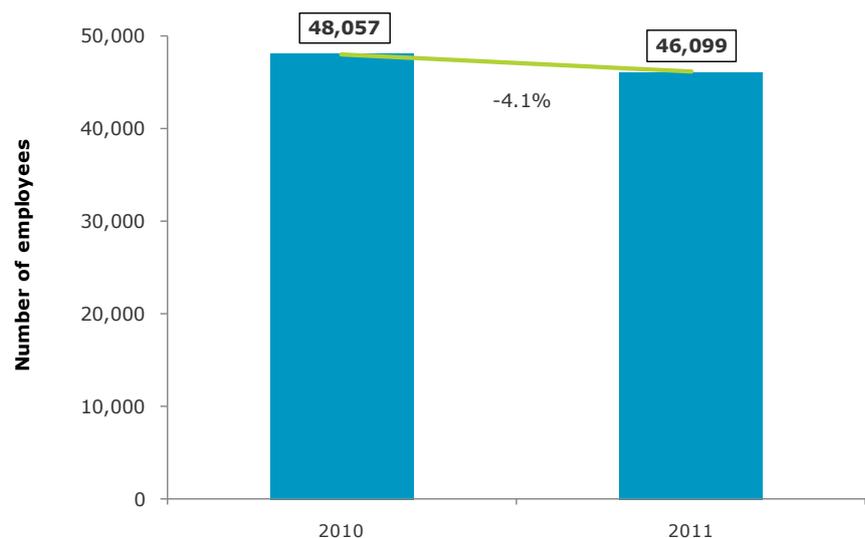
48.1%

OF EMPLOYMENT in digital business corresponds to radio and television broadcasting and programming activities.

People employed

The number of people employed in content and audiovisual services companies was 89,298, 3% less than in 2010. The employment figures related to the digital industry are estimated to be 46,099⁹, representing 51.6% of jobs in digital services and content activities.

Figure 4.6. Number of employees in the digital audiovisual content and services industry: 2010-2011



31.5%

OF EMPLOYMENT in digital business corresponds to the film, video and TV industry.

14.9%

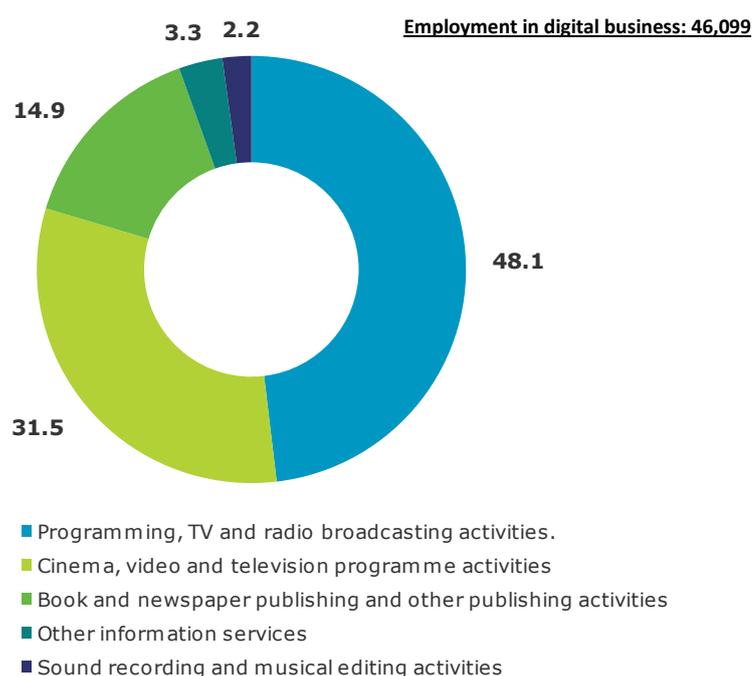
OF EMPLOYMENT in digital business corresponds to book, newspaper and other publishing activities

⁹Note: This estimate was reached according to replies received from companies to the question about the percentage of personnel employed in the field of digital business. The number of employees does not include those in the video games and Internet advertising sectors.

Source: ONTSI

48.1% of employment in digital business corresponds to radio and television broadcasting and programming activities. The film, video and TV market employ 31.5%, and book publishers, newspapers and other publishing activities 14.9%. 3.3% of total employment in digital business corresponds to other information services and the remaining 2.2% corresponds to sound recording and music editing.

Figure 4.7. Employment in the digital audiovisual content and services industry per activity: 2011 (total %)



Source: ONTSI

DIGITAL INVESTMENT

The **DIGITAL INVESTMENT** of audiovisual content and services companies is

€1,585

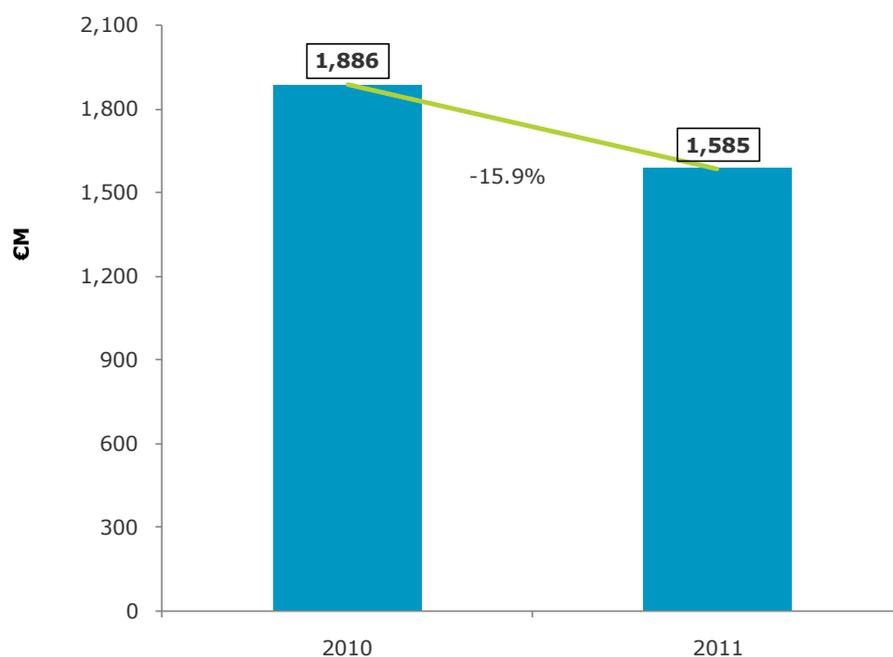
million.

Digital investment

The digital investment made by companies is set out below¹⁰. The investment corresponding to digital business is estimated to be 44.7% of the 3,550 million total investments of audiovisual content and services, i.e. €1,585 million. This figure is down 15.9% compared to the 2010 figure for audiovisual content and services companies' digital investment.

¹⁰Note: the investment figure of digital business companies is an estimate made from answers received from companies to the question about the percentage of digital investment made.

Figure 4.8. Digital investment of audiovisual content and services companies: 2010-2011 (€M)



Source: ONTSI

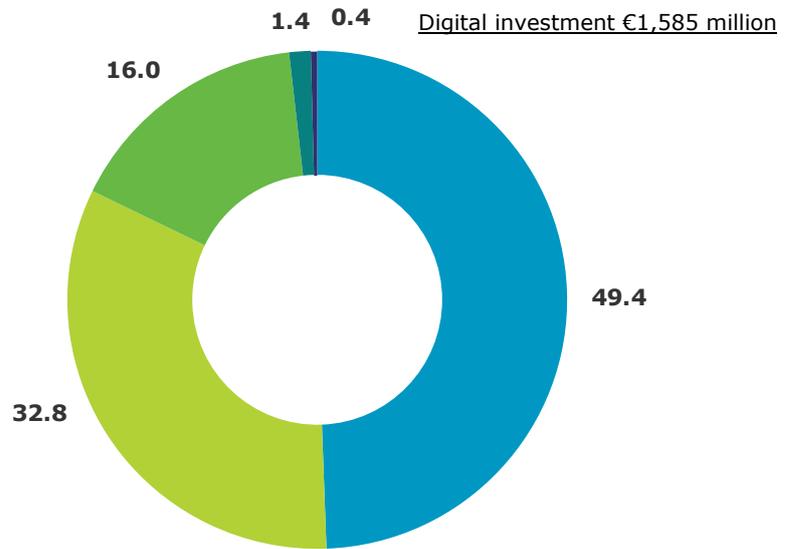
In 2011 the biggest investment in digital business was made by cinema, video and TV production, distribution and screening companies

For yet another year, the highest investment made in digital business was made by companies providing production, distribution and film, video and TV screening services, with 49.4% of the total. This has been a noticeable trend since 2010 and meets the need to introduce new technological equipment into businesses.

Radio and television broadcasting and programming companies contributed 32.8% of the total investment in digital business, followed by companies involved in book, newspaper and other publishing activities, with 16%.

The remaining 1.8% of total investment in digital business is shared between sound recording and music editing activities (1.4%) and other information services (0.4%).

Figure 4.9. Digital investment of audiovisual content and services companies per activity: 2011 (total %)



- Cinema, video and television programme activities
- Programming, TV and radio broadcasting activities.
- Book and newspaper publishing and other publishing activities
- Sound recording and musical editing activities
- Other information services

Source: ONTSI



5. VIDEOGAMES SECTOR







5 Video games sector

TURNOVER

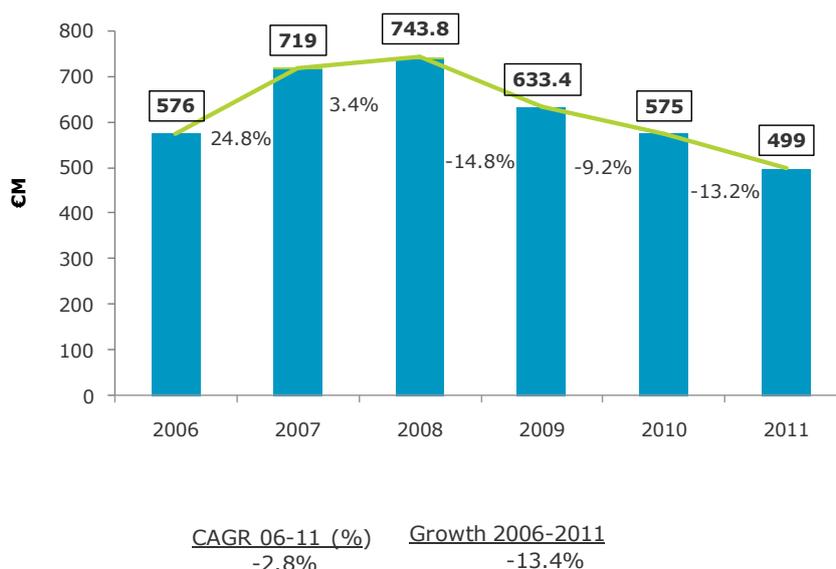
In 2011 **SALES FIGURES** for the video games sector were

€499 million.

In 2011, the video games sector was strongly affected by the economic situation and the fall in consumption, although this was felt less intensely than from 2008 to 2009.

