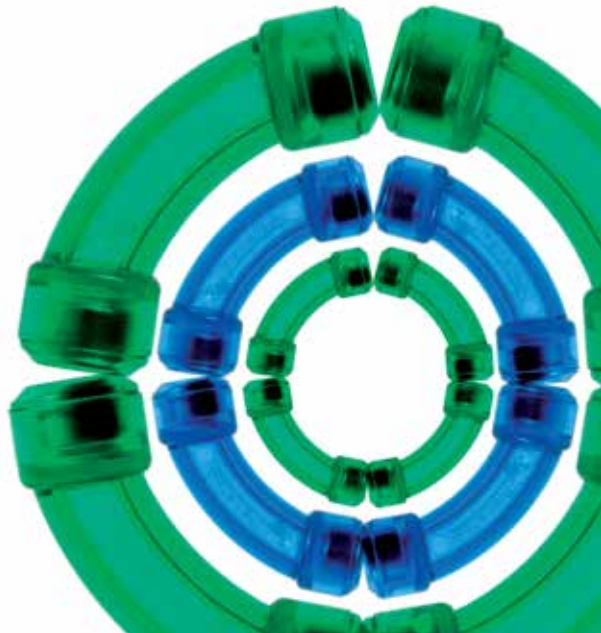




Media Consumer
Survey 2013
Love in a cold climate

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Foreword

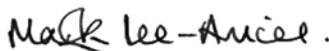
24.2 million people in the UK watched Danny Boyle's spectacular opening to the 2012 London Olympic Games. At the time, this staggering audience size had only once been exceeded in this country: in 1981, by Del and Rodney Trotter dressing up as Batman and Robin in *Only Fools and Horses*.

Two weeks later, the closing ceremony to the same Games would eclipse even the caped crusaders. 24.6 million people tuned in.

2012 was a defining media year. Whether it was millions cheering on their heroes on TV, online and in the streets, football fans gripped by a last minute twist in the twentieth Premier League Championship, previously unheard-of authors breaking records for book sales, or chilling propaganda distributed on social networks, media reached into our lives more intensely than ever before.

Our seventh annual Media Consumer Survey shows that 65 per cent of respondents have access to a smartphone and a third have a tablet in their household. This suggests that consumption of media is set to grow further. It seems that despite the frosty economic climate, UK consumers still seem besotted by high quality professionally-produced media and the devices on which they consume it. To reflect the breadth of consumption habits that exist in today's market, we have chosen to first focus on how UK consumers regard the drivers of change in the market – the digital media and device economies – and then look at their effects on four media markets: TV, news and magazines, books and video gaming.

And in light of the continuing popularity of professionally-produced media, and the relative lack of popularity of user generated content, we have also chosen to rename the survey programme. Although it is now simply 'Media Consumer Survey', we hope you still enjoy our perspectives.



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The 3Ds: A digital demographic divide



Digital Britain

Signs of a divide in digital generations grow

Facebook had its initial public offering (IPO) on 18 May 2012¹. This was the biggest IPO in Internet history², with a peak market capitalisation of \$104 billion³. Facebook was certainly one of the biggest business stories of 2012, not least for its April 2012 acquisition of two-year old start-up Instagram for \$715 million in cash and shares⁴.

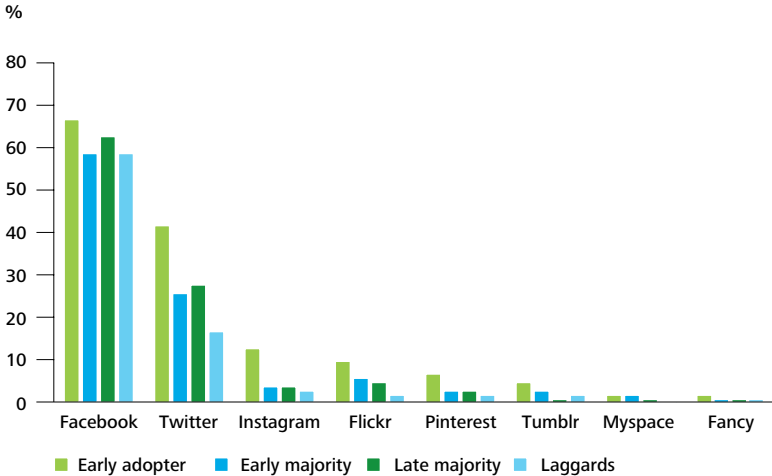
Needless to say, Facebook is big in the UK. According to our survey, on average, the UK consumer has 240 friends on Facebook and undertakes on average 3.5 actions on the site each day, where an action is defined as updating their status or commenting on or 'liking' something⁵. Facebook, Twitter, Instagram and other social media sites appear to be playing an increasingly important role in the media lifestyle of UK consumers.

The reality is that Facebook is the only mass market social network in the UK. Other digital media such as Twitter and Instagram have low penetration and are popular only among early adopters. Only 30 per cent of early adopters use Twitter and one in ten are Instagram subscribers (see Figure 1).

It is important for those attempting to reach consumers through social networks to understand that these are still very much a niche service, and careful targeting is necessary. Facebook for example is marginally more popular amongst the C2DE social groups⁶; Twitter has greater penetration among the ABC1 groups but is still much less popular than Facebook.

Needless to say, Facebook is big in the UK. According to our survey, on average, the UK consumer has 240 friends on Facebook and undertakes on average 3.5 actions on the site each day ...

Figure 1. Penetration of popular consumer-focussed social networks, UK 2012



Base: All respondents (2,033)

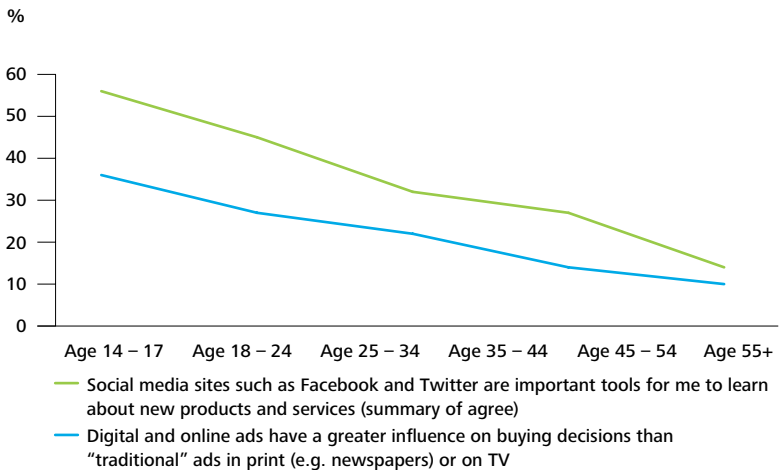
Source: Deloitte Post-Digital Consumer Survey, UK, October 2012

It is important for those attempting to reach consumers through social networks to understand that these are still very much a niche service, and careful targeting is necessary.

