Media Sector

15th in a series

This Eurosif sector report has been compiled using research by Ethix SRI Advisors. It describes the major environmental, social and governance (ESG) challenges facing the Media sector and the associated risks and opportunities these pose for long-term financial returns.

SECTOR OVERVIEW

- The media sector encompasses companies involved in producing, communicating and distributing information and entertainment, as well as entities offering platforms for content distribution. The goods provided by the sector include many kinds of printed, audio, visual and audio-visual content, which are distributed to consumers through a wide range of channels such as the Internet, television, newspapers, magazines, books, video games, film, radio and social networks.

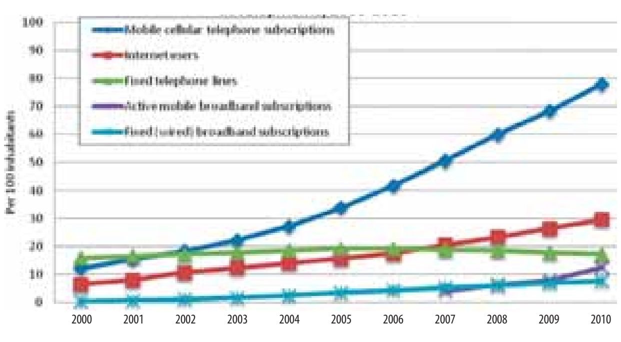
- This sector is changing, reflecting the rise of social media and the increased blurring of the boundaries between the media sector and the advertising, telecommunications and technology sectors. This blurring demonstrates the challenges presented to 'traditional' media businesses (newspapers, television, radio) by new communications technologies, the low cost of content generation, and the rise of social media.

- While the emergence of social media and new technologies are widely described as a threat to 'traditional' media businesses, television continues to be the world's largest advertising medium, with a total advertising expenditure of $180 billion (€135 billion) in 2010, followed by newspapers ($97 billion or €72.8 billion), the Internet ($62 billion or €46.5 billion), magazines ($43 billion or €32.3 billion) and radio ($32 billion or €24 billion)[1]. Although it is likely that this picture will change – for example, search engine marketing will most likely take a larger share of companies' marketing budgets at the expense of traditional media (print media, TV, radio)[2], – the rate of decline of traditional media should not be overestimated. For instance, while print circulation is declining worldwide (2% decrease from 2009 to 2010), it is still rising in Asia Pacific[3].

SECTOR TRENDS

- **Convergence of Sectors.** New communications technologies, such as the smartphone[4], combined with the pressure to deliver more content at an even faster rate, are accelerating the convergence of the media, technology and telecommunications sectors, and the development of new media formats and distribution channels. Examples include the provision of TV through high-speed Internet connections, as well as reading tablets forcing content providers to adjust their offerings to fit into the interactive screen. The rise of new media content distribution channels and user-generated content is a challenge to traditional media companies' business models, as consumers increasingly access content via these new technologies, thereby enabling producers to market content directly to consumers.

Global Information and Communication Technology (ICT) Developments, 2000-2010



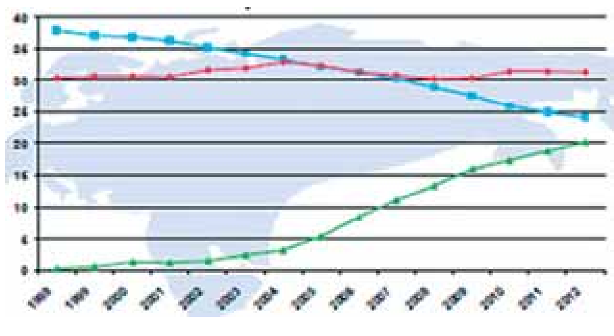
Source: ITU World Telecommunication /ICT Indicators database,2012

- **Free Content but New Revenue Models.** Recognising the threat to their existing business models, many traditional media companies have sought to develop an online presence, whether on their own or in conjunction with technology partners. However, they have struggled to develop profitable online businesses, as an increasing number of consumers now expect to be able to access media anywhere, anytime free of charge. For example, videos can be watched on YouTube, music is distributed through streaming software such as Spotify, and more news is being read online[5]. Despite the free content trend, new revenue models are developing, such as paying for downloaded media applications or extra features within social network games. Media companies are able to benefit from technology by reducing operating costs, and some media outlets have successfully established online pay-services, either directly or through the use of third-party applications. The success of these ventures is often based on the perceived quality of the information provided.

- **Consumers Taking Control.** Consumers can now choose among a wide range of sources for their media consumption. Increasingly, consumers are able to bypass media content distributers and access content directly. This has created pressure for traditional media companies to seek partnerships or closer relationships with companies in the advertising, telecommunications and technology sectors. Piracy (and the protection of intellectual property more generally) has become a key battleground, with customers looking to access content through a variety of sources but, at the same time, content producers striving to protect their revenues by avoiding the unlimited distribution of content.

Advertising Revenue by Distribution Channel (Western Europe, $ Billion)

Newspapers / Television / Internet



Source: Christoph Reiss, "World Press Trends 2011", WAN/IFRA, 2011