Total sales for video games (software) in Spain in 2011 was €499 million¹¹ (ADESE, 2012), a 13.2% drop from sales earnings for video games in 2010. In terms of distribution of consumption at points of sale, what stands out is the obvious supremacy of consoles compared to PCs. Of the total earnings from sales, €468 million correspond to video games for consoles, €29 million correspond to video games for PCs and €2.6 million correspond to a new segment called PC Info & Edutainment¹².

Figure 5.1. Video games sales revenues (software) in Spain: evolution 2006-2011 (€M)



Source: ADESE

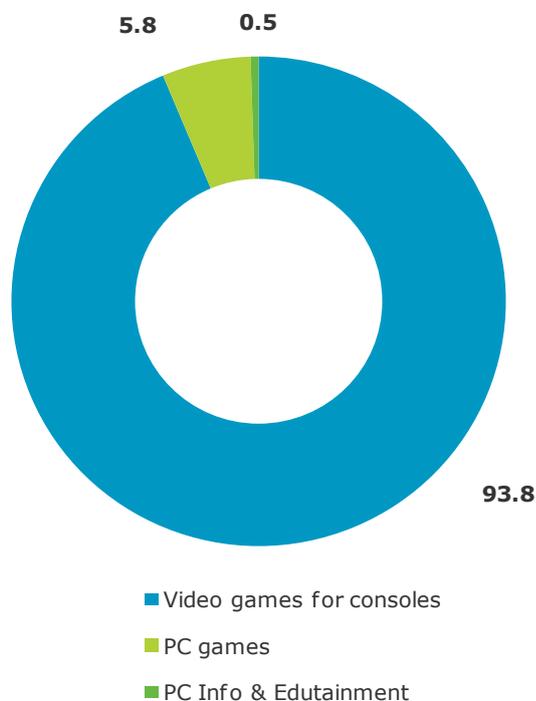
Expressed as a percentage, 93.8% of software sales in 2011 came from video games for consoles, 5.8% from games for PCs and the aforementioned new PC Info & Edutainment segment brought in 0.5% of video game sales. These three segments are responsible for the 13.2% drop in software sales turnover in the sector; the video games for consoles segment underwent a 12% decrease, the PC games segment saw a 29% decrease and the PC Info & Edutainment segment a 13% decrease.

¹¹ The Spanish Association of Entertainment Software Distributors and Publishers (ADESE) has modified the sales figures for 2010, with the following comment: "The comparative to 2010 was made on the basis of 1,150 million, an actual figure which differs from the 1,245 million communicated a year ago. This is due to an adjustment made to balance out the period audited". Consequently the sales figures for video games in 2010 went down from €631 million to €575 million.

¹² Video games for learning.



Figure 5.2. Details of earnings from sales of video games (software) in Spain in 2011 (total %)



Source: ADESE

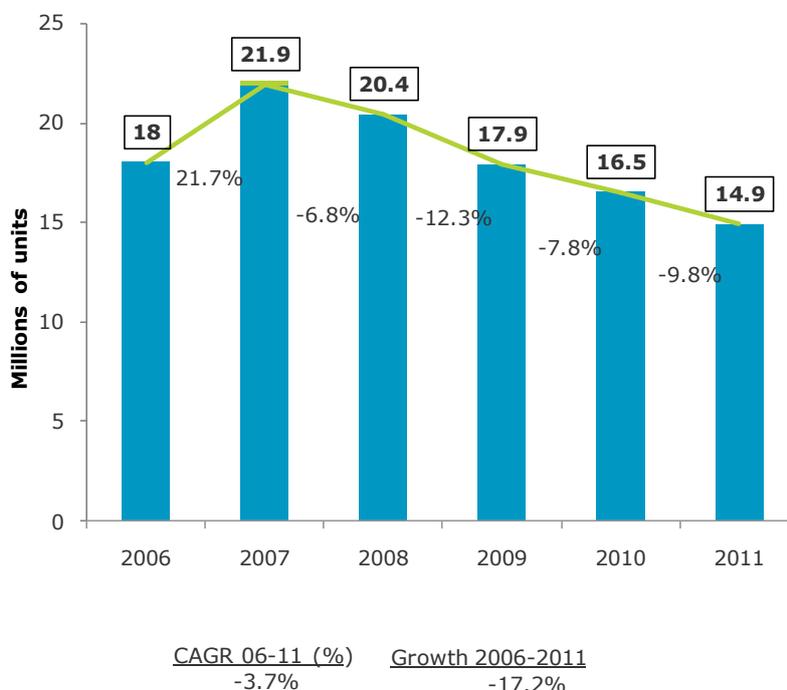
In console video games, the traditional games category¹³ has hit positive figures, showing slight growth compared to 2010, with 5.1% more units sold in the market total in 2011. Within the traditional games category, the favourites are action games (35.9% of the total units sold), graphic adventure (23.9% of the total units sold) and sports (19% of the total units sold).

Brain games go down by 0.1% in the number of units sold in 2010, which is the same percentage by which the number of units sold in health games goes down. Social games go down by 1.1% in units sold in 2011 and simulation games go down by 0.1%.

¹³ The traditional games category includes: simulators, platform games, strategy games, sports, rally, graphic adventure and action.



Figure 5.3. Video games (software) sold in Spain: evolution 2006-2011 (millions of units)



In 2011 the total units sold went down by 9.8% from 2010

Source: ADESE

The number of video games sold in Spain fell by 9.8% from 2010 to 2011, for a total of 14.9 million units.

The evolution of console sales over the last few years continues to show a clear downward trend although contraction is now occurring at a slower rate; in 2010 console sales decreased by 21.7% compared to figures from the previous year and in 2011 this decrease was 10.2% (11.5% difference). For the third consecutive year, sales of home consoles exceeded sales of portable consoles; 1.03 million home console units were sold, 14% more than portable consoles.



Figure 5.4. Consoles sold in Spain: evolution 2006-2011 (millions of units)



Source: ADESE

As an additional analysis to what is described in this section, the video games publishing market is described below. This is a business which is specifically analysed in the 2011 ICT and Content Sector Report (2012 edition) which ONTSI publishes for the IT Activities Industry. Although it is not included in the total of the Digital Content industry as presented in this report, because of the close relation it bears with the industry it has been described here.

TURNOVER

In 2011 SALES in video games publishing out of the IT Activities Sector

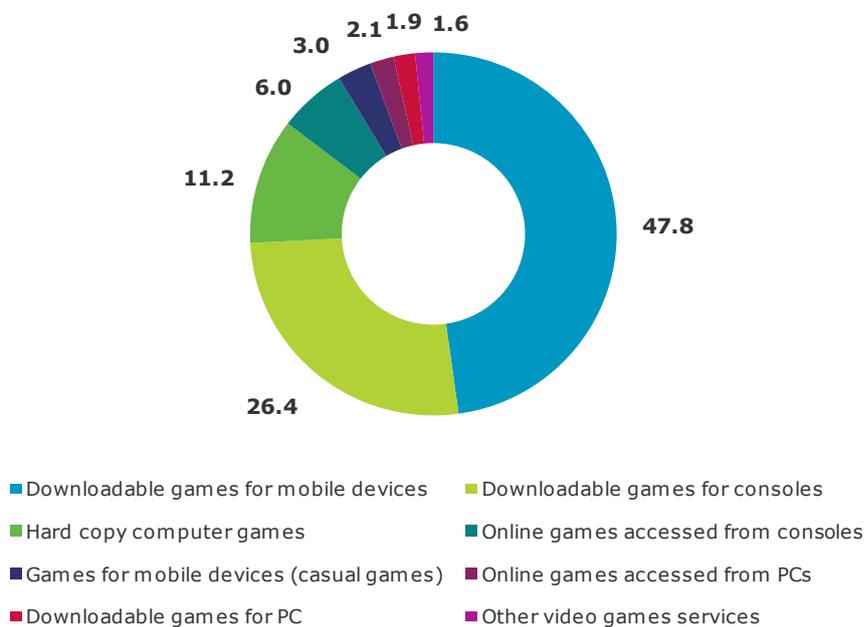
total were **€112** million.

In 2011 sales turnover for the video games publishing reached €112 million, 0.4% of the IT Activities Sector total.

Sales for video games publishing companies in Spain mainly come from producing downloadable games for mobile devices, nearly 50%, followed by console games whether downloadable or physical, 26%. Games for computers represent 11.2% of total video games sales. Online games accessed from the console now bring in 6%, while those accessed from PCs are only 2%. Games applications installed on mobile devices make up 3%; lastly, downloadable games for computers represent 1.9%. In the video games Other Services category the presence of online games on social networks is particularly worth mentioning, with sales now representing 0.3%.



Figure 5.5. Distribution of sales of video games in Spain. 2011 (% of the video games total)







6. MUSIC SECTOR







DIGITALISATION RATE

The sector's **DIGITALISATION RATE** of the total music sales is:

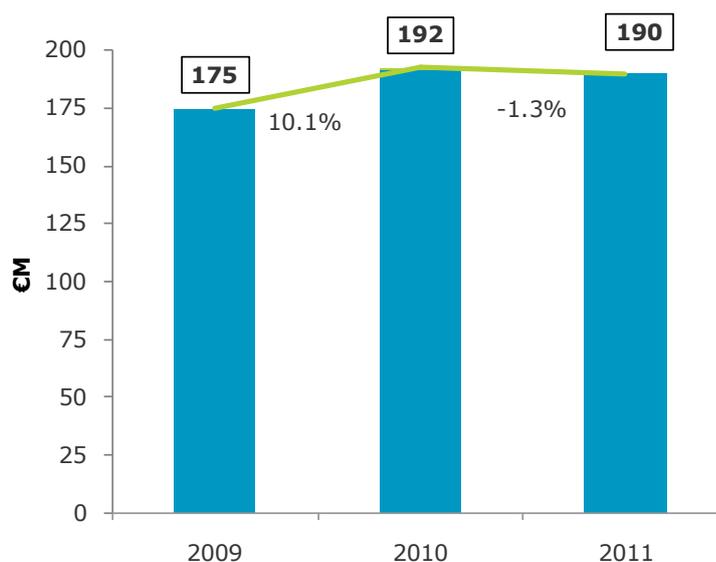
55.8%

6 Music sector

In 2011 earnings from digital music in Spain represented €190 million, a 1.3% decrease in sales from 2010. This decrease is noticeably less pronounced compared to the decrease seen in the global figure of this sector, which dropped 8.1% from 2010.

In 2011 the digitalisation rate in the sector, 55.8% of total music sales, continued with the upward trend seen in 2010 (year in which the digitalisation rate was 51.9%).

Figure 0.1. Digital music sales in Spain: 2009-2011 (€M)

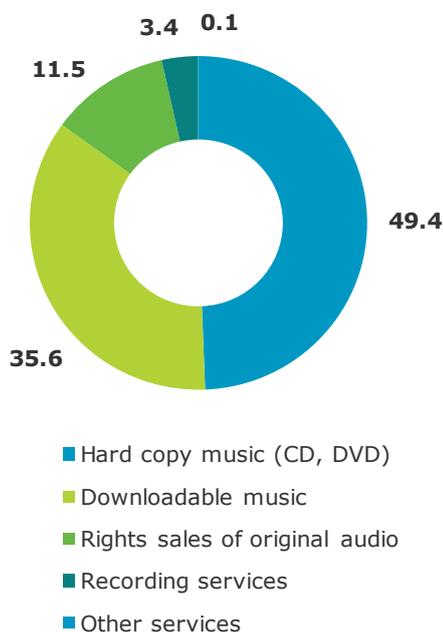


Source: ONTSI

The digital music business analysed can be organised into five main categories: physical digital music (CD, DVD and other), rights sales, sound and live recording services, downloadable music and other services.