Social as a research and advertising medium

Our survey suggests that consumers of all ages consider social networks to be useful research tools when looking for new products, 24 per cent of consumers believe social network sites are important in learning about new products or services; however they are less convinced that digital and online advertising is more influential in the buying decision than traditional alternatives. 40 per cent of 14 to 17 year olds believe this to be the case but older age groups are much less convinced⁷ (see Figure 2).

Figure 2. Survey respondents' opinions regarding the importance of social media, digital and online advertisements, 2012



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

When compared to other types of online advertising, adverts delivered through social networks are rated the most influential by those aged between 14 and 24. In comparison, older respondents considered search engine advertising to be the most influential. Interestingly, 18 to 24 year olds rated search engine advertising second, followed by pre-roll videos (adverts viewed before you can watch an online video) in third place. Search did not feature at all in the top three most influential online advertising types for 14 to 17 year olds. Likewise, social network ads did not feature in the top three for respondents aged over 25.

It seems that there is a digital divide in the online population between the over 25s who are “search-first” in their Internet usage and the under 24s, who are “social first”. If this is the case, there are profound implications for the business models of those companies that advertise online.

... the over 25s who are “search-first” in their Internet usage and the under 24s, who are “social first.”

Fragmentation in usage grows

There is further evidence that online usage is increasingly fragmenting as consumers become more comfortable with the services available and learn to customise their experience.

Fragmentation in usage of the Internet is apparent from the number of different reasons that UK consumers have for using the Internet. On average, our survey respondents did 6.2 different things online in a week. Men exhibited more variation, averaging 6.6 activities compared with 5.8 for women.

Surprisingly, age was not a significant factor in this fragmentation of activity. There was very little variation between the youngest age group we surveyed (14 to 17 year olds), who on average did 6.8 discrete activities in a week, and 35 to 44 year olds, who did 6.5. Only in the above 45 age group was the variation in usage significantly less.

Also surprising is the fact that respondents were more likely to use the Internet for comparatively traditional activities such as reading local and national news or researching their hobbies, rather than for using social networks. Only in the under 24 age groups did the use of the Internet for social networking match its use for accessing news and information. This shows again how online usage is diverging between the generation who have grown up with social networks and those whose first experiences with the web were prior to Web 2.0⁸.

Social services

Female respondents use fewer online services, whereas male respondents show early adopter behaviour and used new online services sooner than women. This difference in behaviour between the genders is also apparent in our research into more specialised online services, such as virtual learning environments.

Twenty-six per cent of respondents with school-aged children told us that their school provided a virtual learning environment and just under half (46 per cent) logged in at least once a month to check on their child’s progress. Fathers were 30 per cent more likely than mothers to log in at least once a month.

Peer-to-peer file sharing

The practice that allows users that use a particular software to connect into a peer-to-peer network to search for shared files on the computers of other users connected to the network.

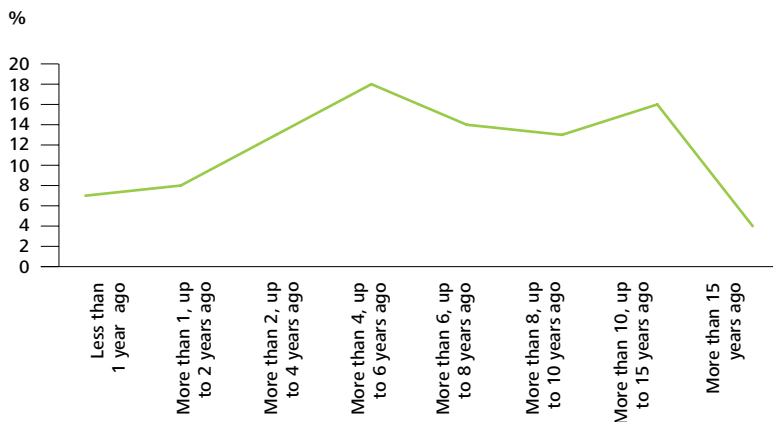
An online service that men and women do use equally is eGovernment. A quarter of respondents had paid their council tax online in 2012, half had paid car tax and a third the BBC TV licence fee online, with no significant variation between male and female respondents. Respondents in the ABC1 social groups were between 30 and 40 per cent more likely to have paid for these services online than those in the C2DE social groups, demonstrating the need for increased engagement of this part of the society.

Peer-to-peer file sharing¹⁰: not just a young man's game

Twenty-eight per cent of respondents had used a peer-to-peer file sharing service between May and October 2012, with men (38 per cent) more than twice as likely as women (17 per cent) to have used one. Of those who had used one at all, older respondents were just as likely as younger age groups to have downloaded something during the previous week, contradicting the commonly-held view that file sharing is solely a youth pastime¹¹.

This finding is borne out by the length of time respondents had been participating in file sharing, with many telling us they had been doing it since the early 2000s. Behaviour from the days of the Internet's Wild West¹² seemingly dies hard, even in the second decade of the new millennium (see Figure 3).

Figure 3. Positive responses to the question: 'How long ago did you first use a file sharing website?'



Base: All respondents (2,033)

Source: Deloitte Post-Digital Consumer Survey, UK October 2012

Music is the most commonly pirated type of media, with half of all positive respondents having downloaded at least one music track in the last six months. TV series (43 per cent) were the second most commonly-shared, closely followed by feature films (40 per cent).¹³

It comes as little surprise that *'it's free'* was the most common reason for using file sharing sites, although *'because I can't get the content in the UK'* (24 per cent) came second. In more positive news for the media industry, it appears that some of the legislative pressure and marketing effort does seem to be having an effect on behaviours. The most commonly-given reason for not pirating content was fear of getting caught.¹⁴

In more positive news for the media industry, it appears that some of the legislative pressure and marketing effort does seem to be having an effect on behaviours.

Is it time to start talking about 'traditional online media' too?

In summary, 2012 was a year of continued evolution in demand for Internet services, not the revolution in access that some commentators would prefer us to believe. Social networks – particularly Facebook – are becoming well-established, but as with traditional media there is evidence to indicate increasing differences in behaviour between older and younger age groups.

Even search – the success story of the Internet's last 15 years – is not immune from the passage of time. Our survey suggests that younger age groups regard social, rather than search as the centre of their online experience. Could it be that Internet business models are once again disrupting themselves? Although the question is unlikely to be answered in 2013, it is likely to be a fascinating year.

The average UK citizen now owns 11.4 types of media devices, up from 9.7 in 2011.



