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2ND QUARTER 2019



THE CHANGING LANDSCAPE OF THE **MEDIA AND ENTERTAINMENT INDUSTRY**

DISNEY
THE EMPIRE STRIKES BACK

ALPHABET AND FACEBOOK
DOMINANCE AMID INCREASING RISKS

THE RISING POPULARITY OF **PODCASTING**

THE MILLENNIAL-MINDED GENERATION

OLDMUTUAL

WEALTH

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INTRODUCTION

CHRIS POTGIETER, HEAD OF PRIVATE CLIENT SECURITIES

When I look at my own household, it is very clear that entertainment and how it is consumed is very different today to when I was younger. Digital and technological advancements are bringing about rapid change and the global entertainment and media industry is having to adapt. New platforms, media and features are changing the way we consume content and streaming services, cable/satellite TV companies and social networks are increasingly competing to provide content. Everyone is trying to own the entire user experience.

With these and other developments gaining traction, the overall time and money spent within the media and entertainment industry is on a steady upward trajectory. Our feature piece explores some of the key industry trends that are gathering momentum and sets the scene for why we believe that media and entertainment will be an exciting industry to watch in the years to come. Our two company pieces deal with how key holdings within our Global Equity Portfolio - Disney, Google and Alphabet - are shaping and responding to developments within the broader industry.

For many years, Disney faced harsh criticism for its slow response to the growth of streaming. Such criticism was justified as the slow death of traditional pay-TV saw Disney's sports network, ESPN, losing 14 million subscribers since 2011. However, the company has been taking bold steps in response and despite Netflix being the first to dominate the streaming industry, Disney's second-mover advantage may prove to be a winning formula. Our company piece explains this in detail and highlights why we believe that Disney is well placed to assert its dominance in the streaming industry and continue delivering sustainable long-term returns to its investors.

Tech giants, Facebook and Alphabet, are increasingly facing backlash around their seemingly uncompetitive behaviour and the abuse of user data. This data has been astutely used to bring about their remarkable success and global dominance. The frequent controversies surrounding both companies' platforms have highlighted some weaknesses in their business models. As investors in both Alphabet and Facebook, we remain mindful of the risks, which we outline in the article.

Kerrin Land ends this edition with interesting insights into how digital tools are redefining personal relationships and the implication for wealth managers. The key lesson is that despite the developments in FinTech, 85% of clients want a personal relationship with their advisers. Even more interesting, as Kerrin points out, is the fact that this number is at 82% for millennials.

Best regards,
Chris



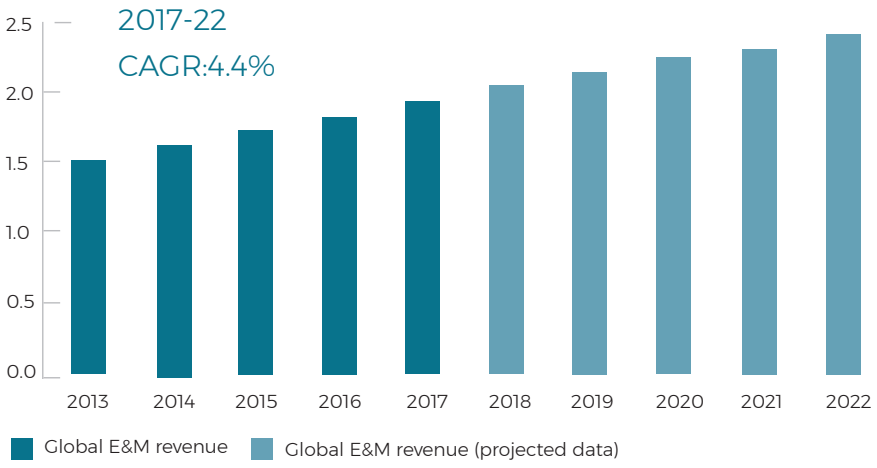
THE CHANGING LANDSCAPE OF THE MEDIA & ENTERTAINMENT INDUSTRY

ANDREW DITTBERNER, CHIEF INVESTMENT OFFICER AT PRIVATE CLIENT SECURITIES

Technology is changing the way the world consumes, connects and communicates. Whether you are a movie buff, a video game junkie, a die-hard sports fan or a series binge-watcher, you would have experienced these changing forces. Having already transformed the print media and music industries, digital and technological advancements are now being felt across the rest of the media and entertainment industry. Yet, spending within the entertainment and media industry continues at a steady pace, giving one the sense that it is business as usual within the industry, despite the immense amount of churning taking place beneath the surface.



Graph 1: Global entertainment and media revenue (US$ trillion)



Source: PwC Global Entertainement & Media Outlook 2018 - 2022, www.pwc.com/outlook



TECHNOLOGY IS CHANGING THE WAY THE WORLD CONSUMES, CONNECTS AND COMMUNICATES.

BLURRED LINES

Perhaps the single most important evolution within the broader media and entertainment segment is the blurring of the lines between the different sectors within the industry. For example, companies are in the process of integrating vertically (consider the introduction of Disney+) and horizontally (Disney's acquisition of Fox). What was once a pure technology and distribution company is now also becoming a content producer, while the traditional content producers are now searching for increasingly cost effective ways of producing content while becoming a distributor at the same time.

In this way, the distinction between telecommunications, fixed line internet, wireless internet, streaming, pay-TV, print media, digital media, esports, video games, and social media companies is becoming less and less clear. In fact, the lines have become so blurred that the Global Industry Classification Standard reclassified a number of traditional media and technology companies under the newly-named communications sector. Companies such as Netflix, Disney, Facebook and Alphabet (Google) are now classified as communications businesses as opposed to media or technology companies. So while approaching it from different angles, the overarching goal of companies in the media and entertainment ecosystem appears to be that of owning the entire user experience.

The forces that are creating this change within and around traditional media and entertainment companies are linked to a number of new and ongoing trends. Evidence of the desire to vertically integrate between content providers and distribution companies can be seen as far back as the late 90s and early 2000s. It was during this period that the mega-merger between AOL and Time Warner took place. At the time, it was the world's largest merger by market value (overtaken only by the Vodafone and Mannesmann merger later in 2000), and despite it being a spectacular flop, the intentions were very clear. More recent trends within the industry include the move from cable TV to streaming, on-demand TV tailored to the viewer's wants, multiple devices upon which to consume content simultaneously, targeted digital advertising, and the use of virtual reality and augmented reality to bring media consumption to life. Below we delve into each of the above-mentioned trends that continue to gather momentum within the media and entertainment industry.

OUT WITH CABLE, IN WITH STREAMING

With its origins found back in the 1970s and 80s, cable TV has long been the mainstay of TV distribution. Hollywood (content producers) has thrived on the back of subscription fees passed on from the consumer by cable (or satellite) providers. Initially, it was possible to select preferred channels from an á la carte-type menu. However, as the number of networks and channels exploded, providers quickly realised that they could bundle many channels together, charge consumers a single fee, and then pay each network a carriage fee. Traditionally, carriage fees were where the money was and it was the reason that networks jockeyed so hard to get their content included in cable providers' core packages.

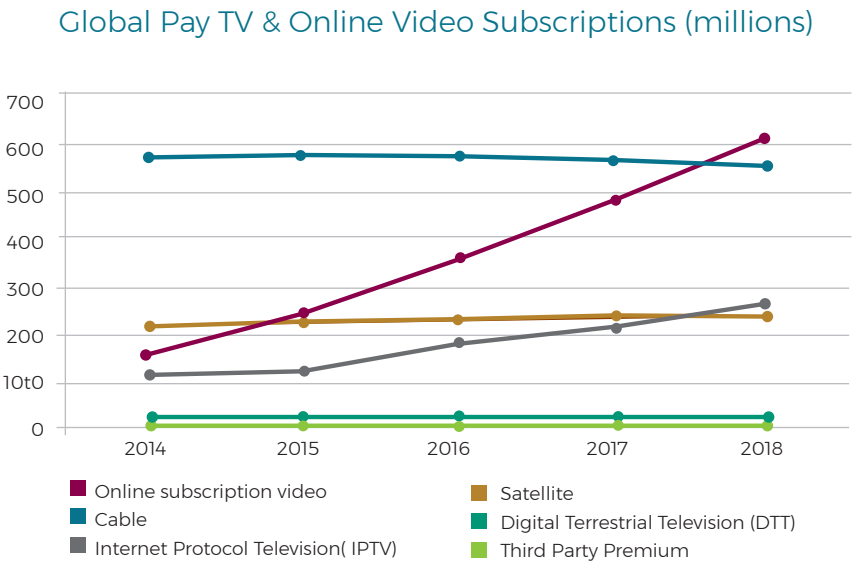
The distinction between telecommunications, fixed line internet, wireless internet, streaming, pay-TV, print media, digital media, esports, video games, and social media companies is becoming less and less clear.