Figure 0.2. Distribution of digital music sales in Spain 2011(total %)



Of the total sales in these categories, 49.4% corresponds to digital music in physical media.

Downloadable music represented 35.6% of the total sales in the music industry.

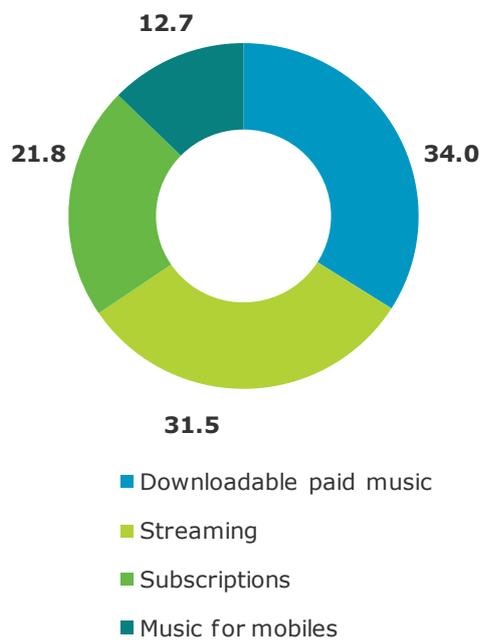
Rights sales services for original audio is second in importance, 11.5% of the total. Sound recording services, which make up 3.4% of the total, and other services related with original music and radio programme production, account for less than 1%.

It is important to emphasise the boom in downloadable music, which accounted for €68 million in sales in 2011. If we conduct an in-depth analysis of this type of earnings, paid downloadable music is the biggest category, representing 34% of downloadable music. Streamed music represents 31.5%. The subscription-based downloadable music business model is 21.8% and music for mobiles comes in last with 12.7% of total sales in downloadable music

Music that can be streamed is offered on platforms that usually offer three options for listening to music. Free streaming, where the user listens for free to a limited number of songs with adverts between songs. Paid streaming, that offers unlimited music for a small fee for a limited period of time. Subscription-based streaming, where for a higher fee you can access it from mobiles and with improved audio quality.



Figure 0.3. Distribution of downloadable music sales in Spain: 2011 (% of the total of downloadable music)

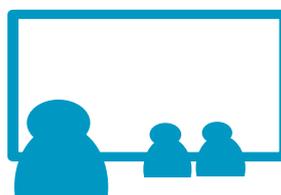


Source: ONTSI





7. FILM AND VIDEO MARKET







6 Film and video market

TURNOVER

TOTAL SALES for the film and video industry in 2011 were

€2,412 million

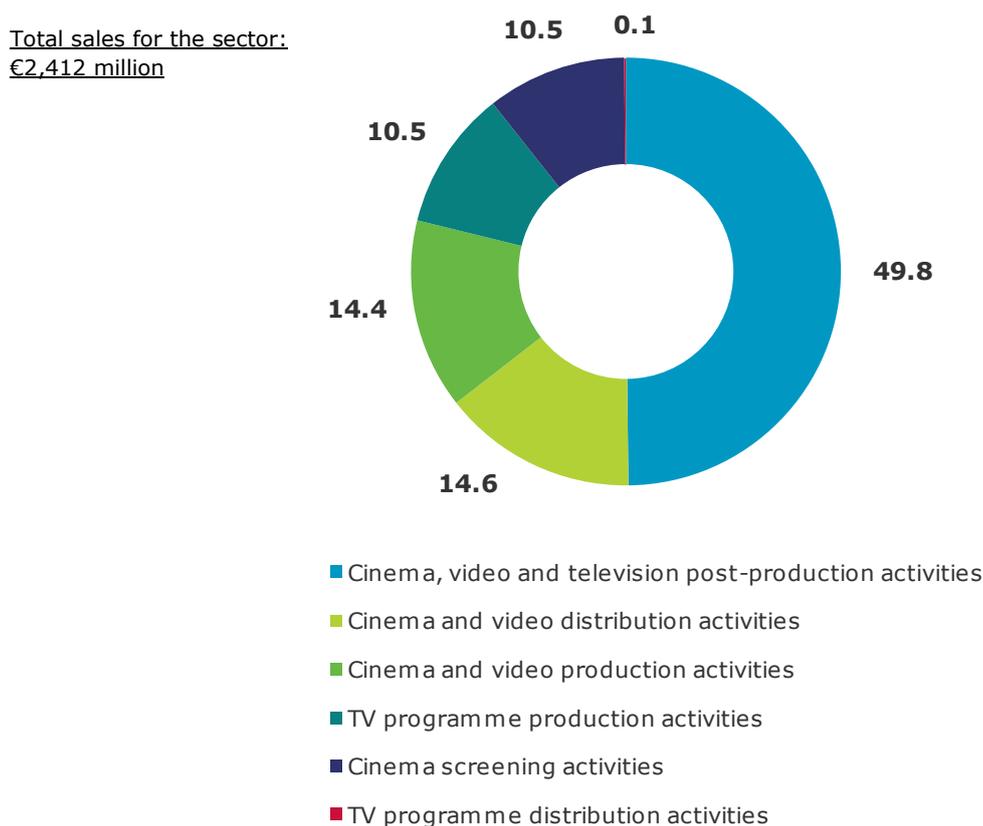
The film and video industry involves production, post-production and distribution of films screened in cinemas, on TV and in homes, through DVD sales or rentals or other means of digital distribution.

In 2011 this industry remained second in terms of contribution to total sales for the digital content industry, accounting for 28.2%.

Regarding sales for the industry, it is important to emphasise that post-production activities contribute the most to the total turnover in digital business within this sector, with 49.8%. This is followed by cinema and video distribution with 14.6%. In 2011, total sales for the sector were €2,412 million.

The digitalisation rate for the sector went down to 73.2%, 1.7% below the rate reached in 2010 (74.9%).

Figure 6.1. Sales for cinema, video, and TV in Spain: 2011 (% of total sales for the sector)



Source: ONTSI



Products making up sales in cinema and video production, TV production and cinema and video distribution are analysed below. The evolution towards the digitalisation of film theatres is also analysed.

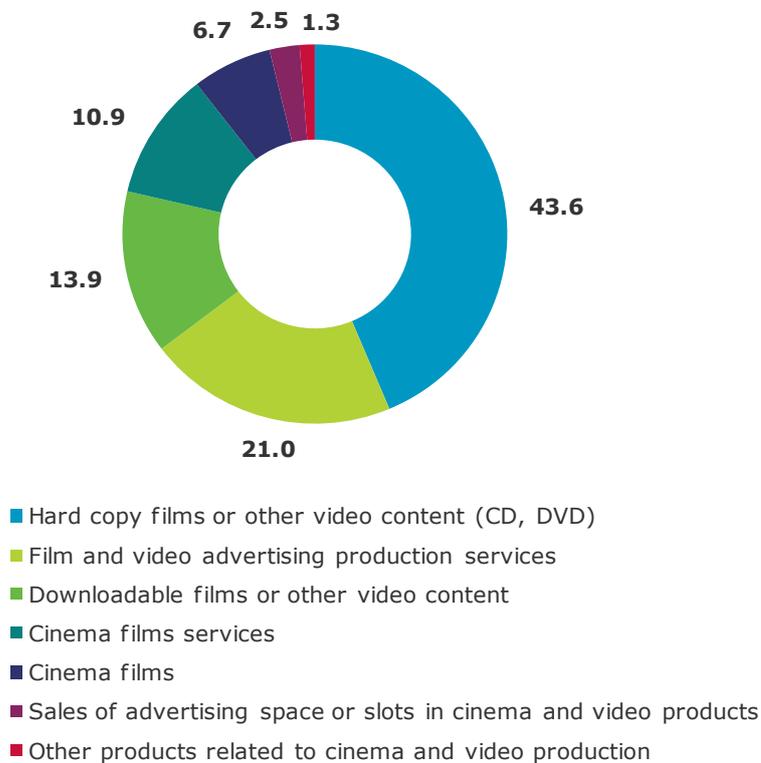
Motion picture and video production

For cinema and video production, most digital business sales correspond to films or other video content in physical media (CDs, DVDs). This represents 43.6% of the total of cinema and video products. Film and advertising video production services is next in importance, accounting for 21% of the total.

Cinema film services, including production and making of television series, cartoons and content for television represent 10.9%. The growth of downloadable films and other video content is noteworthy; this represents 13.9% of sales for cinema and video products.



Figure 6.2 Distribution of sales for film and video production in Spain: 2011 (% of total sales for the sector)



Source: ONTSI



Production of TV programmes

Regarding television production, digital production of original television programmes and production services for other television programmes generated 47% of the €195 million in this segment.

Motion picture and video production

For film and video distribution, it is important to note that 43.6% of total sales in this category come from film rights sales and royalties earned.

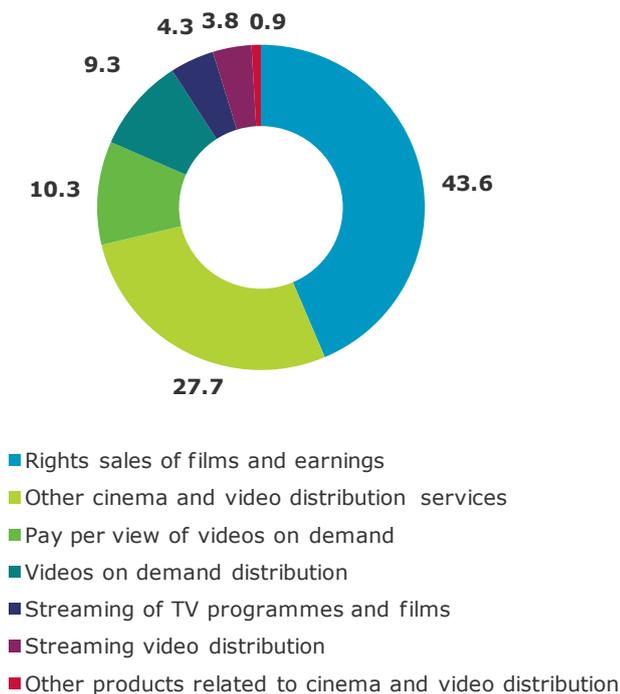
The launch of new digital and cable platforms and the growing demand for new customised interactive services meant that in 2011 new film and video distribution services had a strong impact on the market. Pay-per-view films where operators provide viewers with a wide range of audiovisual content, which is paid for prior to viewing, now generates 10.3% of sales, followed by the distribution of Video on Demand with 9.3%.

Finally, streaming of films and TV programmes, where a catalogue of low-priced rental films are on offer (with a similar quality to DVDs), that can be viewed without downloading, for a limited time, represented 4.3% of sales. Distribution of streamed videos accounted for 3.8% of total sales.

The trend for flexible access caused by the arrival of new devices on the market mean that film, video and television companies are being forced to come up with new audiovisual promotions. This means that different network platforms are providing similar services, due to the similarity of devices.