Scatter cushion computing in action

Device proliferation continues unabated

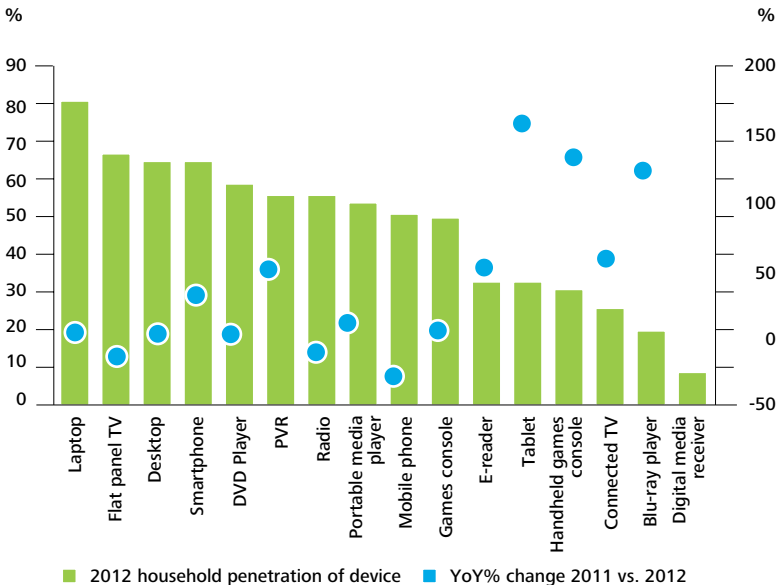
"I think I can tell by your excitement that you know what this is"¹⁵ was how Phil Schiller, Apple's Senior Vice-President of Worldwide Marketing, introduced the iPad Mini, one of the most eagerly-awaited products of 2012 and one that some reviewers have called the "best Apple product in recent memory"¹⁶.

An estimated 128 million tablets were shipped worldwide in 2012 ...

In 2012, the tablet device category has seen phenomenal growth. An estimated 128 million tablets were shipped worldwide in 2012, a year-on-year rise of almost 80 per cent¹⁷. The growing range of tablets has been a key driver to the tablet's success.

But whether it was seven-inch screen tablets, very large screen 'phablets', connected TVs or personal video recorders (PVRs), UK consumers' love of technology seems undiminished. Our data suggests that the average household now owns 11.4 types of media consumption device, up from 9.7 in 2011, and this despite a dramatic decline in penetration of the traditional mobile phone amongst the survey group.

Figure 4. Household penetration and growth rate of selected consumer devices, 2012



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

Tablets and e-readers both showed impressive year-on-year growth, up 175 per cent and 65 per cent respectively.

This 16 per cent increase in device ownership reflects the falling price of new technology such as tablets, and the increasing supply of content by major media organisations to feed those devices. By the end of 2012, all the UK's public service broadcasters and major newspapers had launched tablet-optimised versions of their traditional format. For example, subscription services such as Spotify's music streaming service offer the tablet consumer richer experiences when using an application rather than a website accessed through a browser.

We focus here on the tablet because it accounts for a significant proportion of the increased penetration of media devices. Tablets and e-readers both showed impressive year-on-year growth, up 175 per cent and 65 per cent respectively. Each is now present in a third of UK homes and can be regarded as mass market technologies.

Many commentators are obsessed with the death of the PC, soon to be replaced by a range of more specialised computing devices. Among the respondents, ownership of desktop PCs fell in all age groups, except for the 35 to 44s (where it was up by eight per cent, perhaps a result of the attractiveness of high-specification 'lifestyle' PCs). However laptop ownership remained steady among most age groups, except for the 45 to 50s, where there was a 15 per cent increase in overall penetration. This is almost certainly due to respondents in this age group purchasing additional PCs for teenage children. The laptop, once an expensive tool for senior executives, is now the core of the PC market, its portability adding to the PC's function as a Jack-of-all-trades computing platform.

In our view this flexibility of the PC means that it will remain an important part of the portfolio of media devices for consumers for many years to come. One telling piece of evidence to this effect is that only a quarter of respondents of all age groups who owned a tablet said that they used their tablet frequently as a replacement for a PC. Although the proportion of Internet traffic generated by PCs is falling¹⁸, this seems to be due to an increase in surfing by consumers on mobile and tablet devices in addition to their PC web browsing habit¹⁹.

Although the PC may continue to evolve and take on some of the software and hardware features of smart devices, the keyboard is here to stay.

Smart TVs proliferate, but usage remains unclear

Perhaps because 2012 was an Olympic year, penetration of connected televisions and personal video recorders (PVRs) doubled in 2012²⁰. Twenty-six per cent of households now own a connected TV and ten per cent of respondents expect to purchase one in 2013.

In principle, televisions connected to the Internet (known as Smart TVs) enable viewers to self-select content that would otherwise only be available through Internet-streamed services such as the BBC iPlayer. In reality, limited bandwidth and the continued strength of the TV schedule means that these facilities are not regularly used by the majority of consumers.

Connected TV penetration will grow simply because it will soon be difficult to buy a TV without such features. Penetration is almost uniform across all age groups, indicating that connected features may be a secondary consideration to the size of the screen being purchased and the price the consumer is willing to pay.

But the rise in penetration of new devices has not impacted that of devices now considered obsolete, such as CRT²¹ TVs and video recorders. Only two technologies experienced a statistically significant fall in penetration in 2012: the mobile phone and the analogue radio. Traditional mobile phone ownership fell sharply. Only 50 per cent of households now own a traditional mobile phone – a fall of 27 percentage points from 2011 – whereas 65 per cent own a smartphone. The demise of the former darling of the UK consumer as a mass market technology does not seem far away.

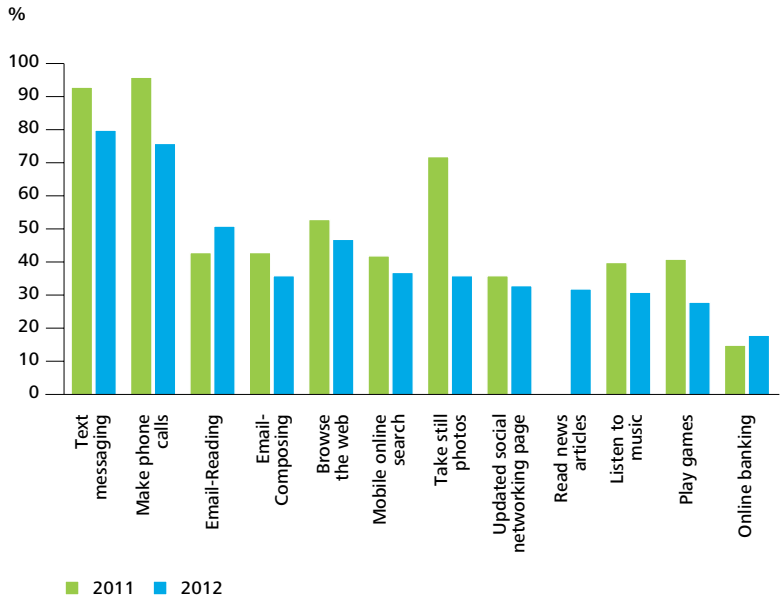
Fragmentation in smartphone usage

Smartphone owners still appear to regard the device principally as a telephone. Making calls and sending and receiving text messages are by far the most common uses. Text messaging overtook phone calls as the most common activity of smartphone owners, but still suffered a small decline in usage. This decline is borne out by industry figures²² which suggests that some users are substituting SMS for 'over the top' messaging services.

Even so, traditional activities still dominate user behaviour. Only half of those surveyed had used a smartphone to read email or surf the web; a third to update social networks and around a quarter to play games (see Figure 5). Although behaviours are changing, smartphones are still predominantly a communication device rather than an entertainment device for the majority of consumers.