Of the numerous disadvantages of cable TV relative to streaming services, the cost incurred by users is at the top of the list. Most cable providers had what amounted to a monopoly and South Africans will be particularly sensitive to this, given MultiChoice's dominance in the local and African market. The result of many monopolistic industries is seen in the price of subscription fees. One way of reducing subscription fees is through the introduction of 'skinny' bundles, where viewers are offered bundles with fewer channels at reduced rates. While this is great in theory, very often these skinny bundles exclude the most popular channels, and the only way to gain access to such content is by subscribing to the full bouquet. Once again, MultiChoice is guilty of this as their crown jewel, SuperSport, is only available on their premium package.

The ultimate response to the ever-increasing costs of cable or satellite TV subscription fees was the proliferation of numerous streaming services, which distribute content over the internet at much lower costs than via a cable or satellite connection. It is important to note that streaming is not restricted to video. Instead, it is a form of multi-media distribution that, interestingly, can be traced as far back as the 1930s when music was "streamed" in elevators. On the video streaming front, however, YouTube and Netflix are the current dominant incumbents.

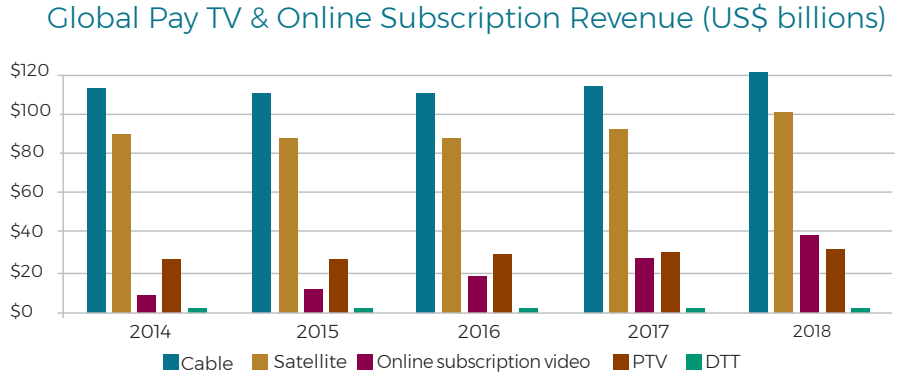
In what is possibly the strongest piece of evidence that streaming is quickly eating cable TV's lunch, a recent report by the Motion Picture Association of America showed that in 2018, the number of online video subscribers surpassed that of cable TV subscribers worldwide for the first time ever. This is depicted in graph 2.

Graph 2: Online video overtakes cable



Source: IHS Markit

Graph 3: Global cable and satellite revenues continue to grow



Sources: IHS Markit

Yet, while online streaming services are overtaking cable and satellite from a volume perspective, the money remains with cable TV providers. From a revenue point of view, cable and satellite remain comfortably ahead of the pack. In addition, revenue continues to grow for both cable and satellite distributors, as shown in graph 3. This suggests that despite mounting competition, traditional distributors are becoming better at squeezing more money out of their subscribers. It also points to the fact that many users have a cable/satellite connection and make use of streaming services.

The most obvious disadvantage (particularly in South Africa) of streaming content is the lack of live content, and more specifically sport. For this reason, many households remain subscribed to their cable or satellite providers. One would imagine though that it is only a matter of time before either live events become more readily available via streaming services (various platforms are already making headway in this regard), or, alternatively, cable TV distributors provide an á la carte-type menu again for such services.

VERTICAL INTEGRATION BETWEEN PRODUCERS AND DISTRIBUTORS

In 2013, Netflix released its first self-commissioned content, the House of Cards series. This was the first evidence that content producers would eventually opt to keep their best content for themselves; and content distributors therefore needed to create their own content. Fast forward four years to the summer of 2017 and Disney announces that it will soon stop sending its movies to Netflix. A further two years down the line, Disney announces the imminent launch of its own streaming service, Disney+.

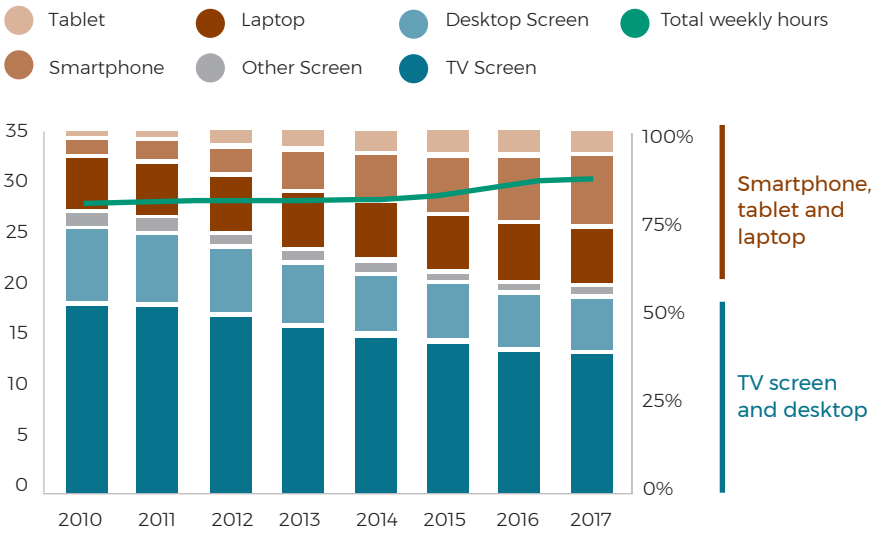
The move up and down the value chain from distributors and content producers, respectively, is evidence of the need and want of these companies to control the end-user experience, not forgetting the economies of scale that will flow as a result. However, it is no small feat in transitioning your business in either direction as an enormous amount of time and capital is required. For the distributors, integrating back up the value chain requires them to produce original content of the required quality to compete with traditional content producers who have been doing it for decades. For the original content producers, being able to distribute their own content successfully does not just require the necessary IT infrastructure and support back up, but also the correct data-driven approach to ensure that the right type of content is reaching the appropriate audience. Consumers want video on-demand that is tailored to their specific preferences **and** it is therefore equally important in knowing what to distribute, as opposed to purely focusing on the how.

A large amount of uncertainty remains around who the ultimate winners will be. Industry insiders themselves are unsure, with most content distributors indicating that both self-commissioned and sourced content will continue to be available on their platforms. Likewise, should content producers who distribute their own content remove it from other platforms? Such a move could materially dent revenue streams. Given the low cost of streaming services, it is also not inconceivable that users have multiple subscriptions across providers. These are some of the many aspects that remain uncertain.

MULTIPLE DEVICES TO CONSUME CONTENT SIMULTANEOUSLY

Consumption of video content over the course of the next decade is undoubtedly going to be mobile first. Not only do consumers want on-demand video, but the proliferation of devices upon which to consume video content has allowed consumption to happen on-the-go and out of home. This trend has been driven predominantly by the mass adoption of the smartphone since 2010, while being aided by tablets and laptops. By 2020, it is estimated that just 1 in 10 consumers will watch TV on a traditional screen only. Therefore, while the average time users spend watching video content increases

Graph 4: Share of total TV and video viewing time per device



Source: Ericsson ConsumerLab, TV and Media, 2017

around the world, the couch potato is becoming a dying breed. High-usage, multi-screen viewing is growing rapidly, and both scheduled TV and on-demand video stand to benefit immensely from this trend.