Figure 6.3 Distribution of sales for film and video distribution in Spain: 2011 (% of total sales in film and video distribution)



Source: ONTSI

Cinemas

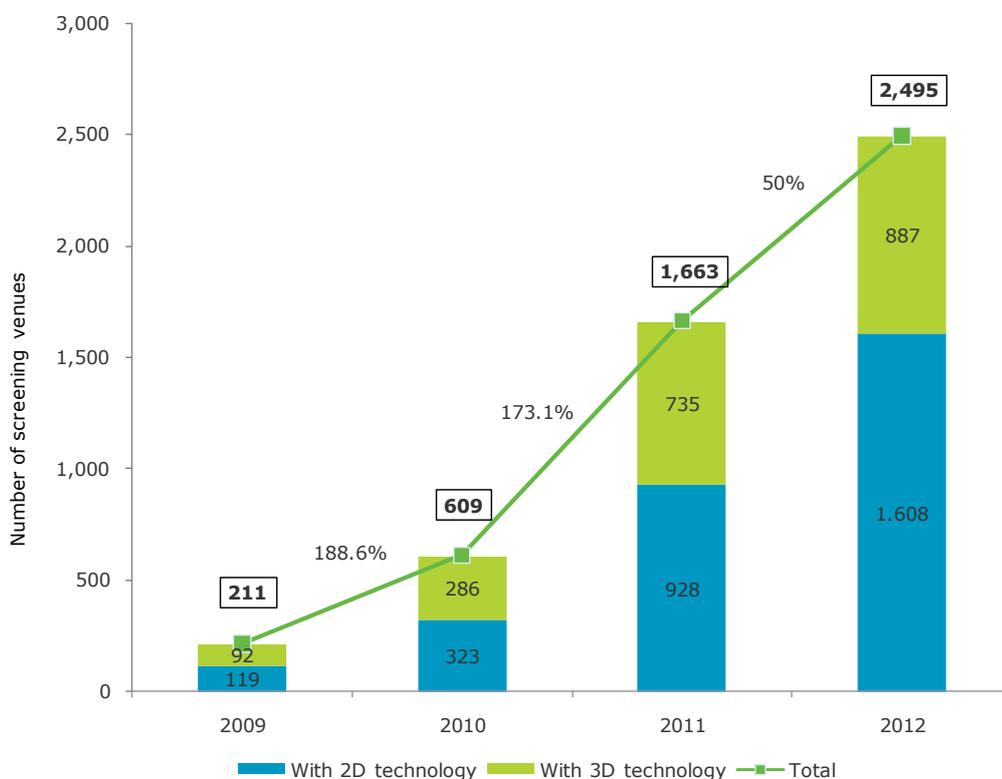
For film screenings, the increasing digitalisation in cinemas should be mentioned.

According to figures published for 2011 by the Association for Communication Media Research (AIMC) in the fifteenth Cinema Census, there has been a considerable increase in both 2D and 3D screens using digital technology.

For 2D digital screens there was an increase of 73.3% from 2011, which went up from 928 to 1,608 screens in 2012. For 3D projection screens, the increase was 20.7% from the previous year; from the previous 735 screens, 887 have now been counted for this year.



Figure 6.4 Number of digital screens in Spain: 2009 – 2012



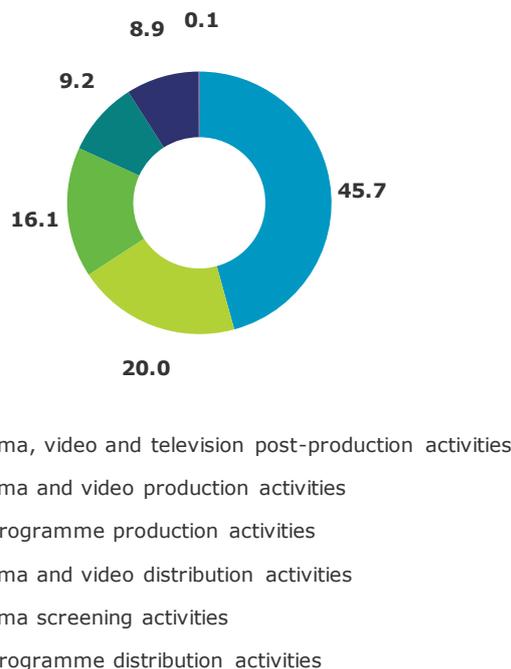
Data for 2012 for the month of April
Source: Association for Communication Media Research (AIMC)

Employment and investment

Employment data for 2011 shows that film and video companies accounted for 31.5% of total employment in digital business out of the whole content industry. Regarding film and video activity types, 45.7% corresponds to film, video and TV post-production activities of the total in digital business of the sector, 20% to film and video production activities and 16.1% to TV production activities. The remaining 18.2% corresponds to film and video distribution activities (9.2%), to film projection activities (8.9%) and TV distribution activities (0.1%).



Figure 6.5 Employment in digital business by film and video industry activity type: 2011 (% of total employment in digital business in the sector)



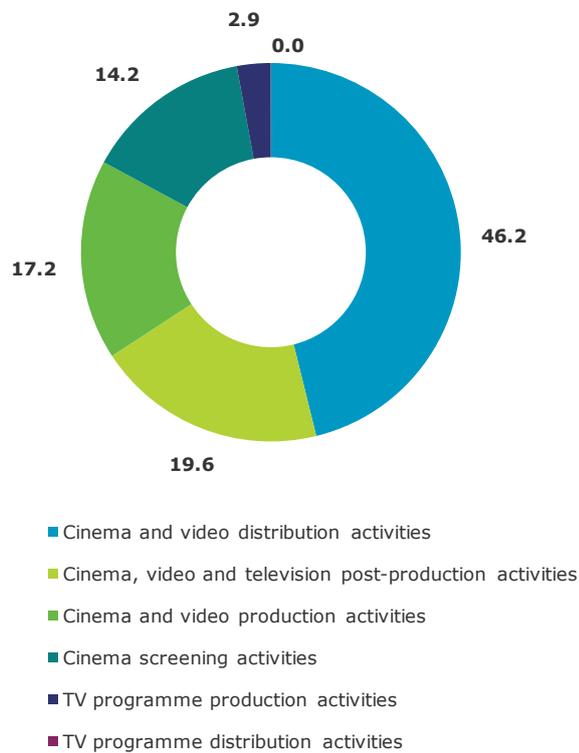
In 2011, 46.2% of the total investment of audiovisual content and services companies came from film, video and TV companies.

Source: ONTSI

Regarding investment, in 2011 49.4% of the total investment by audiovisual content and services companies was in film, video and TV programmes. 65.7% of the total investment in the sector, in digital business, came from film and video distribution (46.2%) and film, video and TV post-production (19.6%). The remaining 34.2% came from film and video production activity (17.2%), film projection activity (14.2) and TV production (2.9%).



Figure 6.6 Investment in cinema, video and TV in Spain: 2011 (% of total investment in digital business in the sector)



Source: ONTSI



8. AUDIOVISUAL SECTOR







7 Audiovisual Sector

TURNOVER

€3,733

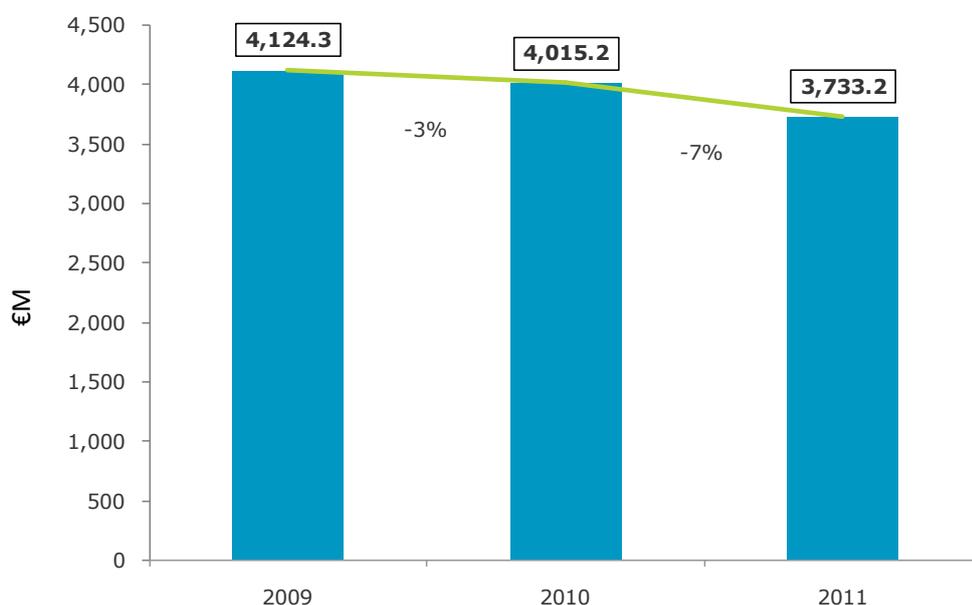
million in SALES for television within the audiovisual industry.

The Telecommunications Market Commission (TMC) analyses the audiovisual services market by separating television and radio services from audiovisual signal transmission and broadcasting. For the purposes of calculating the digital sales turnover for this sector, this digital content study only takes into account the figure corresponding to television programming and broadcasting, whether paid or free view, which has been carried out digitally since 2010

According to data from the TMC 2011 Industry Financial Report, television activities earned €3,733 million in sales in 2011, down 7% from sales recorded in 2010, which were just over €4,015 million. This decrease in sales was caused by the fall in advertising, which had a direct effect on free view television

Attention should be drawn to the fact that, while 2010 was the consolidating year for Digital Terrestrial Television (DDT), 2011 was distinguished by the growing number of channels and, in turn, fragmentation of viewing figures, due precisely to DDT's strengthened presence in 2010.

Figure 7.1. Income from television activities in the audiovisual sector: 2009-2011 (€M)



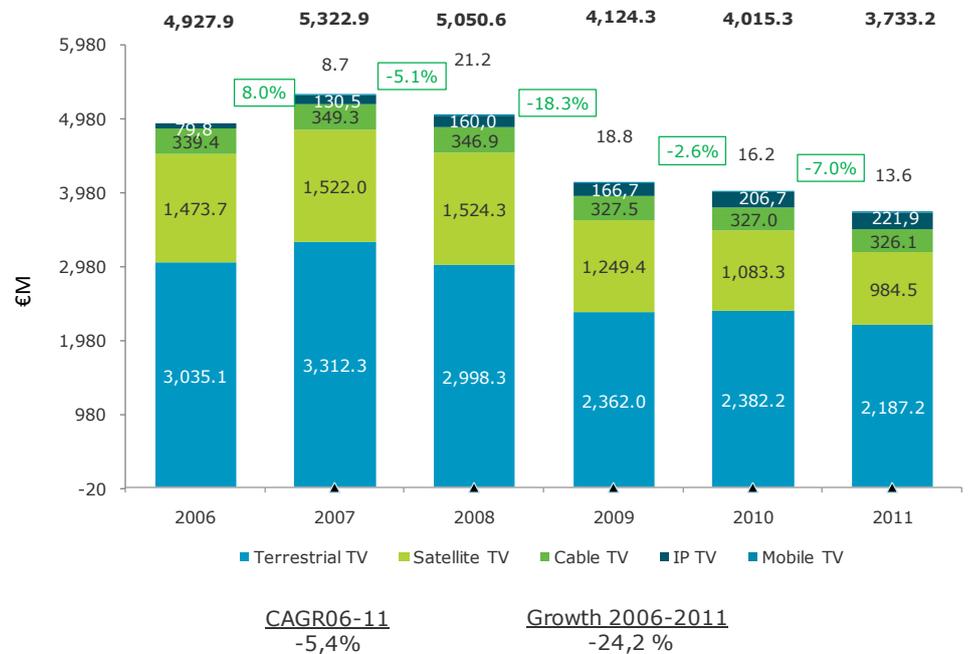
Source: TMC

An analysis by technological platform for TV broadcasting indicates that Digital Terrestrial Television provided 58.6% of the €3,733 million earned in 2011 in television broadcasting and programming activities in Spain, while satellite TV contributed 26.4%, cable TV 8.7%, IPTV 5.9% and finally mobile TV 0.4%. As the percentages indicate, DDT brings in the highest revenues to the sector and has become the dominant technological platform.