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Figure 5. Activities a mobile phone is used for, UK, 2011 versus 2012 comparison



Base: All respondents who own a smartphone (2012: 1,999 respondents, 2011: 2,070 respondents)
 Source: Deloitte Media Consumer, UK, December 2012 and December 2011

Taken together, these responses suggest that there is still a substantial untapped opportunity for media companies to engage with consumers on their smartphones and tablets. Initiatives to create websites that are ‘tablet first’ are one part of the solution in this regard. However, true value will emerge only when editorial teams start to create user experiences that are tailored for these devices, rather than simply forcing web content into a mobile web page.

In summary, a substantial proportion of UK consumers are obsessed by new technology. Despite reduced household disposable income, they continue to acquire new devices and try out new formats. Nothing illustrates this point as well as the tablet: a format that is barely three years old and yet is already in a third of UK households.

But UK consumers are not fickle. They retain their old technology while they acquire the new. Media organisations and content providers need to be well aware that consumption is now fragmented across a wide variety of platforms, each supporting very specific uses.

And with new products such as wearable devices on the verge of commercial launch²³, consumers will become even more connected and engaged.

In summary, a substantial proportion of UK consumers are obsessed by new technology. Despite reduced household disposable income, they continue to acquire new devices and try out new formats.

TV is no longer one of the top three most favoured devices, but TV programmes remain the favourite medium for content.



Technology rides to the rescue ... again!

Broadband, PVRs and over-the-top (OTT) sustain TV broadcasters

It is shortly before 4:50pm on 13 May 2012. Grown men are already leaving the City of Manchester Stadium in tears when Sergio 'Kun' Aguero receives the ball on the edge of penalty area. Three strides take him ten yards; a deft touch evades a desperate lunging challenge. Without even looking up he rifles the ball hard and low between the goalkeeper and the post and into the net.

Forty-eight thousand people erupt in celebration as Manchester City beat their arch rivals Manchester United to win their first Premier League title with the last kick of the football season. Countless millions more watch live on TV in the UK and abroad, justifying the value of one of the most popular – and lucrative – sports rights packages in the world.

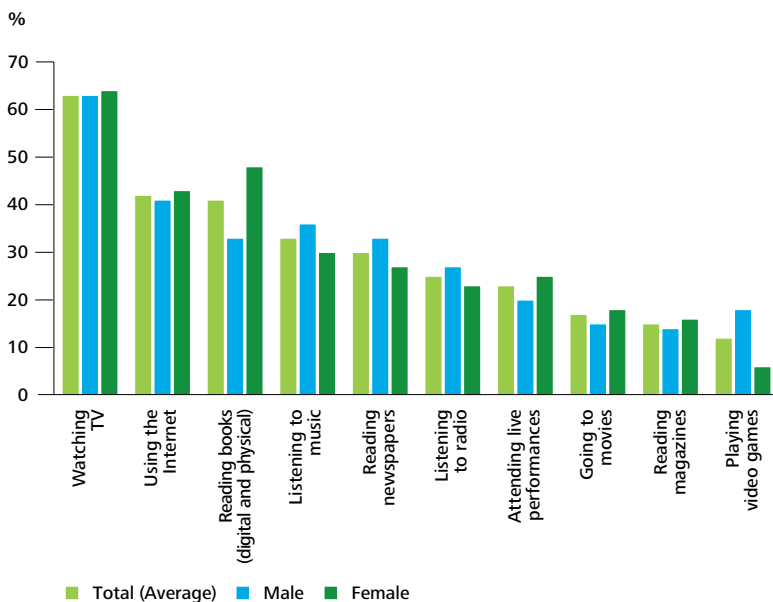
It was a fitting end to the twentieth Premier League season and one of many amazing moments, sporting and otherwise, that TV brought into UK homes in 2012. The spectacular closing ceremony to the London Olympic Games attracted the largest TV audience for over 30 years²⁴.

The spectacular closing ceremony to the London Olympic Games attracted the largest TV audience for over 30 years.

TV itself is no longer one of the top three most favoured devices for our respondents, TV programmes remain their favourite medium for content ...

This is why TV remains the UK's super medium. Industry revenues for TV broadcasters grew three per cent to £12.7 billion in 2012²⁵. Despite competition from much-promoted online competitors and the fact that the TV itself is no longer one of the top three most favoured devices for our respondents, TV programmes remain their favourite medium for content (see Figure 6).

Figure 6. Frequency of inclusion in top three favourite entertainment media for respondents, 2012



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

Rumours of the demise of pay TV ... are still exaggerated

Not everything is rosy for TV. Subscription broadcast services have driven growth in the UK TV industry for a number of years – revenues grew 32 per cent between 2007 and 2012 in an industry that grew 15 per cent overall²⁶. Yet at first glance, our data suggests that this driver of growth may weaken.

... online content does not appear to be a significant driver of subscription cancellations.

Ten per cent of respondents to our survey said that they were planning to cancel their pay TV service in 2012. Most likely this overstates the actual outcome, indeed pay TV subscribers may well rise, as they have done for the past decade.

Consider the corresponding data from 2011, in which seven per cent of respondents stated that they planned to cancel their TV subscription in 2012. Yet only four per cent of this year's respondents told us that they had cancelled in 2012, with affordability being the overwhelming reason for cancellations. This is also contrary to measured statistics, which show that net new subscriptions in 2012 were somewhat volatile but positive, with the satellite and IPTV platforms benefiting most from new paying customers.

Rumours of 'cord-cutting' – cancelling the TV subscription – always abound in the industry, given the availability of some content online and the propensity of consumers to overstate their intention to churn. Although an increase in stated intentions to cease subscriptions should be of concern to the industry, several factors make a significant fall in overall subscription unlikely.

First, online content does not appear to be a significant driver of subscription cancellations. Only nine per cent of respondents cited availability of free online content as the main reason for thinking of cancelling and seven per cent said that paid services such as Apple TV and Netflix were behind their thinking.

Second – and most important – pay TV companies are also the UK's largest ISPs and phone companies²⁷. The three main pay platforms accounted for almost all the net additions in the broadband market in 2012, implying that their market share continues to increase as consumers see value in bundles of services, which also makes changing a more difficult decision for the consumer.

And third, new pay TV customers will always come into the market, meaning that in spite of churn total subscriber numbers will not necessarily decline.

Out of love with the box, still in love with the broadcaster

One thing that is clear from this year's survey is that even though the physical device of television may be less popular than the previous year, the position of broadcasters and programme-makers seems assured. Although respondents may spread their consumption across several devices, they said that TV programmes (consumed on any device) were once again their favourite form of entertainment.

Personal video recorder (PVR) penetration amongst the survey group rose by 50 per cent year-on-year, meaning that these devices are now present in 56 per cent of households. PVRs are in more homes than VCRs and extend access to and increase the popularity of the TV schedule²⁸.