Not only are consumers consuming video content across multiple devices, they are also consuming different forms of content across different devices simultaneously. The reason for this simultaneous consumption varies from being a habit, to believing it is a form of multi-tasking and is therefore a more efficient use of one's time, to gathering additional information to enhance the primary screen experience, and to avoid the boring sections (think misdirected adverts) on the primary screen. Needless to say, whatever the reason, this form of simultaneous content consumption has important implications for marketers and content producers. These include ensuring high quality, entertaining content that is easy to consume and is viewable across all devices in order to entice viewers and, more importantly, keep them engaged. This brings us back to the point of ensuring that content is distributed to the right audience.

TARGETED DIGITAL ADVERTISING

Advertising agencies have been grappling with the idea of how they get their clients' products in front of audiences that are becoming more mobile and digital and less advert friendly than ever before. At the same time, it is important to remember the critical role that advertising plays in the role of funding new content creation. Therefore, advertisements that appear in video cannot simply disappear. Instead, the industry needs to move to a more efficient and effective model of better-targeted adverts, but at a much lower frequency.

Brands have increasingly taken their media operations in-house while embracing IT consulting firms as opposed to making use of advertising agencies in order to achieve the afore-mentioned goal. The likes of Accenture are benefiting from this trend, and brands are becoming far more innovative in how they place their products in front of the correct audience. Ensuring omnichannel engagement with consumers across all generations is also critical for brands to get their message across effectively. This requires reaching the targeted audience with a consistent message across all available devices.

As an example of how companies are innovating and engaging with their audiences, Nike has partnered with Epic Games, a software development company, in order to deliver branded content to the game Fortnite.

BRINGING THE EXPERIENCE TO LIFE THROUGH VR AND AR

One of the main challenges facing video content producers is delivering an experience that effectively engages the audience. Virtual and augmented reality is a viable solution to this challenge. Within the media and entertainment industry, virtual reality is the fastest growing segment, although it is still relatively small in the greater industry.

Virtual and augmented reality puts a supplementary sense of participation in the minds of consumers. This is extremely powerful in connecting people to the videos that they are watching and raising their levels of empathy. It a misconception that virtual and augmented reality isolates people from the real world. Consumers want to become more engaged and better connected with the stories that they are watching - whether it is news, video or gaming - and virtual and augmented reality achieves exactly that. As such, virtual and augmented reality will remain the fastest growing segment within the industry for the foreseeable future.

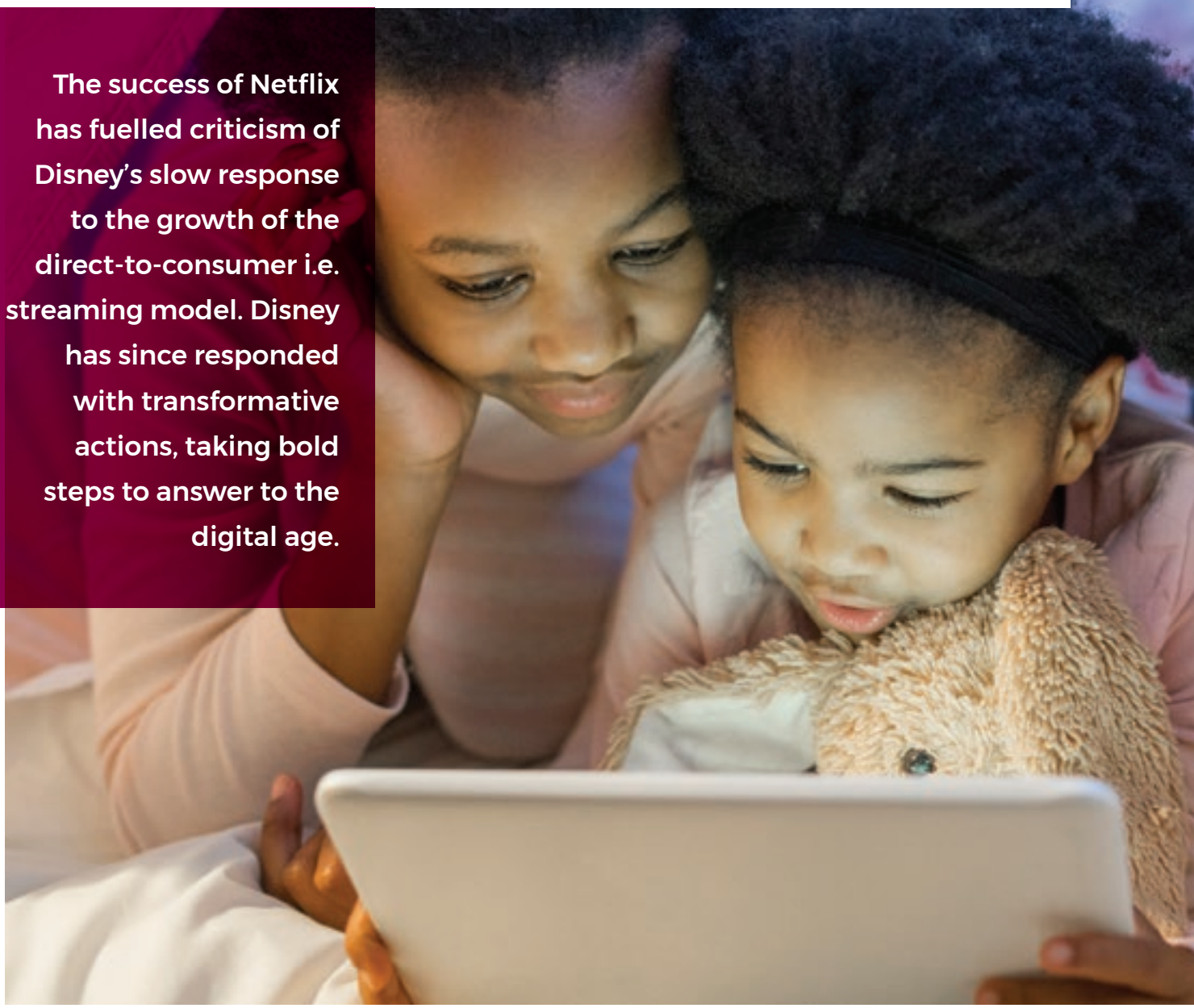
EXCITING TIMES AHEAD

The media and entertainment industry faces a number of challenges as it navigates its way through the changing competitive landscape. However, with these challenges comes a great deal of opportunity. Companies are jostling to gain the upper hand and, as a result, the overall time and money spent within the media and entertainment industry is on a steady upward trajectory. Every day the number of consumers increase as children come of age, internet access improves and smartphone penetration increases. Every day companies are looking to create high quality, original content. They are looking at distributing it effectively and efficiently, and brands are looking at placing their products in front of the right audience. There are a large number of moving parts, with many trends gaining traction, and a high degree of uncertainty regarding where we will end up. As a result, the media and entertainment industry will be one of the more exciting industries to keep an eye on in the years to come.

DISNEY – THE EMPIRE STRIKES BACK

TASNEEM SAMODIEN, JUNIOR RESEARCH ANALYST AT PRIVATE CLIENT SECURITIES

The success of Netflix has fuelled criticism of Disney's slow response to the growth of the direct-to-consumer i.e. streaming model. Disney has since responded with transformative actions, taking bold steps to answer to the digital age.





A STAR IS BORN

Originally known as the Disney Brothers Cartoon Studio, the Walt Disney Company officially started trading on 16 October 1923 with the sale of a series of Alice comedies. Today, Walt Disney is synonymous with Mickey Mouse, but this famous character came only years later in 1928. It was then that Disney realised the commercial potential of their creative animations, winning the Best Cartoon Academy Award for a decade post the award's advent in 1932.