It is worth noting that in 2011 IPTV achieved €221.9 million in sales, 7.4% more than in 2010, when revenue was €206.7 million. Income from other technological platforms was lower than in 2010.

Figure 7.2. Television revenues by transmission medium: evolution 2006-2011 (€M)

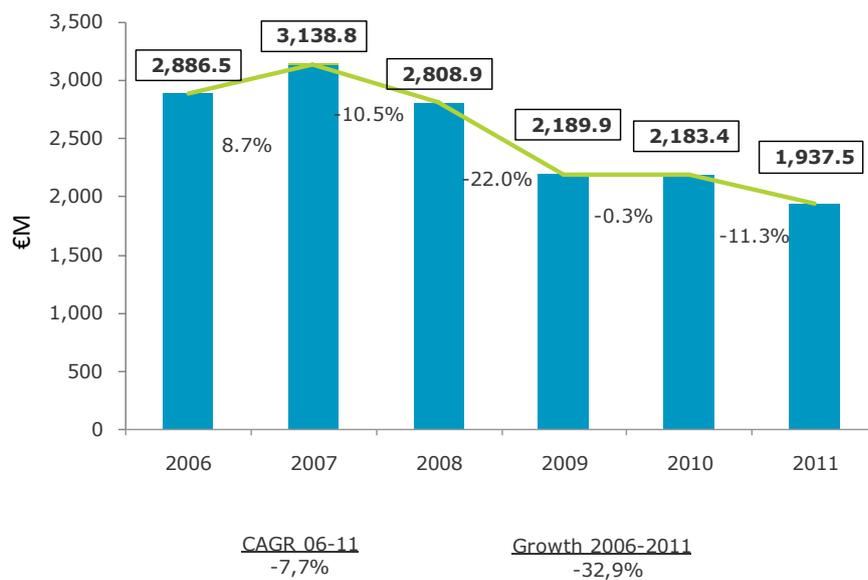


Source: TMC

Television advertising investment in Spain in 2011 went down by 11.3% from the previous year. In 2010 the investment figure was €2,183.4 million, while in 2011 the figure was around €1,937.5 million. Although some decrease in investment was seen, it was not as drastic as 2009's decrease, where figures dropped 22% from 2008.



Figure 7.3. TV advertising investment in Spain: evolution 2006-2011 (€M)



Source: TMC





9. PUBLISHING SECTOR







8 Publishing sector

According to data from the Observatorio de la Lectura y el Libro (Spanish Reading and Books Observatory), there has been an increase in digital book publishing in Spain since 2008. The press industry is continuing to make an effort to adapt to the digital environment both in terms of content and structure. This has led to an increase in the number of readers of digital press and there is an increased use of electronic devices like e-readers and tablets for reading.

It is important to mention that the percentage of e-readers is rising, from 48.6% at the beginning of 2010 to 52.7% at the end of 2011.

TURNOVER

€708 million in

SALES for the digital publishing business in 2011.

Current situation of the industry

Digital business sales in 2011¹⁴ in the Spanish publishing industry reached €708 million. 43.4% of these sales came from the digital newspaper publishing business, followed by 28.4% from book publishing, meaning these two markets generated 71.8% of total sales in the digital publishing business in Spain. The remaining 28.2% is made up of sales coming from other publishing activities, magazine publishing and the publishing of phone and address directories, with 20.7%, 7.0% and 0.2% respectively.

Here it should be clarified that "other activities" includes online publishing of advertising material, the incorporation of content prepared by blog readers and users and the provision and sale of specific digital content designed for Internet portals.

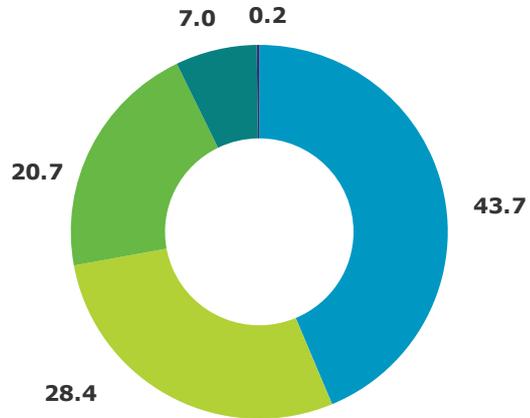
In 2011 the digitalisation rate (10.4%) was still low compared to rates in other sectors of the digital content industry.

¹⁴Digital publishing in the publishing sector includes: books, phone or address directories, newspapers, magazines and other publishing activities (such as the online versions of catalogues, photographs, illustrations, cards, postcards and posters, prints of artwork, advertising material, other printed material and the publishing of statistics and other information).



Figure 8.1 Sales in digital book and newspaper publishing and other digital publishing activities in Spain: 2011(total %)

Total sales for the sector:
€708 million



- Newspaper publishing
- Book publishing
- Other publishing activities
- Magazine publishing
- Publishing of phone or address directories and guides

EMPLOYMENT

Source: ONTSI

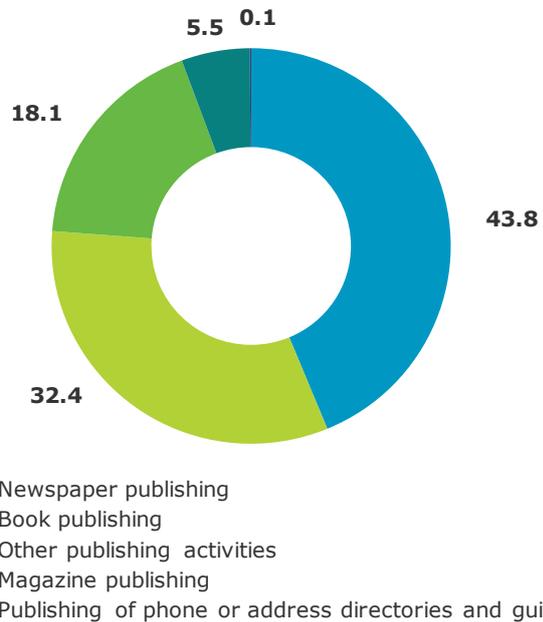
43.8%

of **PEOPLE EMPLOYED** in digital business in the publishing industry corresponds to newspaper publishing.

Employment data for 2011 shows that companies in the publishing industry generated 14.9% of total employment in digital business for audiovisual content and services. As regards types of activity in the sector, 43.8% corresponds to newspaper publishing of the total digital business in the industry, 32.4% to book publishing and the remaining 23.8% to other publishing activities (18.1%), magazine publishing (5.5%) and phone and address directories (0.1%).



Figure 8.2. Employment in digital business by publishing industry activity type: 2011 (% of total employment in digital business in the sector)



INVESTMENT

Source: ONTSI

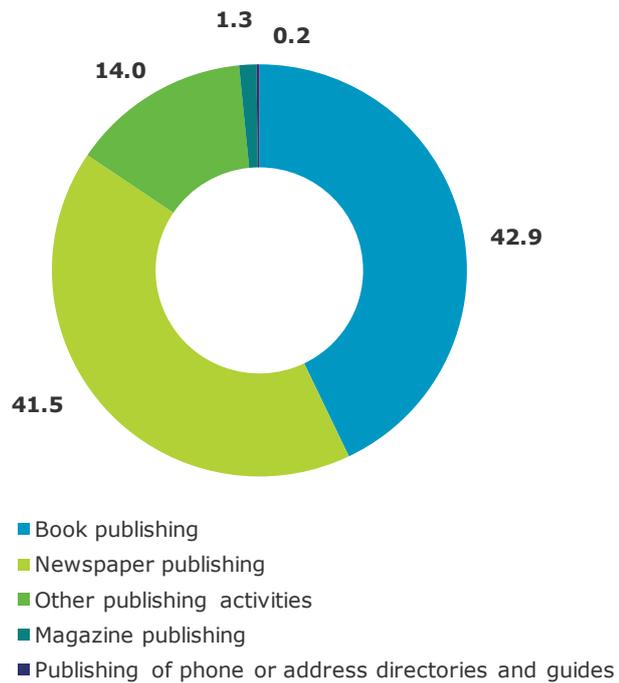
84.4%

of **INVESTMENT** in digital business in the industry was made in book and newspaper publishing.

In 2011, 16% of investment was generated by companies involved in book and newspaper publishing or other publishing activities. 84.4% of total investment in digital business in the sector was made in book publishing (42.9%) and newspaper publishing (41.5%). The remaining 15.3% was made by other publishing activities (14%), magazine publishing (1.3%) and publishing of phone and address directories.



Figure 8.3 Investment of digital publishing activities: 2011 (% of total investment in digital business in the sector)



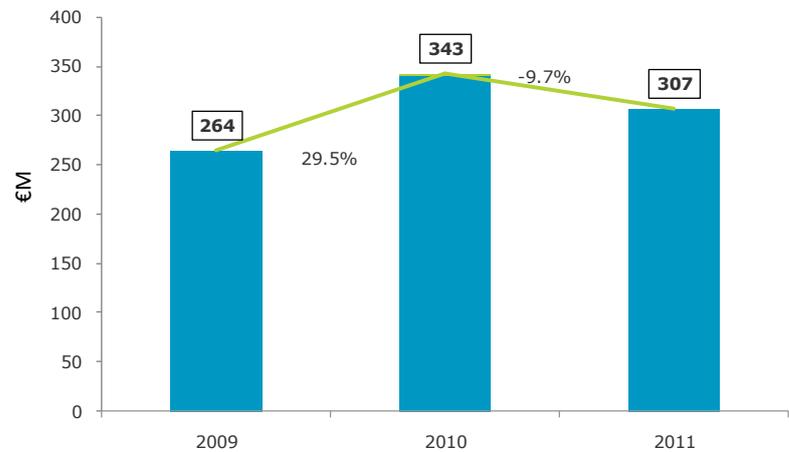
Source: ONTSI

Digital press market

The digital press market, comprising newspapers and magazines, achieved sales of €357 million in 2011. Newspapers contributed €307 million, a 10.5% decrease in total sales compared to 2010. In 2011, the newspaper digitalisation rate was 11.8% of the total sales of daily newspapers.