PVR consumption declines precipitously 24 hours after broadcast, principally because 60 per cent of viewers check the schedule as a first port of call in establishing what to watch. Far from being a threat to traditional TV, the PVR may be essential to the long-term sustainability of the TV industry, and the greater the penetration of PVRs into UK homes, the better life may be for TV broadcasters and content producers.

Only half of 18-24 year olds in the survey said that the TV set was their favourite platform for watching TV content and a third prefer to watch on a laptop.

Broadcasters fight back against online substitutes

It was not just TV that suffered from the cold climate. Top-up services such as DVDs by mail and pay-per-view movies also suffered in 2012. The number of respondents who told us that they used the DVDs by mail fell by 47 per cent from 2011, while 44 per cent fewer people bought pay-per-view content through their TV provider.

In both cases, this may be due to improvements in the quality and content richness of broadcasters' online services in 2012. The BBC iPlayer showed a 20 per cent year-on-year increase in programme requests in October 2012, exceeding 200 million views a month for the first time²⁹.

Younger audiences increasingly over the top

In light of this performance, it is unsurprising that the TV set seems to be falling out of favour with younger age groups. Only half of 18 to 24 year olds in the survey said that the TV set was their favourite platform for watching TV content and a third prefer to watch on a laptop.

Although this may initially seem a matter of concern, it may simply reflect decades-old behaviour in households. Teenagers typically retreat to their bedrooms to avoid their parents and siblings. Among the middle classes at least, these teenagers are likely to have access to laptop computers for their school work and may therefore choose not to join in the traditional family evening ritual of watching TV in the living room.

In the 1990s teenagers may have wanted a TV set in own room at home so that they could be socially included at school the next day, in discussions of what they had seen the night before. The image and sound quality on a laptop is much lower than for a television, but the laptop offers the highly desired freedom of choice to teenagers.

Whether these teenagers continue this behaviour into adulthood, thereby affecting the sustainability of TV schedules, is a question that will not be fully answered for a decade or more.

Today, streamed consumption represents only six per cent of the total viewing hours of television content. At the current rate of change, the delivery of TV programmes on to ever-larger televisions seems set to endure.

The image and sound quality on a laptop is much lower than for a television, but the laptop offers the highly desired freedom of choice to teenagers.

PCs are now the favourite way to read news with only 39% preferring print, a staggering reduction from 75%.



Newspapers and magazines

Love, but no commitment

The sound of rotor blades overhead disturbed Sohaib Athar at 1am. *“Helicopter hovering above Abbottabad at 1am (is a rare event)”* he tweeted, unwittingly giving Twitter what Matt Rosoff of Business Insider described as its *“CNN moment”*³⁰. Using just ten words, Athar had become the first person to broadcast news to the world of the raid that killed Osama Bin Laden.

Commentators were quick to highlight the significance of this event for the news industry. For decades, TV has been the place for breaking news, with newspapers providing in-depth commentary and analysis for the more engaged.

But this situation has changed overnight. By the time Twitter celebrated its seventh birthday in March 2013 its users were creating on average 400 million Tweets each day; on the day that the new Pope was announced the number of Tweets relating to the event peaked at 130,000³¹ per minute. Its audience was considered so large and influential that during the conflict in Gaza in November 2012, both the Israeli Defence Force and Hamas used Twitter as a propaganda tool³².

Twitter and other online sources are by no means widely used by UK consumers for access to news; but their threat to traditional newspapers and some parts of the magazines market cannot be ignored. In a world of falling circulations, we asked respondents to our survey how they purchase and consume news and magazines, and what they thought of digital alternatives.

Bad news travels fast

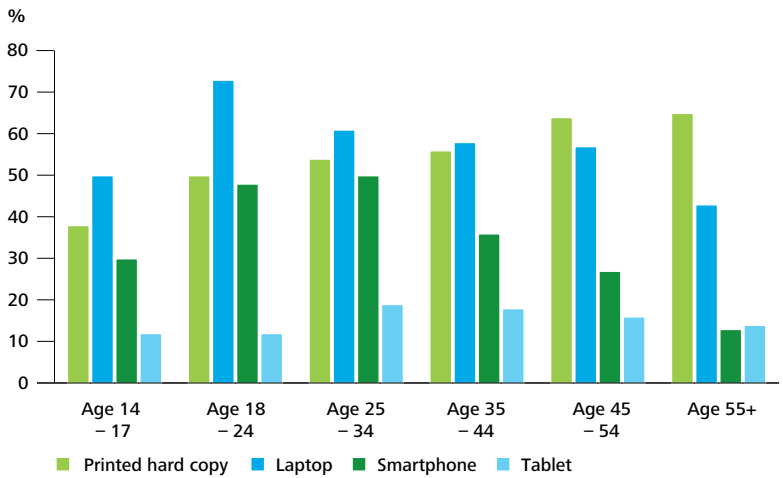
It is no surprise that there has been a rapid shift away from printed copies of newspapers and magazines. Newspaper circulations in the UK were down eight per cent year-on-year between December 2011 and December 2012³³, the victims of both a cyclical reduction in consumer spending³⁴ and a more severe structural move from print to online. A number of high profile publications have moved, or are considering a move, to an online-only format³⁵.

Only 39 per cent of respondents who read newspapers readers said that print was their preferred way of reading their favourite titles (see Figure 7). This was a staggering reduction from 75 per cent only the year before. While desktop and laptop computers account for the majority of digital news consumption, the rapid adoption of mobile devices appears to be supporting this changing behaviour.

By the time Twitter celebrated its seventh birthday in March 2013 its users were creating on average 400 million Tweets each day; on the day that the new Pope was announced the number of Tweets relating to the event peaked at 130,000 per minute.

Overall, 32 per cent of respondents with a smartphone said that they used it to read news articles every day or at least weekly, while half of all tablet owners did the same.

Figure 7. Devices and formats used to read the news, by age group, UK, 2012



Source: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

It is perhaps telling that while respondents were more likely to read digital rather than print versions of broadsheet daily newspapers, print retains a greater importance for their Sunday equivalents. It seems there is an enduring appeal to sitting down on a Sunday morning with a copy of a Sunday newspaper.

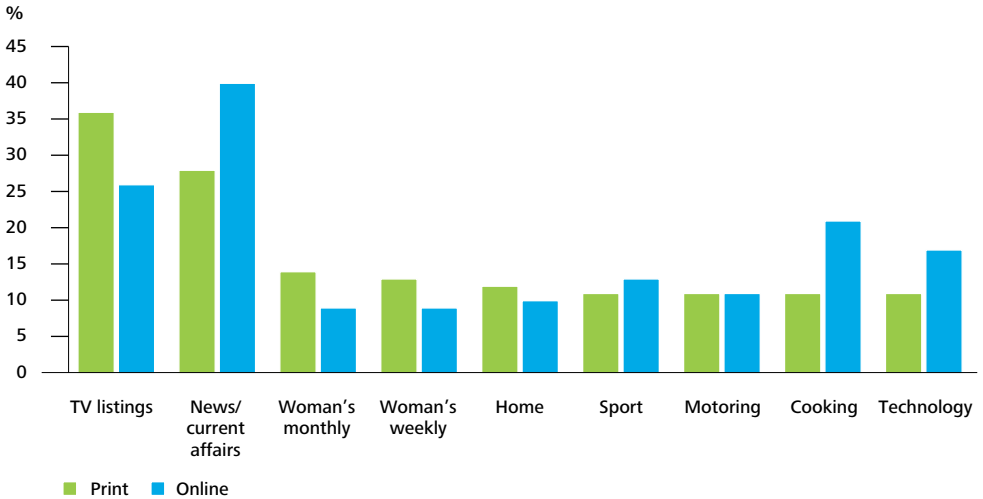
Print magazines are still attractive to consumers, but circulations continue to decline

By comparison, magazine readers are moving far more slowly from print to digital. Seventy-five per cent of respondents in 2012 said that print was their preferred format, down from 88 per cent in 2011. Computers as a means for reading magazine content more than doubled in popularity, up from seven per cent in 2011 to 17 per cent in 2012.