This success was quickly followed by a world war and great depression that crippled Disney's ability to distribute its content internationally and films became too expensive to produce. In search of new income streams, the company produced training films for the military, a testament to the company's agility in responding to changing market dynamics. This experience highlighted the need for the company to diversify its income streams and not long after, Disney was selling Mickey Mouse branded merchandise and in 1955, the company opened the first Disneyland in California. Subsequently, the Disney brothers mapped out the business model in 1957 and the company today continues to drive off this model, centred on its content creation.

While Disney's business model may be the same, the company's composition has evolved in response to changing market dynamics. Disney has used both acquisition and innovation to reinvent itself in response to the digital age. It recently acquired Twenty First Century Fox, completing one of the largest acquisitions in the entertainment industry's history. At the same time, Disney also developed its own branded streaming services, launching ESPN+ last year, with Disney+ planned for November 2019.

A WHOLE NEW WORLD

On 20 March 2019, after more than a year of deliberation, Walt Disney acquired Twenty First Century Fox for US$71.3 billion. In the process, Disney acquired Twentieth Century Fox movie and TV studios, most of its cable networks and international assets. The result is that Disney now owns the licenses to attractive franchises such as Avatar (the highest grossing movie), X-Men and Deadpool (completing the Marvel Cinematic Universe), Ice Age, Planet of the Apes and critically acclaimed TV series. The company also gained a controlling stake in Hulu, which is currently growing faster than Netflix.

Initially, the deal was met with mixed reactions, as investors feared that the substantial cost would outweigh the potential return. Fortunately, Disney has a successful

Source: Disney results, Morningstar

track record of improving its return on invested capital following the completion of material acquisitions (as depicted in graph 1). Notable acquisitions in the past include those of Pixar Animation Studios in 2006 (the creators of Toy Story), Marvel in 2009 and Lucas Film in 2012, which added Star Wars to the Disney family.

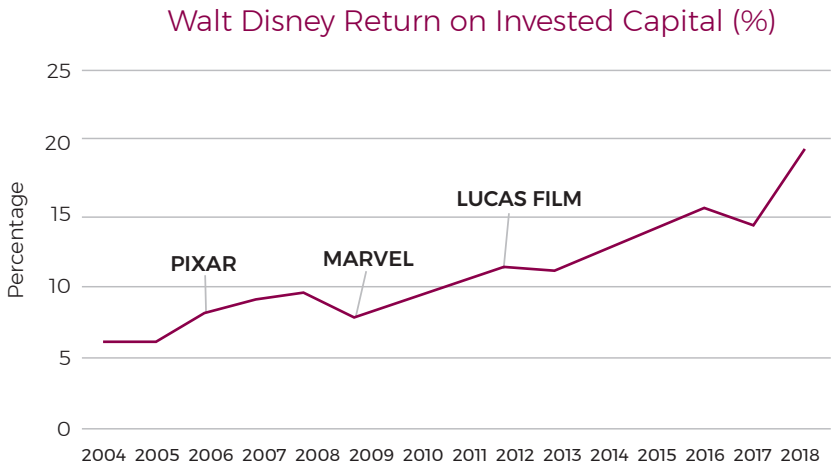
The acquisition of Twenty First Century Fox was a critical component in achieving Disney's direct-to-consumer (DTC) and long-term growth strategy. In the words of Disney CEO, Bob Iger, "combining Disney's and Twenty First Century Fox's wealth of creative content and proven talent creates the preeminent global entertainment company, which is well positioned to lead in an incredibly dynamic and transformative era".

SLEEPING BEAUTY ROUSES

The transformative era referenced by Iger alludes to the slow death of traditional pay-TV. For years, the traditional pay-TV industry has been reporting a decrease in subscribers as the internet provided multiple sources of local and international viewing content. Disney was not immune to this shift in video consumption with its sports network, ESPN, having lost 14 million subscribers since 2011. Investors were not wrong to call Disney out for its slow transition; after all, economic history holds a rich archive of once-thriving firms that were overtaken by technological change.

Noting the decline in traditional pay-TV subscribers, it was evident that Disney had to find an alternative distribution channel to get its content to millennials, and so entered licensing agreements with the popular Netflix. Once again, Disney needed to be agile to remain relevant. Disney itself did not have the necessary expertise to setup a streaming platform and in 2016, acquired BAMtech, a leading streaming service provider. In August 2017, Disney announced that it would soon pull its animated titles from Netflix and all other competitors. The move **was** accompanied by the news that Disney would be launching its own DTC streaming service.

Graph 1: A proven track record of generating returns on investment



Source: Disney results, Morningstar

Streaming remains a highly competitive market. Yet, this market is so large that there appears to be more than enough room for a handful of players to succeed. During Disney's investor day presentation in April, the company highlighted the size of the over-the-top (OTT) market, which refers to content providers that distribute streaming media as a standalone product directly to viewers. According to Disney, global streaming viewership was at 20 million hours in 2010 and is projected to grow to 1.2 billion hours by 2020. This means that streaming consumption is expected to grow by around 50% per annum over the decade[1]. Improving technology and internet penetration should continue to serve as fuel for this secular trend.

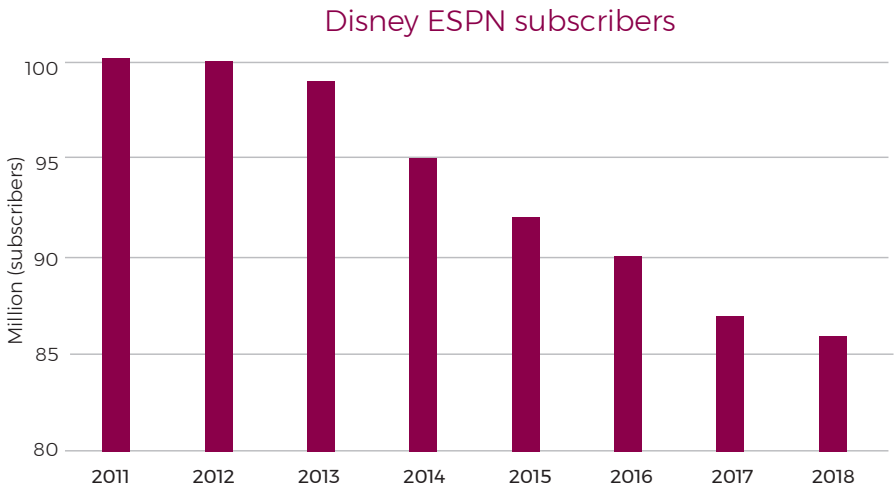
DISNEY'S NEW GROOVE

With its prestigious and beloved film and media library, Disney is the most valuable media brand in the world. Collectively, Disney's suite of brands had more than four billion engagements across Facebook, Twitter and Instagram over the past year[2]. With the addition of the Fox assets, Disney now has the world's largest film studio and an even larger content portfolio that will be leveraged to launch its streaming service, Disney+, in November.

Disney+ will offer archived and new releases by Disney, Pixar, Marvel, Star Wars and newly acquired National Geographic. For many households with young children, Disney+ will soon become an essential, and at US$6.99 per month, it is not a demanding purchase. Disney has intentionally under-priced the service in order to drive subscription volumes, aiming to amass at least sixty million subscribers around the world by 2024. While Disney+ has most of the hype surrounding it, it is not the only

[1] https://www.thewaltdisneycompany.com/wp-content/uploads/2019/03/disney_investor-day_2019.pdf
[2] https://www.thewaltdisneycompany.com/disney-showcases-unparalleled-storytelling-across-its-portfolio-of-brands-at-combined-upfront-event/

Graph 2: ESPN takes a hit



Source: Disney SEC Filings, Nielsen

streaming effort that the company has embarked upon in recent years. Last year, Disney launched the ESPN+ application, a sport-streaming platform. The app already has over two million subscribers and growth remains high as new content is added to the platform. Disney envisions ESPN+ as an essential app for all sports fans.

Along with the above-mentioned developments, Disney recently gained control of online streaming service, Hulu. Hulu currently has more than 25 million paid subscribers in the US and the service hosts much of Disney's non-sporting related, adult-oriented content. Retaining partnerships with Time Warner and Comcast, Hulu has the power to rival Netflix in terms of content production. Hulu rounds off what is Disney's three-pronged digital streaming strategy, the strategy expected to drive the coming decades of Disney returns.