Figure 8.4 Newspaper publishing sales corresponding to digital business: 2009-2011 (€M)



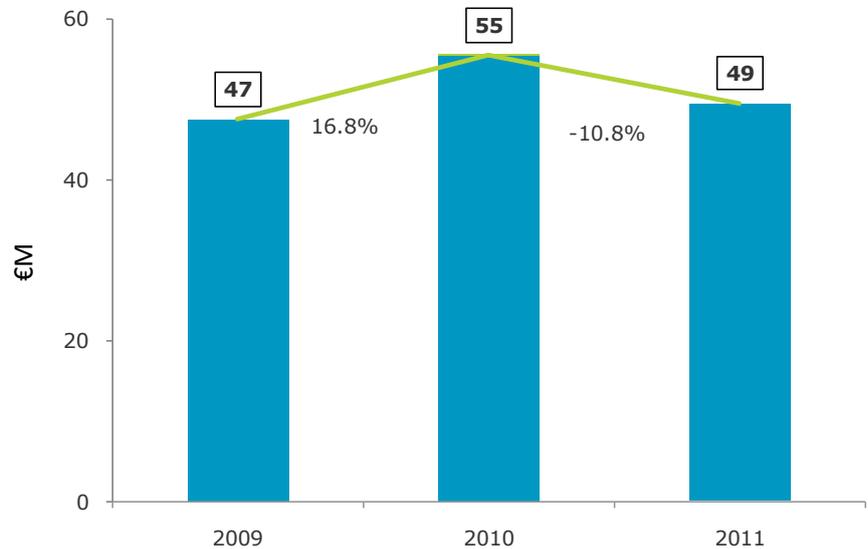
Source: ONTSI

As regards how digital sales for daily newspapers in Spain in 2011 are distributed, it should be pointed out that 48.9% of the total digital daily newspapers sales income comes from advertising media and 5.4% from paying digital versions. Furthermore, it is important to mention that the remaining sales income was generated by other products related to newspaper publishing.



In 2011, digital magazine publishing accounted for nearly €50 million in sales, representing 7% of digital sales in this press subsector. 2011 sales figures are down 10.8% from those of 2010 (€55 million).

Figure 8.5 Digital magazines market sales: 2009-2011 (€M)



Source: ONTSI

Online magazine sales are made up of 25.75% of sales of advertising space, which are now being massively promoted with the traditional media planning model, followed by subscriptions, which represent 6.07% and are sometimes part of promotional offers with subscriptions to other media. The remaining sales income comes from other products related to magazine publishing, such as sponsorships and digital events.

Digital book market

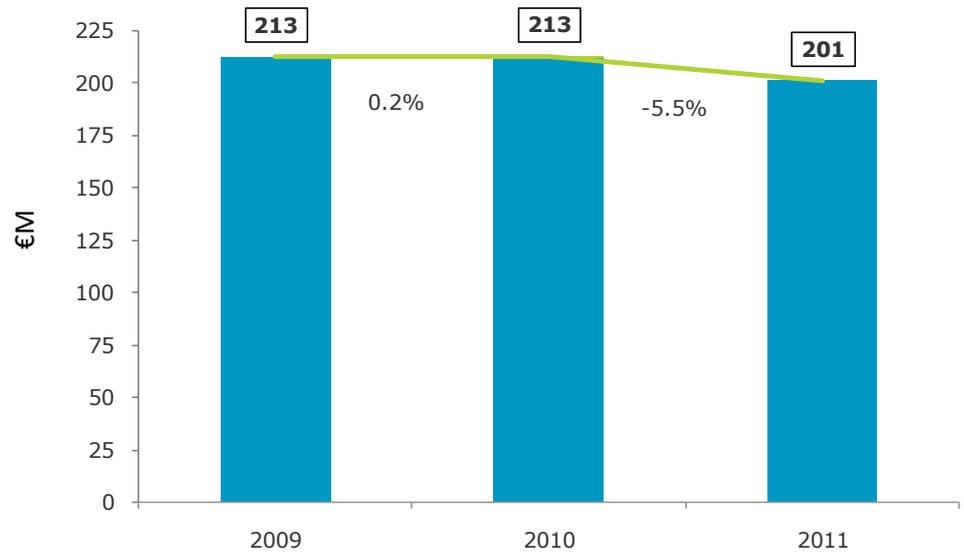
In 2011, digital book sales figures were €201 million, 5.5% less than in 2010.

As regards the distribution of sales for books corresponding to digital business in Spain in 2011, digital books generated 42% of sales and the digitalisation process of business, technical and academic books brought in 16%. Next were text books, 10% of total sales in the digital business, and children's books with 8%.

Finally, sales of other books, leaflets, prospectuses etc., atlases and other books with maps and other products related to book publishing each represent 3% of total sales.



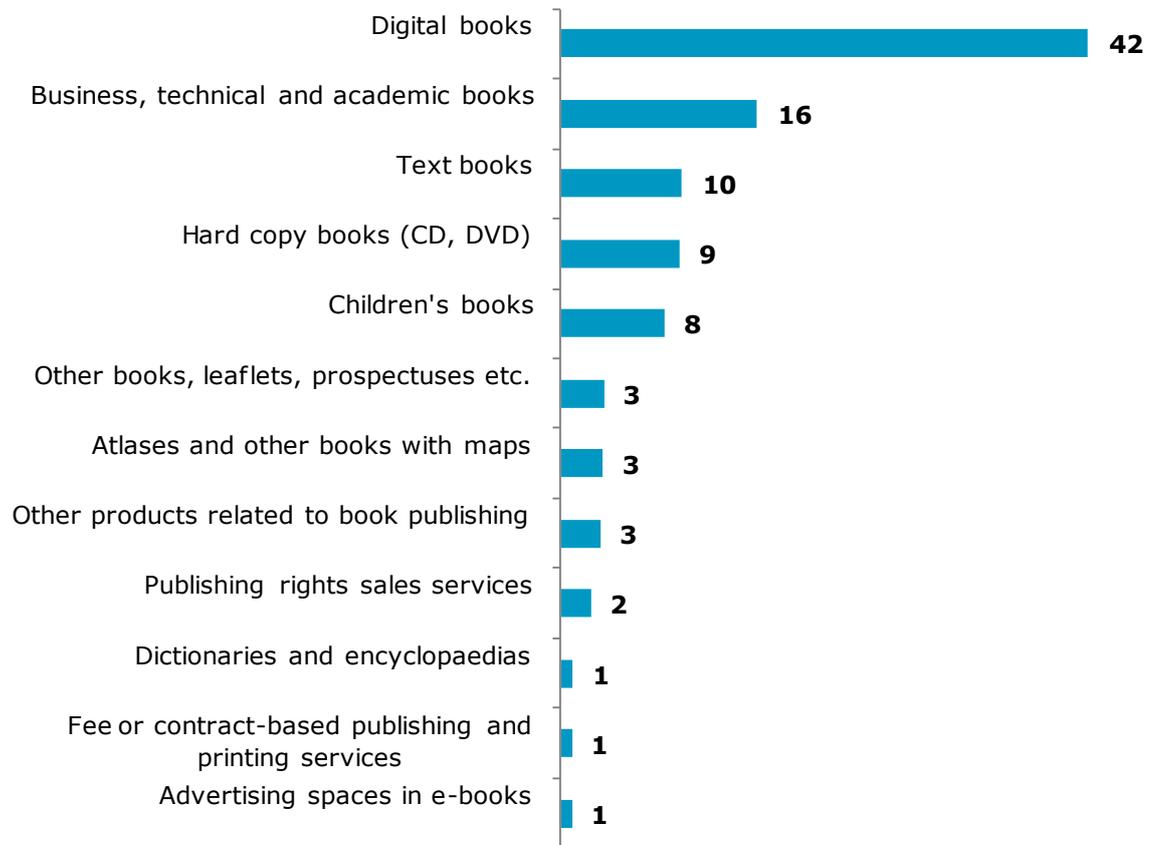
Figure 8.6 Book publishing sales corresponding to digital business: 2009-2011 (€M)



Source: ONTSI



Figure 8.7 Distribution of sales for books corresponding to digital business in Spain: 2011 (% of total sales in the digital book business)



Source: ONTSI

As far as use of digital books is concerned, in 2011 fewer textbooks were produced in digital format (-9.0%), whilst a greater number of digital books were available in the literature and leisure categories. It is also worth emphasising that the number of publishing companies producing digital books increased by 24.3% compared to 2010 (Observatory for Reading, 2011).

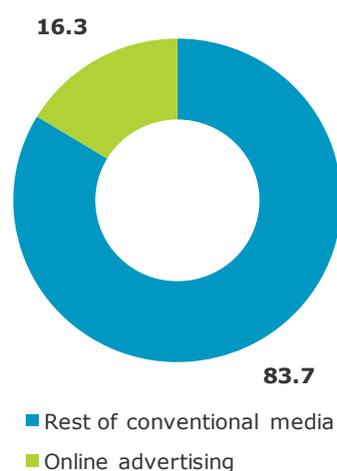
10. DIGITAL ADVERTISING SECTOR



WWW

9 Digital Advertising Sector

BREAKDOWN OF ESTIMATED ACTUAL INTERNET ADVERTISING INVESTMENT IN 2011 (% OF THE TOTAL ESTIMATED ACTUAL INVESTMENT IN CONVENTIONAL MEDIA)

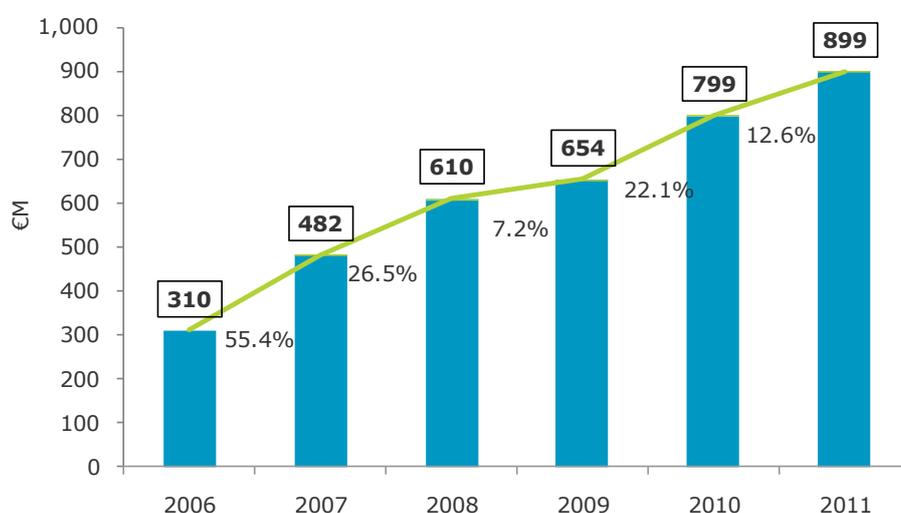


Source: Infoadex

Internet advertising investment grew 12.6% in 2011, reaching an advertising investment volume of €899.2 million compared to €798.8 million in 2010.

Analysing the total investment in conventional media advertising¹⁵ in 2011, Internet advertising investment was the third biggest, behind television and newspapers. This was the same for 2010.