Tablets did not feature as a favourite consumption device for magazine content, despite their penetration growing to a third of households in the year. This may reflect consumers' relative immaturity in using these devices, but it may also be caused by the fact that the available content is not optimised to smartphones and tablets.

There are significant differences across categories of magazines: women's weeklies and monthlies are the most print-focused, while cooking and technology titles have made a stronger move over to digital format. Although tablets seem well-suited to offer a rich magazine experience, only 18 per cent of tablet owners and eight per cent of smartphone owners accessed magazine content daily or weekly in 2012.

Figure 8. Proportion of respondents who read magazines in print and online formats



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

Twenty-seven per cent of respondents in 2012 subscribed to a print magazine, a fall by ten percentage points from 2011.

Although consumers told us that they prefer print, total magazine circulations fell by five per cent in the second half of 2012³⁶. Some types of magazine, such as women's weeklies, suffered particularly dramatic declines in print circulations. All but one women's weekly magazines showed a reduced circulation and five titles fell by 20 per cent in the second half of 2012 alone.

Half of respondents claimed that their consumption of social networks and websites specialising in celebrity gossip had no effect on their propensity to buy women's weekly magazines. This suggests that the decline may be cyclical rather than structural. In a cold economic climate, women's magazines may be seen as unnecessary luxuries.

Print subscriptions fall, but digital begins to pick up the slack

The print subscription business model is under significant pressure. Twenty-seven per cent of respondents in 2012 subscribed to a print magazine, a fall by ten percentage points from 2011.

There may be some cause for optimism for magazine publishers: a tenth of respondents paid for digital magazine content, a considerable jump from a mere two per cent in 2011. Nearly half of these individuals choose to subscribe to particular titles rather than just buy individual copies. Men are 40 per cent more likely to use digital magazines than women, with 18 to 24 year olds significantly more likely than other age groups to behave in this way.

The tablet has become the de facto home for the digital magazine: 40 per cent of respondents generally consume magazines on a tablet, more than laptops (33 per cent) and smartphones (19 per cent).

About a fifth of respondents had downloaded at least one magazine app on to their tablet or smartphone, but only a quarter of them had actually bought anything through one, suggesting that more could be done to tempt consumers who download applications into purchasing content.

Free online magazine content is predominantly PC-based. Over half of respondents used a PC to consume free online magazine content; only a sixth of respondents used a tablet to read this content. Worryingly, two fifths of respondents said that they did not buy print magazines because they got all the content they needed from the website. Those magazine publishers which do not have a paid-for tablet version would do well to heed this statistic.

Even so, the rise of the tablet and the continuing desire (particularly among male consumers) for delivery of high-quality magazine content on to these devices suggests that there could be light at the end of the tunnel for the UK magazine industry. If magazine publishers can afford to invest in digital publishing whilst suffering a fall in their print circulation, this could mark a turning-point for their fortunes.

The considerable growth in online news readers' figures for newspapers³⁷ offers a great deal of encouragement for newspaper owners. Even so, there is limited data on whether the cost of the investment required to compete online is justified by the revenue it will generate. It is early days for this medium, so the challenge is how to deliver the news to a younger, multi-platform audience without alienating their loyal older customers.

There is no straight answer. In our view, experimentation and iteration will be orders of the day for newspaper publishers in 2013.

... there is limited data on whether the cost of the investment required to compete online is justified by the revenue it will generate.

eReaders are now present in one third of UK households, a 65% increase since 2011.



Paperbacks for the 21st Century

e-readers survive tablets and go mainstream

*"We should head to a bar and celebrate"*³⁸, so begins Penguin UK's fastest selling paperback book for a decade³⁹, *Bared to You* by Sylvia Day. This title was initially self-published as an e-book by the author on 2 April 2012⁴⁰ before being picked up by a more traditional publisher and subsequently going on to become number four in Amazon's bestseller list for 2012⁴¹.

In 2012 two fifths of respondents selected reading books as one of their top three media pastimes.

Self-publishing is just one aspect of a fundamental change that began with the introduction of e-readers into the UK in 2009⁴² and has continued through the subsequent rise of e-readers sales and wider adoption of e-readers and (more recently) tablets.

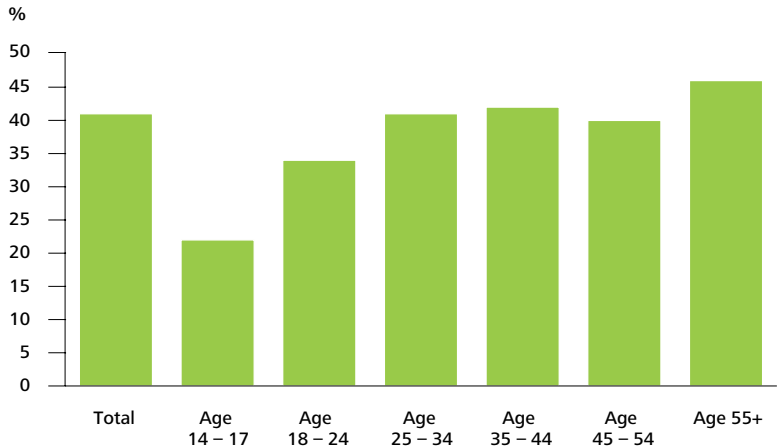
Within increasing digitisation of the book market, we asked respondents about the perceived value of this most traditional of pursuits, whether they were moving to digital books, and if so what was driving the change.

Reading books still popular across age groups

It appears that many of us still love a good book – or at least we claim to do so. In 2012 two fifths of respondents selected reading books as one of their top three media pastimes, up fractionally from 2011 (see Figure 9). Among our sample of respondents, reading books ranked third, second only to TV and Internet use in terms of popularity.

It appears that many of us still love a good book – or at least we claim to do so.

Figure 9. Proportion of respondents selecting 'Reading books' as one of their top three media pastimes



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

There are significant differences between genders and across age groups. The most avid reader is female and over 24 years old. The favourite media pastimes of younger female respondents were, like their male counterparts, Internet use and video games.