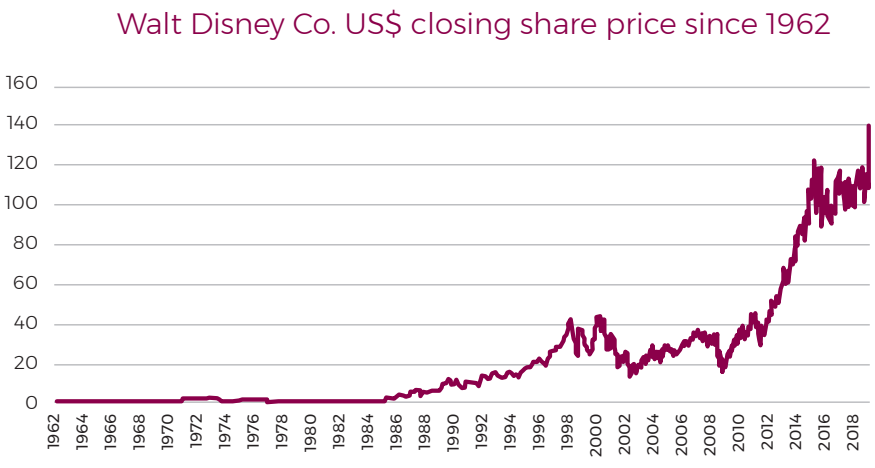
MAGICAL SHAREHOLDER RETURNS

Shareholders have already enjoyed decades of sustainable long-term returns. Disney sold its first equity instrument to the public in 1940 through the issue of convertible preference shares. This was followed by a listing on the New York Stock Exchange in 1957 at a share price of US$13.88. If you had invested US$1 000 at that time, you would have been able to purchase 72 shares. Disney has had six stock splits since and your original 72 shares would equal 27 648 shares today[3]. At the time of writing, the stock is trading at US$133.46, which means that your investment would be worth US$3.6m, excluding dividend reinvestments.

INFINITE POSSIBILITIES

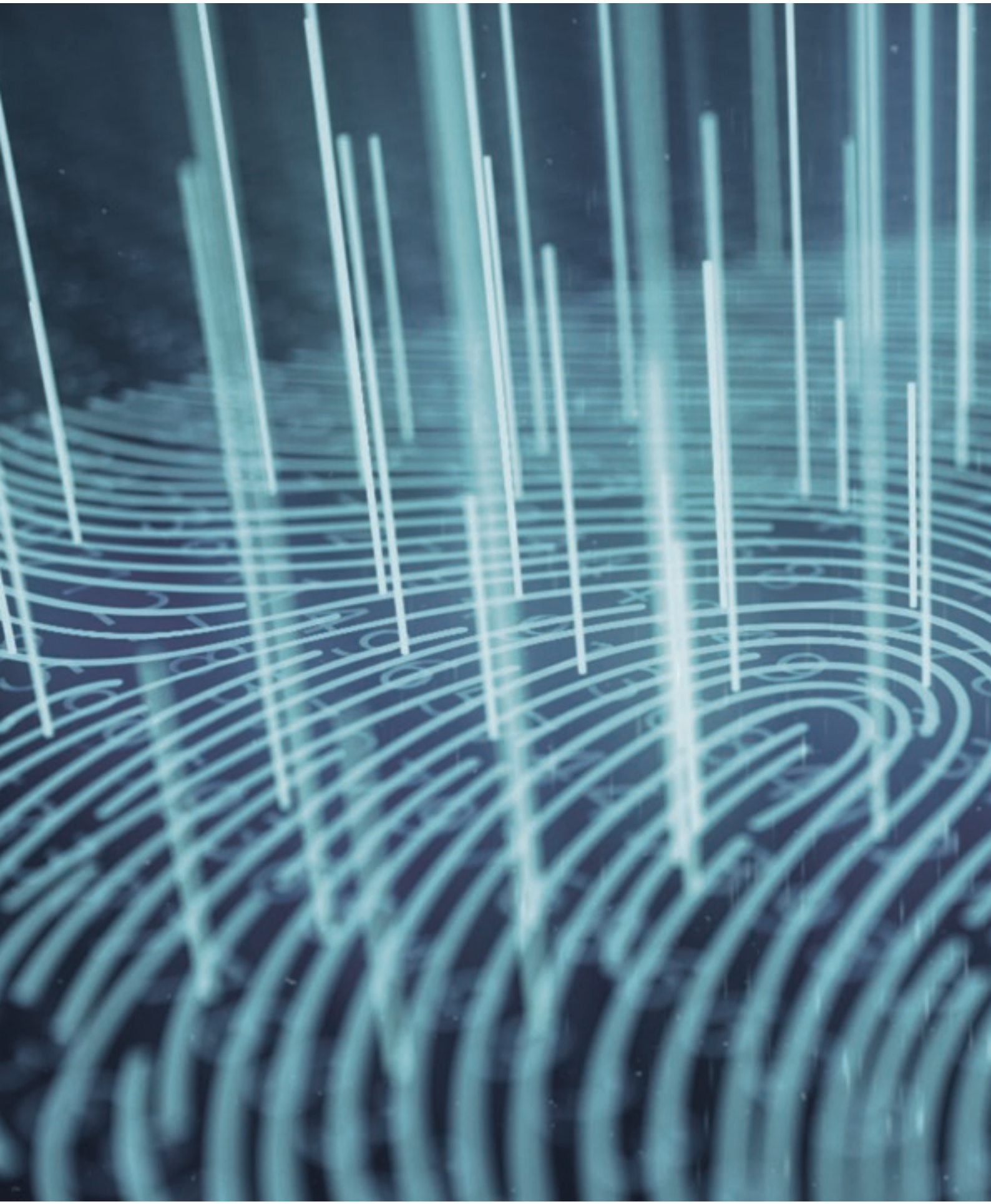
Although Disney could have responded to the shift to streaming sooner, and Netflix will always be hailed as being the first to dominate the industry, Disney's second-mover advantage should not be discounted. Disney has learned from Netflix's personalisation and its streaming platforms are set to be more than just distribution channels. These platforms will allow Disney to build direct relationships with customers based on customer data retrieved from its digital platforms. Disney has never before had this opportunity and in future, these platforms could be used to build a loyalty programme where subscribers willing to pay a premium, gain exclusive access to film previews and new content. Disney's digital age is abound with opportunity and its sports platform (ESPN+), family-oriented platform (Disney+) and adult-oriented content (Hulu) will eventually be bundled and offered to subscribers at an attractive price. At this stage, Disney is well placed to assert its dominance in the streaming industry and continue delivering sustainable long-term returns to its investors.

Graph 3: Rising shareholder returns



Source: Macrotrends, Disney stock price history adjusted for stock splits

[3] https://www.investopedia.com/articles/markets/120115/if-you-had-invested-right-after-disneys-ipo.asp