Figure 9.1 Internet advertising investment in Spain: evolution 2006-2011 (€M)



CAGR 06-11 (%)
23.7%

Growth 2006-2011
-190.0%

Source: Infoadex

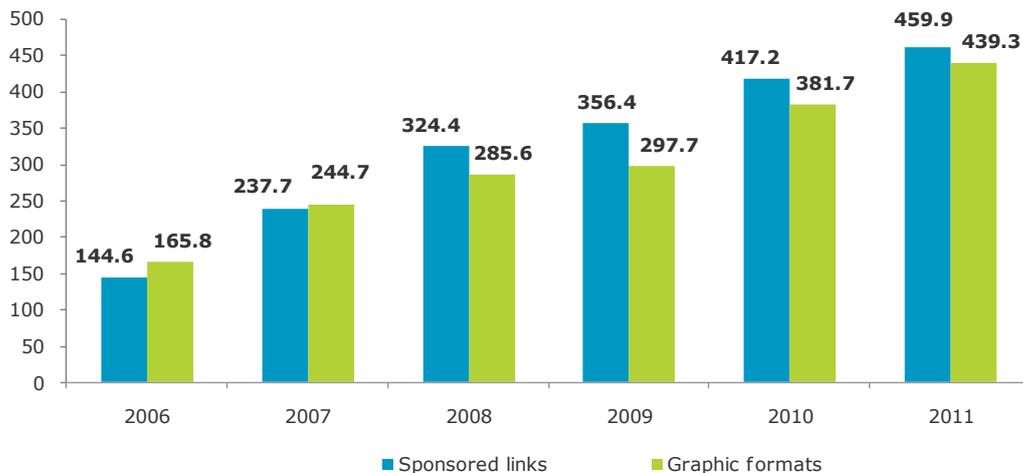
Internet advertising investment accounted for 16.3% of total investment in 2011 in the conventional media area. This is an increase of 2.8% in its investment share compared to 2010.

Sponsored links are the fastest growing format of the last five years. Investment in sponsored formats exceeded €439 million in 2011.

¹⁵ In order to classify the Estimated Actual Investment recorded by the advertising market in 2011, Infoadex establishes the two large media groups the market is traditionally divided into: conventional and non-conventional media. Internet is included in the conventional media group.

Likewise, the investment figure in Mobile Internet comes under the heading of conventional media Internet.

Figure 9.2 Composition of Internet advertising in Spain: evolution 2006-2011 (€M)



Source: Infoadex

Within the non-conventional media category, Infoadex measures mobile marketing (excluding Internet). In 2011 this type of advertising received €36.6 million in investment, with a notable growth of 66.4% from the previous year's figure.



11. DRIVING DIGITAL CONTENT





10 Driving Digital Content

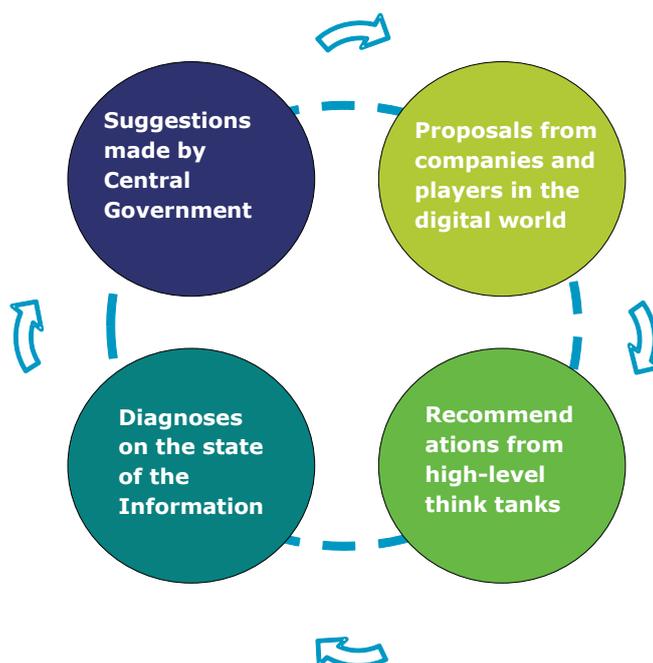
10.1 The Digital Agenda for Spain initiative

In March 2012 the Government embarked on the process of drawing up a Digital Agenda for Spain with a view to establishing priority strategies in the Information and Communication Technology (ITC) industry and AE (e-Government) for the coming years, as well as defining Spain's strategy for achieving the Digital Agenda for Europe's objectives, maximising the impact of public policy on improving productivity and competitiveness and transforming and modernising Spain's economy through an effective and intensive use of ITC by the general public, companies and government authorities.

The Digital Agenda for Europe is encompassed within the Europe 2020 Strategy, which was drawn up by the European Commission and published in March 2010. The EU's growth strategy for the next decade, Europe 2020, aims for an intelligent, sustainable and inclusive economy.

The development of the Digital Agenda for Spain proposal was led jointly by the Ministry of Industry, Energy and Tourism and the Ministry of Finance and Public Administrations, with the participation and collaboration of all partners involved. The starting point was the results of various analyses of the Information Society in Spain, recommendations from high-level think tanks, proposals from many companies and players in the digital world and suggestions made by heads of Central Government and other government bodies.

Figure 10.1 Starting point for drawing up the Digital Agenda for Spain proposal



Source: prepared by ONTSI (Spanish Observatory for Telecommunications and the Information Society)



The Digital Agenda for Spain proposal is structured into six major objectives:

1. To encourage the rollout of networks and services to ensure digital connectivity.
2. To develop the digital economy for the growth, competitiveness and internationalisation of Spanish companies.
3. To improve e-administration and adopt digital solutions for efficiency in public services.
4. To boost confidence in the digital environment.
5. To drive the R&D&I system in Information and Communication Technology.
6. To promote digital literacy and inclusion and training of new ITC professionals.

After the publication of the Digital Agenda for Spain proposal on 25 July 2012, the Government opened up the proposal for¹⁶ public consultation, ending on 30 September 2012.

Comments and contributions received were still accessible at time of going to press of this edition, on the platform created for circulating its content and creating a space for public debate on the aforementioned proposal.

10.2 Driving digital content in Spain

The Digital Agenda for Spain proposal highlights the enormous growth potential of the digital content industry and situates it as one of the most important sectors for the digital economy and one that impacts on all the other sectors of the economy.

Specifically, the Digital Agenda for Spain initiative includes in Objective 2.3 a proposal to boost production and distribution of digital content via the Internet, as outlined below.

¹⁶ The consultation process was undertaken following principles of transparency and open government, with the aim of achieving maximum public participation and collaboration.

The Digital Agenda for Spain initiative

Objective 2.3. Promoting the production and distribution of digital content over the Internet.

The digital content industry is becoming more proactive in driving the information society, by extending digital culture in modern society's habits. It also has huge growth potential, making it one of the most important sectors for the digital economy. This industry covers a more traditional conception of digital content – such as cultural entertainment content – as well as a new set of developments, tools and platforms for producing content in all activity sectors.

The development of this digital industry requires an integrated approach that, based on collaboration between Government and the principal representatives of the technology and digital content sector, should include training, R&D&I and the setting up of indicators to monitor the evolution of the industry.

Reform of the regulatory framework is necessary to stimulate and simplify the use and distribution of digital content. The Law on Intellectual Property must be reviewed in order to adapt legislation to the characteristics of digital content, simplify the processes needed to be able to make use of content, enable an innovative use of emerging technologies and protect copyright.

Such a reform will need to take into account the global nature of the Internet and the need to move towards a single digital market to facilitate the selling of products and services abroad.

Also key in fostering the creation and development of the industry will be the setting up of dissemination forums, incentivising the internationalisation of companies and encouraging standards and good practice codes.

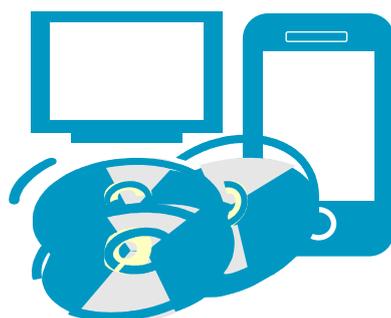
Measures

1. Designing a Comprehensive Plan for the Digital Content Industry in Spain in 2013. The Plan will cross over all industries, covering cultural and entertainment content as well as tools and platforms for producing content in all sectors.
 - In 2012 a mixed working party will be set up (Government – representatives of the digital content industry and technology sector) to define the content detailed in the Plan.
 - The Plan will cover, as a minimum, the following:
 - Development of measures for training and preparing professionals in the creation of digital content, including technology, design and management aspects.
 - Establishment of a specific R&D&I policy to drive innovative technologies applied to the digital content industry.
 - Preparation, in collaboration with the sector, of a set of indicators to properly monitor the evolution of the digital content industry.

2. Simplifying the copyright rules for using content digitally through:
 - Reviewing and adapting current legislation.
 - Simplifying procedures and conditions of use for digital content to enable SMEs and micro businesses to go digital.
3. Simplifying conditions for reusing information from the Public Sector.
4. Facilitating the development of companies focusing on the creation, production or distribution of digital content:
 - Creating industry forums to help the Spanish industry move towards greater corporate maturity.
 - Developing, with the aid of public-private collaboration, the dissemination of the increasing legal content on offer.
 - Leveraging the audiovisual sector's potential to drive the digital content industry.
5. Developing an Exports and Internationalisation Strategy for the Spanish digital content industry. This should consider the potential offered by the extensive use of the Spanish language in certain parts of the world and the export of technological developments that provide support for the digital sector.
6. Promoting, together with other agents involved, the creation and evolution of codes of conduct for digital content, so that progress can be made in self-regulation and content labelling and good industry practices are fostered.



12. CONCLUSIONS







11 Conclusions

KEY DATA

9,270

COMPANIES in the Audiovisual Content and Services industry in 2010.

In 2011, the total **TURNOVER** of digital content in Spain was

€8,553

million.

The **EMPLOYMENT** figure in digital business was estimated at

46,099

EMPLOYEES.

Video games

- The video games industry was marked by a big drop in consumption in 2011, although this was less intense than in 2009.
- Turnover for video games in Spain in 2011 was €499 million¹⁷ (ADESE, 2012), a 13.2% drop from sales earnings for video games in 2010.
- Expressed as a percentage, 93.8% of software sales in 2011 came from video games for consoles, 5.8% from games for PCs and the aforementioned new PC Info & Edutainment segment accounted for 0.5% of video game sales.
- The evolution in console sales over the last few years continues to display a clear downward trend although this is decelerating; in 2010 console sales decreased by 21.7% compared to figures from the previous year and in 2011 this decrease was 10.2%.

Music

- In 2011 digital music turnover in Spain was €190 million, a 1.3% decrease in sales from 2010.
- In 2011 the digitalisation rate in the sector, 55.8% of total music sales, continued with the upward trend seen since 2010, in which year the digitalisation rate was 51.9%.

¹⁷ ADESE has lowered the 2010 sales figure, with the following comment: "The comparison with 2010 was made on the basis of 1,150 million, an actual figure which differs from the 1,245 million reported a year ago. This is due to an adjustment made to balance out the period audited". Consequently the sales figures for video games in 2010 went down from €631 million to €575 million.