While popularity is not necessarily measured by the amount of time actually spent reading, evidence suggests that the youngest age groups are spending a decreasing amount of their leisure time reading. UK Government initiatives targeting the reading habits of children and teenagers highlight a growing concern that these individuals won't develop the same level of enjoyment in reading books such as those displayed by today's adult population⁴³.

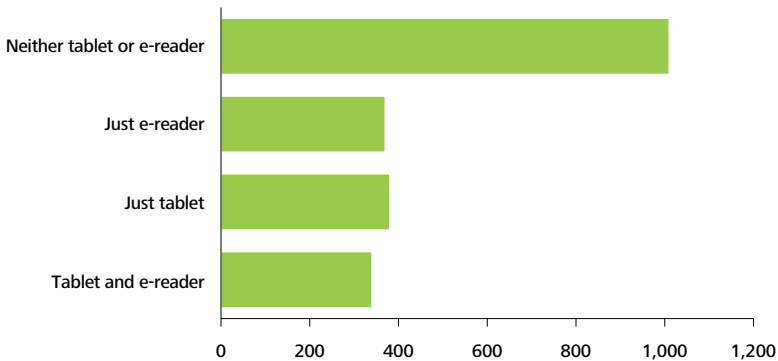
E-readers and tablets learn to cohabit

Consistent with the general UK consumer's appetite for accumulating more devices, e-reader penetration continues to grow. E-readers are now present in one third of UK households, and a further ten per cent of respondents indicated their intention to purchase one in the next 12 months. Based on these findings, Deloitte estimates that eight million individuals in the UK own an e-reader.

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Like tablet computers, adoption of e-readers was strongest amongst older respondents. The 45 to 54 year old age group is most likely to live in a household with access to an e-reader – 35 per cent of respondents in this age range did so.

Figure 10. Household penetration of tablet or e-reader



Base: All respondents (2,085)

Source: Deloitte Media Consumer, UK, December 2012

At first glance, the tablet appears to fulfil many of the functions of an e-reader and more, leading some analysts to claim that sales are already in decline. To date, the e-reader's low price, portability and the simplicity of its technology have arguably been the key drivers of its success. However it is possible that standalone e-readers will lose popularity as incremental product developments (such as integrated backlighting and colour screens) fail to spark replacement cycles, particularly when competing against aggressively-priced all-purpose tablets.

In spite of this, our survey results provide some evidence that e-readers could maintain their usage alongside tablets. Only ten per cent of our survey respondents listed tablets as their preferred device for reading books.

Although tablet screen resolutions and hence ease of reading have improved, our assessment is that consumers remain to be convinced that tablets offer a better book reading experience than either printed books or e-readers.

If e-readers continue to offer consumers unique value, then falling prices of both tablets and e-readers may simply enable consumers to purchase both devices. Our survey suggests that households are already just as likely to contain both devices (see Figure 10), and those households that owned a tablet did not tell us that they were planning to use their e-reader less within the next three months.

For now at least, e-readers seem to promote the uptake of digital books with over 75 per cent of respondents who purchased e-books had household access to an e-reader.

The e-reader

Overall, the proportion of total respondents purchasing one or more e-books jumped from 20 per cent in 2011 to 33 per cent in 2012, reflecting a similar increase in the total value of UK e-book sales, which doubled to £200 million⁴⁴ over the same period.

Despite suggestions that e-readers are often unused gifts⁴⁵, 70 per cent of respondents with e-readers had made an e-book purchase within the last 12 months, indicating that consumers are maintaining their engagement with digital books beyond their first purchase.

Our survey suggests that keen readers are the most willing adopters of e-books. The demographic profile of e-book adopters, more likely to be female and aged between 45 and 54, closely matches the demographic profile of respondents selecting reading books as one of their top three media types. Their motivations behind digital book purchases are portability and affordability, both of which increase in significance with the amount of time and money spent on reading books.

E-readers: the paperbacks of the 21st Century

The impact of rapid e-reader adoption is in many ways comparable to the introduction of mass market paperback books from the mid-1930s onwards⁴⁶. Now, as then, consumers have access to a new source of books, in some cases at a fraction of the price of earlier formats.

E-Books offered for less than £1, and in many cases for free, represent a major shift in the publishing landscape. This is seemingly both a consequence and a cause of digital book adoption, with respondents identifying affordability as the second most important factor motivating their choice of digital over physical book purchases.

Lower prices have contributed to a market where digital books make up around 14 per cent of sales in terms of volume⁴⁷, but only seven per cent of value in the market⁴⁸. However, much UK consumers love books. In this environment publishers face the challenge of using digital formats to support the enduring value of books, while avoiding loss of revenues.

E-Books offered for less than £1, and in many cases for free, represent a major shift in the publishing landscape.



Games consoles are now present in 50% of UK households.

Video games

Not quite time to hang up the light gun

On 21 February 2013, Sony announced its next generation PlayStation 4 console at a two-hour press conference in New York⁴⁹. This was a pivotal moment for the global video games industry: the PlayStation 4 is the first of the eighth generation of games consoles to break cover, offering hope to an industry that stuttered in 2012⁵⁰.

Games consoles – present in half of households – are a mass market technology in the UK. The video games development industry as a whole adds around £1 billion a year to UK GDP⁵¹. Much of this effort is dedicated to the creation of what the industry refers to as 'AAA' titles: games with the budgets of major movies and – on occasion – revenues to match.

To put this statement into perspective, *Call of Duty Black Ops 2*, the ninth instalment of the gaming industry's most successful franchise, grossed \$1 billion within 15 days of its launch last year⁵². Only four movie releases grossed more in the year. The game cost \$350 million to develop, market, distribute, license and maintain⁵³. But despite the extraordinary return on investment for this title, the economics of AAA video games have never been worse. *Max Payne 3*, a mid-market title that received strong reviews on its May 2012 release⁵⁴ struggled to break-even⁵⁵, despite shipping three million copies in its first week⁵⁶. Its publisher's own financial opinion is that the cost of developing video games is likely to continue to increase in the foreseeable future⁵⁷.

Rising development costs mean rising prices, a difficult situation at a time when consumers' disposable incomes are constrained. As if increased appetite by consumers for second-hand games as a substitute for new titles isn't bad enough, the industry also faces disruption from mobile games played on smartphones and tablets and social games played on the PC.

So is this the end of AAA? Will the light gun be hung up for good⁵⁸? We asked our survey respondents how, where and how much they play and pay in order to find out.

The video games development industry as a whole adds around £1 billion a year to UK GDP.

Increasing subscriptions explain why at least one major industry participant believes that digital sales will exceed physical game sales by 2015.

The AAA consumer

Half of our respondents lived in a household with a video games console. Two thirds (66%) of these households had one console, a fifth (22%) had two and a tenth (11%) had three or more.

Twenty-eight per cent of console-owning households also paid to access the manufacturer's online services⁵⁹, an 86 per cent increase in subscriptions to these services since 2011. Increasing subscriptions explain why at least one major industry participant believes that digital sales will exceed physical game sales by 2015⁶⁰.

The average gamer buys between four and five games a year and the vast majority – 81 per cent – buy in physical format rather than as a download to own. Three factors are at play in the continued resilience of optical discs in this market.