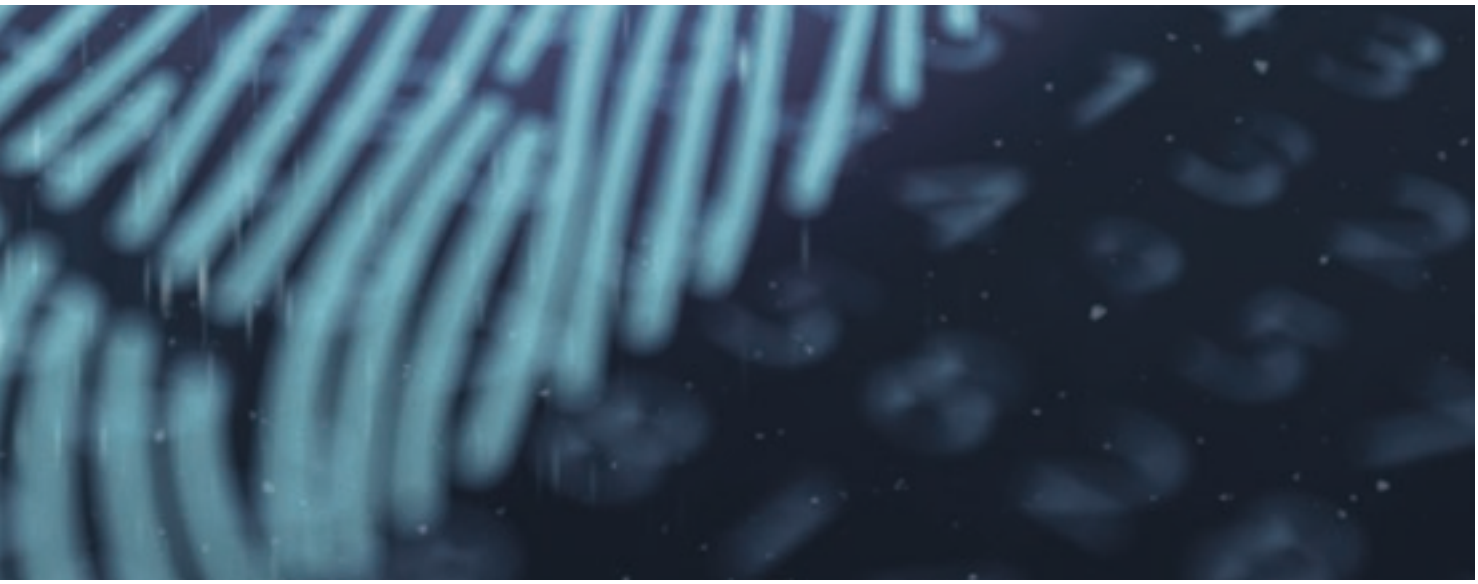


ALPHABET AND FACEBOOK

DOMINANCE AMID INCREASING RISKS

VICTOR MUPUNGA, RESEARCH ANALYST AT
PRIVATE CLIENT SECURITIES

In most social circles, the mention of tech giants Facebook and Alphabet (Google's parent company) elicit mixed reactions. Avid users point to the conveniences and opportunities brought about by their applications. Indeed, many start-ups, celebrities and long lost friendships have flourished thanks to Facebook's platform and the group's subsidiaries Instagram and WhatsApp. Tens of millions of small businesses have Facebook pages. In one survey, Americans estimated that they would have to be paid over US$17 000 a year to forego using Google's search engine. Yet despite the irrefutable good brought about by big tech innovation, frequent controversies surrounding the companies' platforms have highlighted the weaknesses in their business models.



0 LIKES

The Economist coined the term 'techlash' in reference to the growing public animosity towards large technology companies. Media coverage of Facebook and Google over the last few years epitomise this trend. The most common criticisms levelled at the tech giants include uncompetitive behaviour, addiction to their applications and tax avoidance. Chief among the censures directed at big tech firms is the abuse of user data that has shown up during various episodes over the last few years. Ironically, it is this very same data that tech companies have astutely used to bring about their remarkable success and global dominance.

THE MOST VALUABLE RESOURCE

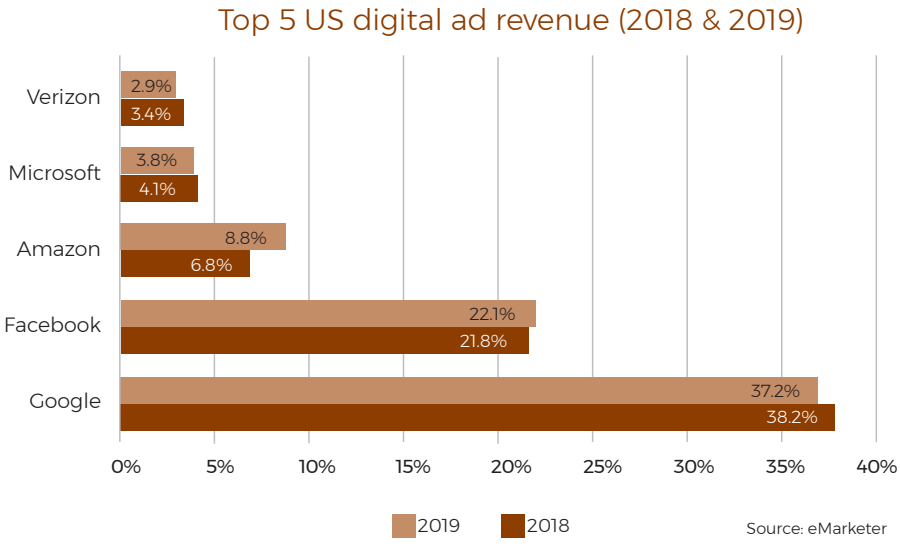
Society as a whole has been slow to fully appreciate how lucrative data is. This is likely because most individuals consider their personal data in isolation and not at scale. In this connected age where most people constantly have supercomputers, i.e. smartphones, at their disposal, data is abundant and far more valuable than ever before. Virtually every activity that individuals participate in while with their devices creates a digital trace, which is the raw material that tech companies have used to fuel their growth. With the use of artificial intelligence to mine and make sense of troves of data, Facebook and Google have gained valuable information about users that corporates and governments are willing to pay handsomely for.

Users' demographic information, their likes, dislikes, topics of interest, browsing history and location are some of the well-known information that Facebook has and maintains on its billions of users. Given Google's comparable user numbers and varied platforms (Gmail, Maps, Play, YouTube and Search), it has been said to have an even more valuable data stash than Facebook, which is a remarkable feat. At a time when data is referred to as the 'new oil' of the digital era, one can appreciate how powerful the tech companies are with their vast data depositories. Their algorithms can predict when customers are ready to make a purchase, when they are at risk of a disease, and - as we discovered a few years ago - voters' propensity to be swayed politically.

Collectively, Facebook and Google make up 60% of digital advertising spend in the US, a figure that would be higher were it not for Amazon's recent encroachment into digital advertising. This combination of scale and data is a winning one.

At a time when data is referred to as the 'new oil' of the digital era, one can appreciate how powerful the tech companies are with their vast data depositories.

Graph 1: Dominating ad revenue market share

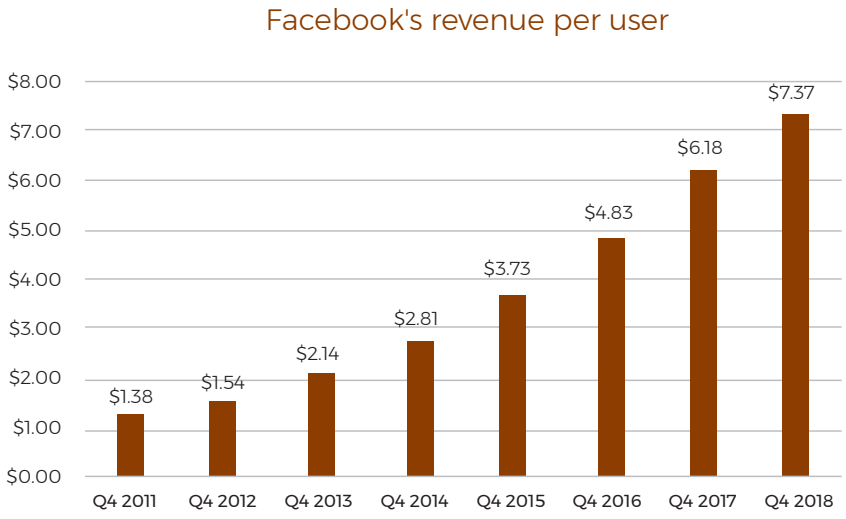


WINNING THE WAR FOR ATTENTION

To date, the industry most affected by the proliferation of social media and online search has been advertising. A decade ago, the total global advertising market was estimated to have been worth US$588 billion, of which digital advertising accounted for US$68 billion or 12% market share. In the subsequent years, digital advertising's market share has risen to about 50%, with social media (Facebook) and online search (Google) being the largest beneficiaries. At the peak of their dominance, these two companies received 85 cents of every dollar spent on digital advertising in the US.