Cinema and video

- In 2011 the film and video industry remained second in terms of contribution to total sales for the digital content industry, accounting for 28.2%.
- In 2011, total turnover for the sector was €2,412 million.
- In 2012 the number of screens with 2D digital technology went up by 73%, while 3D screens went up by 21%. There are 1,608 screens with 2D digital technology and 887 with 3D projection.
- In 2011, 49.4% of the total investment of audiovisual content and services companies came from film, video and TV activities.

Audiovisual

- Television programming and broadcasting activities in the audiovisual sector earned €3,733 million in sales in 2011 according to data provided by the TMC.
- Digital Terrestrial Television (DDT) accounted for 58.6% of total sales coming from television programming and broadcasting activities in Spain in 2011, making it the dominant technological platform in broadcasting.
- Internet Protocol Television (IPTV) totalled sales of €221.9 million in 2011. An increase of 7.4% in income compared to 2010.

Publishing

- In 2011, turnover for the digital publishing business in Spain was €708 million.
- 43.7% of this figure came from the digital newspaper publishing business, followed by 28.4% from book publishing.
- In terms of employment, 43.8% of the total in digital business in this sector corresponds to newspaper publishing.
- 84.4% of the total investment in the sector in digital business came from book publishing and newspaper publishing.
- According to data from the Observatorio de la Lectura y el Libro (Spanish Reading and Books Observatory), there has been an increase in digital book publishing in Spain since 2008.
- There has been an increase in the percentage of e-readers. This rose from 48.6% at the start of 2010 to 52.7% at the end



of 2011, according to data from the aforementioned Observatory.

Digital advertising

- As a whole, Internet advertising investment grew 12.6% in 2011, reaching an advertising investment volume of €899.2 million compared to €798.8 million in 2010.
- In 2011 sponsored links were the fastest growing format of the last five years. Investment in sponsored formats exceeded €469 million in 2011.





13. NOTE ON METHODOLOGY







12 Note on Methodology

GENERAL NOTE

The report was produced by the ONTSI Studies and Indicators teams, with support and consultancy services provided by Oesía.

The main sources used to put this report together were as follows:

- 2011 Telecommunications, Information Technology and Content Companies Survey. ONTSI, 2012.
- The Digital Agenda for Spain initiative Spanish Government, 2012.
- 2011 Industry Financial Report drawn up by the Telecommunications Market Commission (TMC), 2012.

The sources used to produce this annual report make it uniquely thorough and reliable.

TECHNICAL SPECIFICATIONS SHEET AND METHODOLOGY OF THE ITC INDUSTRY COMPANIES SURVEY

In line with the OECD's recommendation to devise a complete and homogenous methodology for the audiovisual content and services industry, ONTSI deemed it appropriate to include these content activities: book publishing, film or cinema, sound recording and other information services including the provision of audiovisual services that the Telecommunications Market Commission publishes.

Classification of the digital content and audiovisual services industry	
CNAE 2009	Book and newspaper publishing and other publishing activities
5811	Book publishing
5812	Publishing of phone or address directories and guides
5813	Newspaper publishing
5814	Magazine publishing
5819	Other publishing activities
CNAE 2009	Cinema, video and television programme activities
5912	Cinema, video and television post-production activities
5914	Cinema screening activities
5915	Cinema and video production activities
5916	TV programme production activities
5917	Cinema and video distribution activities
5918	TV programme distribution activities
CNAE 2009	Sound recording and musical editing activities
5920	Sound recording and musical editing activities
CNAE 2009	TV and radio programming and broadcasting activities
6010	Radio broadcasting activities
6020	TV programming and broadcasting activities
CNAE 2009	Other information services
6391	News agencies activities
6399	Other information services

However, this report has broadened its range of sectors, as in previous editions, completing its classification of audiovisual content and services activities with companies from the video games sector and those that provide digital advertising services.



In 2010, the entire audiovisual content and services industry consisted of more than 9,200 companies. This figure comes from the Companies Directory created by ONTSI, which is drawn up using both its own directories and registration information from the Mercantile Register. The number of advertising and video games companies is not known.

The technical specifications sheet corresponding to the study of the ITC sector is the following:

- Universe: the universe of companies is 9,270 (from Mercantile Register figures).
- Scope: Mainland Spain, Balearic Islands, Canary Islands, Ceuta and Melilla.
- Sample: the object of the study was the economic activity of companies operating between 2005 and 2009. Results of unconsolidated accounts were used in order to separate the figures by activity type more accurately. The selected sample was approximately 3,074 units and the effective sample was 2,420 units.
- In concordance with the methodological framework used by the CNAE (Spanish National Classification of Economic Activities) 2009, a base change was made in the linking of the 2005 to 2009 series. For this, linking coefficients were calculated, permitting estimates of data from previous years. Thus sub-group level results are obtained.
- Technique: capturing online data.
- Fieldwork: the information gathering period was 3 months, between March and July.
- Sampling error: the margin of error for the total sample, for conventional statistics conditions ($p=q=50\%$) and for a confidence interval of 95%, is ± 0.02 , with an 86% response rate. For content the error oscillates between ± 0.04 with an 82% response rate.

For the purpose of gaining a deeper knowledge of the digital content industry, in its survey on audiovisual content and services companies ONTSI requested the disaggregation of the digital sales percentage, the digital employment percentage and the digital investment percentage.

The concept of digital percentage encompasses the part of earnings corresponding to goods and/or services that provide content with information in digital or electronic format. As previously stated, products include publications, films, videos, TV and radio programmes, music, video games, software and education-related content, financial information services and the different formats of online advertising or advertising for mobile media. Both content that is distributed without the use of physical media and digital content distributed or sold in a digital format but on physical media (CDs, DVDs, pendrives etc.) are defined as digital.

In addition, digital or electronic content for new types of web services available online are included, such as news services, information, games, financial information services, education-related services, sites for playing music, Video on Demand, Internet advertising, online video games, etc.

For the purposes of this survey content is defined as "an organised message or piece of information, accessible by purchase or any other means of access: physical media, on the Internet, other electronic means, through the media and other activities related to the media".



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:

$$\text{CAGR} = 100 * ((\text{Future value} / \text{Previous value}) ^ (1/n) - 1) * 100.$$

ESTIMATES FOR FUTURE EVOLUTION

Quantitative data from secondary sources has been used where available. ONTSI has also made its own qualitative comments based on trends observed.

CLARIFICATIONS ABOUT THE INDUSTRY

The data analysed in the video games sector refers to software and hardware distribution and excludes from this study that corresponding to production. Turnover is considered completely digital.

The audiovisual sector does not possess data about the breakdown of digital and analogue television for the first quarter of 2010. The total sales for television have therefore been taken to mean digital television, given the extent to which DDT was implemented in Spain during the first quarter. From the second quarter of 2010 onwards, all sales have been considered digital, due to the fact that analogue television ceased to exist. Digital figures for radio earnings are not available, so total earnings were considered as analogue activity and are therefore not included in the digital industry figures.

In the advertising sector, advertising investment for mobile media published by the company Infoadex was included in the total digital figure.





14. GLOSSARY







13 Glossary

ADESE: Asociación Española de Distribuidores y Editores de Software de Entretenimiento (Spanish Association of Entertainment Software Distributors and Publishers).

AIMC: Asociación para la Investigación de Medios de Comunicación (Association for Communication Media Research)

Broadband: Internet connection capable of transmitting information at high speed.

Banner: advertising consisting of the insertion of a piece of advertising on a website.

Blog: A portmanteau term from *web* and *log*.

Broadcast: transmission of a data package via a network to all the members of that network.

B2C: *Business to Consumer*. The business relation, carried out electronically, between a company and an end customer.

Catch-up: television services on demand. It consists on a bank of content prepared by the broadcaster which can be selected and viewed by the consumer. The best-known example of this is RTVE's service of making all its series and content available for the public, which can be viewed either from an Internet-enabled TV or via streaming on the website. Basically, it allows viewers to access the same programmes they can see on traditional television via different electronic devices.

CD: *Compact Disc*.

TMC: Comisión del Mercado de las Telecomunicaciones (Telecommunications Market Commission)

3D cinema emerging technology applied to most forms of image broadcasting, allowing a sensation of depth to be created.

Digitalisation of screens: process of adapting cinema screens to be able to show films in digital format.

DRM: *Digital Rights Management*.

DVD: *Digital Video Disc*.

Sponsored links: links added to search engines for which the sponsor pays a fee. They appear in prominent positions in the search engine.

Freemium: a business model offering basic services for free and charging for other more advanced features or functionality.

GAPTEL: Grupo de Análisis y Prospectiva del sector de las Telecomunicaciones (Telecommunications Sector Analysis and Forecasting Group)

INE: Spanish National Statistics Institute

Social gaming: type of video games encompassing the following: quizzes, singing, dancing, musical instruments and parties.

Games on Demand: term used for video games found on a platform, usually the cloud, that users can play whenever and wherever they wish.

Cloud gaming: business model in the video games sector which offers the remote use of programmes using electronic devices like computers, accessing the games through external servers and transmitting data via Internet to the user.

Massive Multiplayer Online: games where there are various players connected via the Internet in real time.

Advergaming: advertising format in video games that promotes brands by making them a central part of the game.

e-reader: electronic device with an *E Ink* screen for reading electronic books (e-books).

Multi-play: or bundling, a model for providing different inclusive audiovisual service packages.

Music in the cloud: hybrid model similar to streaming or uploading and downloading music files, used for playing or storing them.

OECD: Organisation for Economic Co-operation and Development.

ONTSI: Spanish Observatory for Telecommunications and the Information Society



Pay per download: business model based on paying to download additional content for games, also known as item selling.

Pay per view: or PPV. It is an audiovisual content consumption model where users must pay a fee to be able to view it.

PC: *Personal Computer*.

In-game advertising: using video games to promote brands via the characters in the game.

Augmented Reality: it is a technology mixing a view of the real world with computer-enhanced elements. It is different from Virtual Reality in that it does not isolate itself from reality but adapts to it.

Netlabels: are Internet record labels that distribute their content in digital format or online, also known as web labels.

Social simulation games: type of video games encompassing the following: simulation of life, pets and animals.

Streaming: audio and video content distribution via the Internet without downloading.

Subscription: payment method whereby a fee is charged for use of services.

Tablet: portable device similar to a laptop but smaller, managed using the touch screen.

CAGR: Compound Annual Growth Rate.

DTT: Digital Terrestrial Television

3D technology: emerging technology applied to most forms of image broadcasting (cinema, television and video games) allowing a sensation of depth to be created.

Internet Protocol Television (IPTV): a television distribution system based on IP, usually provided by Internet providers themselves.

Smart TV: interactive TV which allows access to DDT, Internet TV channels, video websites, catch-up TV and Video on Demand. It also enables interaction with social networks.

ICT: Information and Communication Technology

Video on Demand: (VOD).

Web 2.0: refers to the second generation of web-based services and communities, which give the option of creating and editing content (wikis, social networks etc.)

Webcasting: essentially means broadcasting on the Internet, i.e. distributing linear audio and/or video content over the Internet to multiple viewers or listeners. Linear since webcasts are not generally interactive broadcasts.



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