First, many games are released on DVD some months in advance of their availability as a download. Second, many consumers trade in games to obtain a discount on a new purchase: this behaviour is not possible with digital downloads⁶¹, and may actually be prevented in the seventh generation consoles⁶². Third, although broadband speeds in the UK are accelerating⁶³, the average game file size is between 6GB and 9GB⁶⁴, making downloading a relatively tedious and inconvenient exercise for consumers used to instant response from online services.

Perhaps for the same reason, piracy does not appear to be a significant issue for the industry. Only three per cent of respondents admitted that they had illegally downloaded a game from a file-sharing website in the previous six months⁶⁵.

Casual gaming grows

Gamers are, of course, no longer restricted to consoles and PCs. In 2012 mass market smartphone and tablets acquired considerably more raw processing power and many gained sophisticated graphics capabilities.

It is no surprise therefore that the incidence of 'casual gaming' is significant on both smartphones and tablets. The tablet appears to be superior in this regard, with 65 per cent of owners saying that they played games, compared with only 52 per cent of smartphone users. Screen size and the location in which each device is used are likely to be the underlying reason for this difference.

However our data shows little evidence that these devices are bringing new players to the market. Console gamers – those who spend more than 15 hours a week playing – also play the most on other technology platforms. Only on the smartphone did casual gamers – those who play no console games at all – boast similar amounts of playing time: around two hours a week on average. Since console gamers are more likely to own a smartphone than the average consumer, this does not suggest a flood of new gamers revolutionising the economics of the industry.

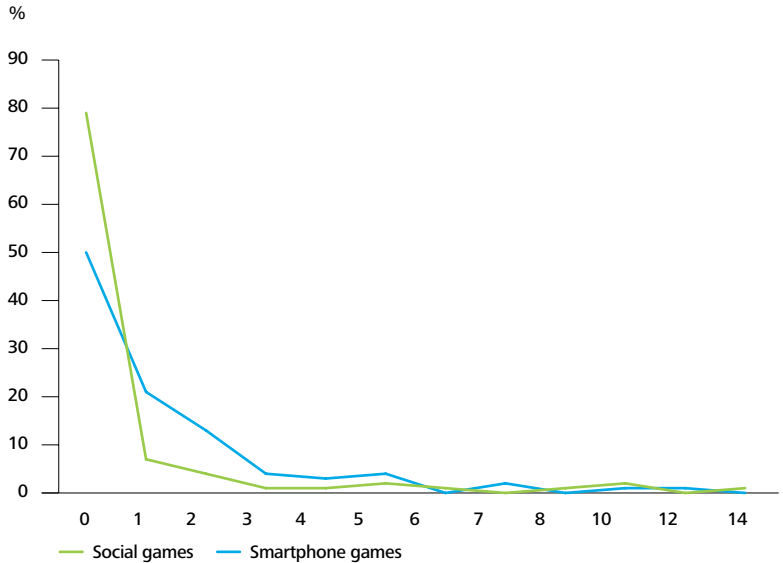
Frequency of purchase is also heavily correlated between platforms. Those who buy a lot of games on the console are far more likely to buy a lot of games on other platforms. In our estimation this is evidence that the video games industry needs to take smartphones and tablets more seriously as platforms for AAA titles, and that this may be one route to start the process of improving the industry's financial performance.

In-app purchase continues to drive social gaming⁶⁶

Frequency of purchase is also a characteristic of the game type – simple games played on social networks or increasingly through smartphone and tablet apps. The average games-playing respondent played social games for an hour a week (see Figure 11). In this market, rather than paying upfront to buy a game title, consumers get the game for free and pay for add-ons within the application. This category of game is interesting for the industry as it is the only one in which women are more likely than men to be playing games on a social network, and this represents an opportunity to bring new gamers into the market.

Those who buy a lot of games on the console are far more likely to buy a lot of games on other platforms.

Figure 11. Number of hours per week spent playing social and smartphone games, 2012



Base: All respondents who have played a game in the last six months (1,003)

Source: Deloitte Media Consumer, UK, December 2012

A glance at the top grossing game list on Apple's iOS demonstrates how this trend is changing the economics of the social gaming market. Only 21 per cent of the top grossing games are paid for by the user at the point of acquisition and the top grossing paid app was only 16th on the list. This business model seems likely to provide the majority of revenues from casual gaming in 2013 and beyond, as it best suits the relatively low total play time and 'snacking' consumption patterns of casual gamers.

These consumers have not traditionally been early adopters, which is perhaps the reason why when we asked consumers which was their favourite device for playing social games, nearly three times as many respondents replied '*laptop*' (28 per cent) as tablet. If tablet penetration continues to grow then we shall see whether the PC web browser is dead as a casual gaming platform or whether it will continue to be used by consumers.

Not quite time to hang up the light gun

2013 will be a pivotal year for the UK games industry. Mass market smartphones and tablets offer an interesting new platform on which to monetise serious gamers. The social games market also seems certain to benefit from these devices, by no longer being an add-on to social networks and becoming more of a software industry in its own right.

But the crucial question is whether new type of consoles will bring new brands and gaming experiences to the market. If they match or exceed the success of their predecessors then the good times may well return to a struggling industry sector. If consumers are unconvinced, then the climate may become increasingly cold for traditional game developers in the UK and the light gun may finally be hung up for good.

The crucial question is whether new type of consoles will bring new brands and gaming experiences to the market.

About the research

About the research

This is the seventh annual edition of research commissioned by Deloitte's Media & Entertainment practice.

Focusing on four generations of respondents, the survey provides a 'reality check' on how consumers between the ages of 14 and 75 are interacting with media, entertainment, and information, and what their preferences might be in the future.

The survey was carried out by an independent research firm (YouGov) during December 2012, using an online methodology with 2,085 consumers in the UK and over 16,000 worldwide.

We regard changes of five per cent or more as statistically relevant and where possible have referred to time series data from previous surveys.

Several companies have helped us design the survey and discussed the initial results with us. We also referred to the results of other Deloitte research programmes in the media, telecoms, technology and retail markets. These can be found at www.deloitte.co.uk/mediaconsumer or by contacting the author Matt Guest, at mquest@deloitte.co.uk.

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- 65 This self-reported statistic may understate the scale of piracy. For example, the popular Xbox 360 title 'Gears of War 3' shipped 5.82 million copies worldwide, but was also downloaded 860,000 times illegally via BitTorrent. In other words, the game's total circulation (excluding sales of pre-owned games) could have been as much as 15 per cent higher if it were not for the effects of BitTorrent. And BitTorrent is just one of many file sharing websites. Source: Most Pirated Video Games, Genius PC, 09 October 2012. See: <http://www.geniusspc.com/2012/10/most-pirated-video-games.html>; Source: VGChartz. See: <http://www.vgchartz.com/gamedb/?name=gears+of+war+3&publisher=&platform=&genre=&minSales=0&results=200>
- 66 Social games are online games, typically played within a Web Browser via a social network. They typically include light multiplayer elements and not real time activity.

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