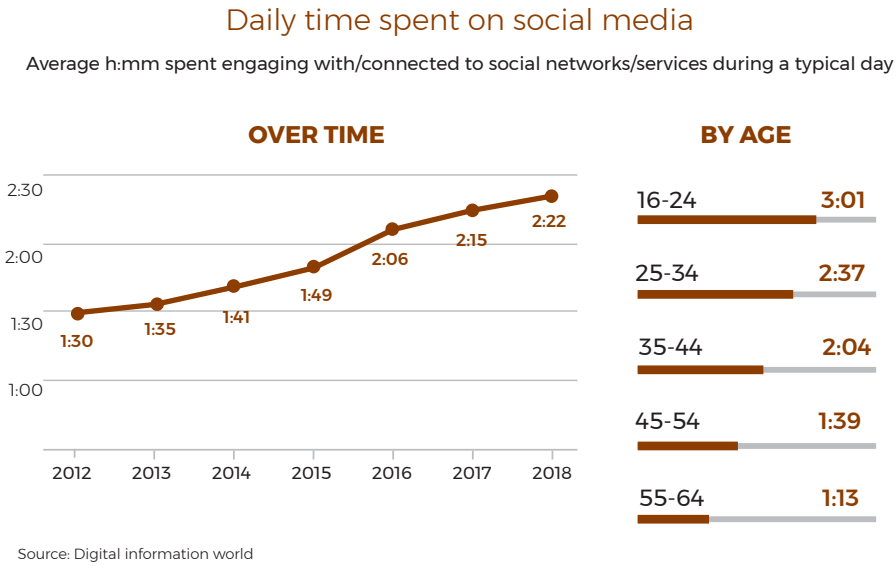
A critical part of this success can be attributed to the companies' ability to keep consumers engaged for long periods on their platforms, which gives advertisers more opportunities to promote their wares. Critics argue that increased engagement also allows the tech companies to gather more information about their users. Growth in Facebook's average advertising revenue per user (Graph 2) indicates advertisers' willingness to pay more for placing adverts on the platform as they expect a higher return on the advert. The average US consumer now spends over two hours each day on social networking sites, with Facebook's app making up just less than half of that figure and Instagram coming a close second. Google-owned YouTube is the most watched TV network globally, with over one billion hours watched per day. A decade ago, this time was split across magazines, newspapers and traditional TV. As online platforms continue to win the battle for consumers' attention, they will likely continue to win advertisers' share of wallet.

Graph 2: Successfully monetising users



Source: Company reports

Graph 3: Addicted to social media



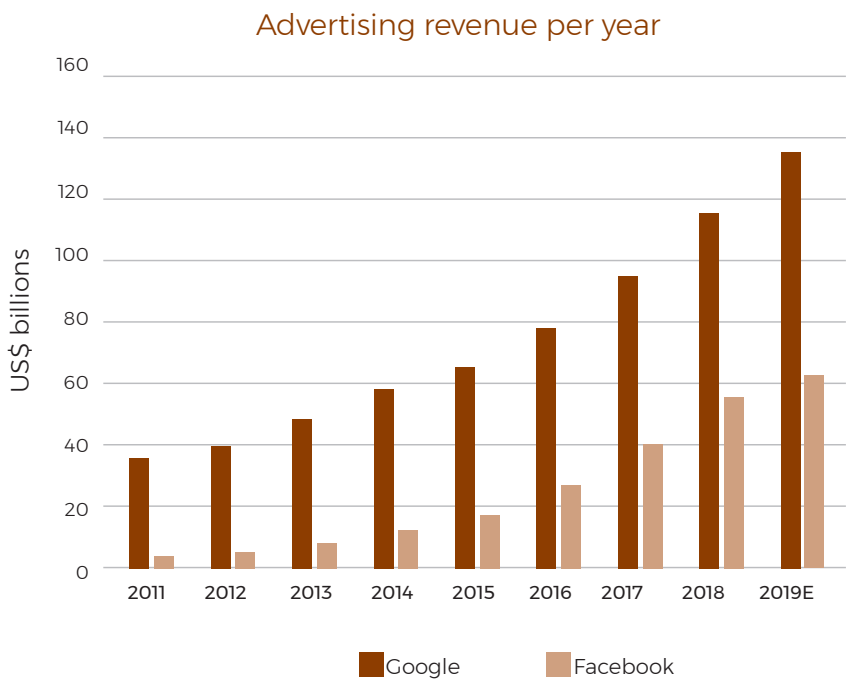
Source: Digital information world

KNOW YOUR COMPETITION

One of the remedies that is bandied about to the budding hostility towards big tech companies is to break them up into smaller businesses. The argument often made is that the companies have become so big that no one can effectively compete with them. With Facebook and Google commanding screen time from more than four billion users, it is hard to simply discard this argument.

Unsurprisingly, the tech companies see it very differently. Facebook, particularly, goes to great lengths to dispel that view by emphasising that advertisers do not have long-term commitments with the company and there are significant threats from any new technology or activity that dissuades users from their platforms. There is some merit to this argument as evidenced by the boom in podcast advertising. While relatively small, podcast advertising revenues have risen nearly ten-fold in the last four years and according to PwC, they can quadruple from their current level by 2022. Netflix's current advert-free platform is another potential competitor. According to eMarketer, 56% of streaming platform viewers do not mind watching adverts if they are paying a lower subscription. Given Netflix's need to continually borrow and spend to generate great content, it is not inconceivable that at some point they may resort to offering a cheaper, advert-supported offering. With their captive audience of 150 million global subscribers, that could surely make a dent in Facebook and Google's market shares.

Graph 4: Advertising revenue per year



Source: Company reports, Factset

THE HUNT FOR CONTENT

Bill Gates popularised the phrase "content is king" more than two decades ago. Today, the expression still rings true. Given the threat of entrants and their own vast ambitions, it is not surprising that both Facebook and Google have joined the crowded field of traditional media outlets vying for cherished content. The highly lucrative sports rights is one arena where we have started to see this battle for content playing out.

Since missing out on the rights to broadcast Indian premier league cricket almost two years ago with a US$600m losing bid, Facebook has notched up a number of exclusive deals to screen baseball and soccer in different geographic regions. Other tech companies - Twitter, Amazon and Google - have all recently won rights to screen live sports ranging from WWE (wrestling) and tennis grand slams to English premier league soccer. While the threat to traditional media's stronghold on live sports is still sprouting, this is a development worth watching closely. The large tech companies have massive balance sheets that allow them to compete for any sports rights and insight into what viewers want to watch, which make them formidable competitors for sports broadcasters such as Sky Sports and ESPN.

The risk to investors lies in the form that the regulation will ultimately take as the regulatory pendulum has been known to swing to extremes.

Netflix's rapid success in building a captive user base and an impressive library of original content is a classic example of the advantage that tech platforms have over cable networks. In aggregate, Netflix users spend 165 million hours a day on the platform, which gives the company ample data to accurately predict what the next successful hit series will be. Google's YouTube has similar strengths and this is largely why some analysts have questioned why the firm has not invested more to bulk up its original content library. Facebook Watch is the platform for the group's original content. On a daily basis, over 75 million Facebook users spend an average of 20 minutes on Watch streaming. Management expect these figures to increase as they fund more productions.

THE REGULATORY PENDULUM

Despite one's view on big tech companies, most will agree on the need for some regulation regarding data privacy and antitrust. The companies themselves advocate for this. However, in our view, the risk to investors lies in the form that the regulation will ultimately take as the regulatory pendulum has been known to swing to extremes. In a space of a few years, we've seen several record fines for breaching antitrust and privacy laws for both Google and Facebook. Despite the fines being sizeable, they have not had a material impact on the businesses. Of greater concern though is regulation that could force the businesses to divest from some of their platforms. Multiple platforms allow the companies to diversify their revenue across different age groups, content formats and online activities. Furthermore, they allow the companies to aggregate user data from different platforms, giving them better insight into their users.

European Commission regulators have been at the forefront of driving regulatory oversight outside of simply imposing fines. A year ago, the regulatory body made sweeping changes to privacy laws with the promulgation of the General Data Protection Regulation (GDPR) legislation. In previous judgements, they have compelled Google to alter how it uses its search engine to favour its shopping service and how it pushes its apps on Android users. It is important to closely monitor developments within this region as they will likely serve as a template for other regions to follow.

CAUTIOUSLY OPTIMISTIC

As investors in both Alphabet and Facebook, we acknowledge the competitive advantages both businesses have due to their intangible assets as well as the massive network effect of having billions of engaged users. However, we remain mindful of the increasing risks. We regard competition and regulation to be material risks that the companies are somewhat mitigating through continued innovation.

TRENDING

THE RISING POPULARITY OF PODCASTING

Even though Trevor Noah's Daily Show, the Ears Edition, is number one on the Top 100 Podcasts in South Africa today, the rest of the list has a strong spiritual theme – Ted Talks, OWN Masterclass, Deepak's Infinite Potential, Dr Leaf Cleaning Up – to name a few. These are the types of podcasts that people are willing to pay money for. They offer some enlightenment and advice and are intended as podcasts. The South African list seems reasonably aligned to the World's Top 5 Most Popular Podcasting Genres, as can be seen in diagram 1.

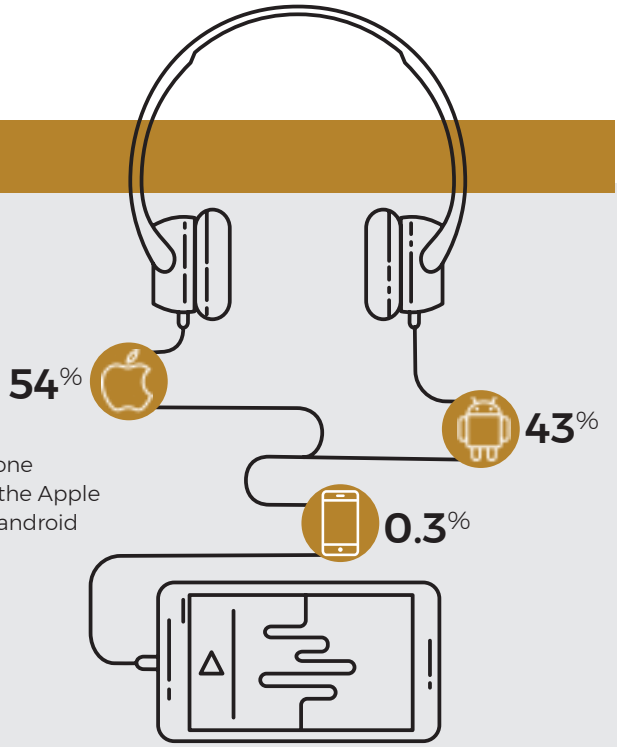
However, with the world wide web, growth in social media and increased bandwidth, a multitude of podcasts are free to air, as an extension to radio shows. Whichever type one looks at, the popularity of Podcasts is rising astronomically. Podcasting has been around in many audio talk programs since the 1980s and began to take shape in 2004. It's been growing rapidly since then and now spans over 100 different languages across the world. Its ability to reach an audience has been simplified dramatically over the years due to low-cost operating structures – it's as simple as recording on a smartphone or tablet.

1. TOP 5 MOST POPULAR PODCASTING GENRES

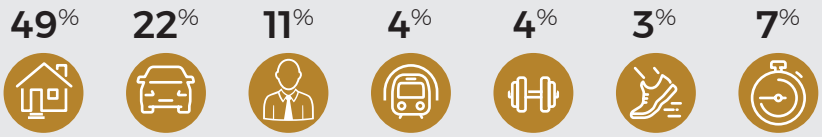


USAGE

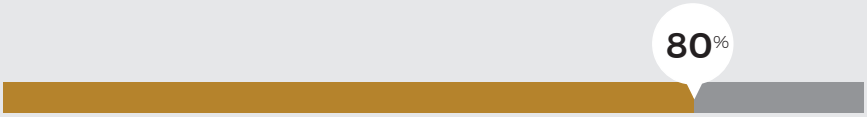
Smartphones are the #1 medium for podcast consumption.



54% of the US smartphone podcast audience is on the Apple iOS ecosystem, 43% on android and 3% on others.



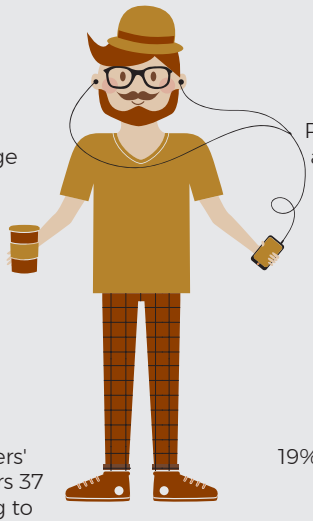
49% of Podcast listening is done at home. 22% listen while driving. 11% listen while at work. 4% listen while riding public transportation. 4% listen while working out. 3% listen while walking around. 7% listen in other situations.



80% of the listeners listen to an entire podcast episode or most of the episode.

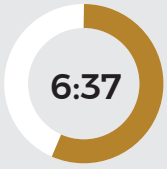
6

Podcast listeners subscribe to an average of 6 shows.

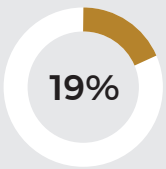


7

Podcast listeners listen to an average of 7 different shows per week.



'Weekly Podcast listeners' spend an average of 6 hrs 37 mins per week listening to podcasts.



19% of listeners increase the speed (listen faster).

STATISTICS

700,000
active podcasts

29 million
episodes

100
languages

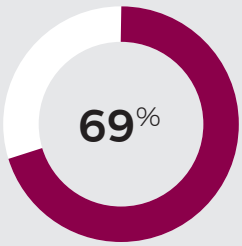
There are now more than 700,000 active podcasts and over 29 million episodes, including content in more than 100 languages.

Podcasting also provides a perfect platform for storytelling across a variety of themes and genres, helping the broadcaster convey their thoughts and ideas in a manner that also builds trust. In an era where individuals are time-conscious, listeners can access podcasts through most portable devices and can incorporate their listening time into their daily routines (such as driving to work or exercising).

BRAND POSITIONING AND ADVERTISING THROUGH PODCASTS

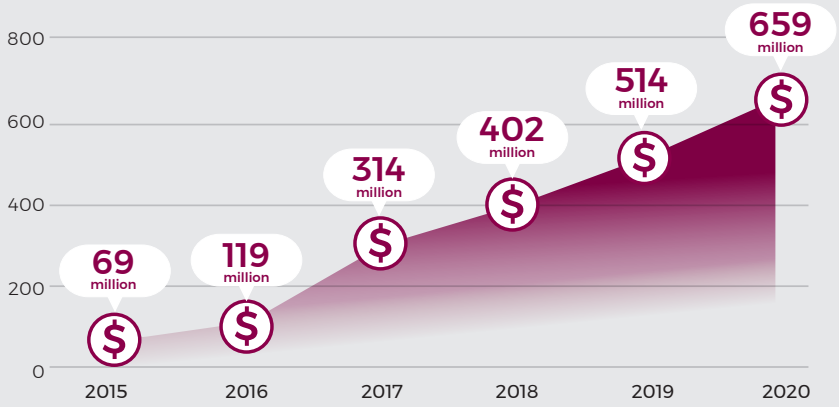
Podcasts provides a key platform for brands to advertise and especially since traditional advertising mediums are having less impact recently.

ADVERTISING



69% agreed that podcast ads made them aware of new products or services.

GROWTH OF PODCAST AD REVENUE



Podcast ads lift purchase intent for a variety of advertisers - percentage increase in people who are very or somewhat likely to purchase the product or service after hearing the ad in a podcast:

9.2%

SOCIETY & CULTURE

9.2% lift in purchase intent for brands who advertise in Society & Culture podcasts.

12.8%

NEWS & POLITICS

12.8% lift in purchase intent for brands who advertise in News & Politics podcast.

7.3%

COMEDY

7.3% lift in purchase intent for brands who advertise in Comedy podcasts.

9.3%

SPORTS

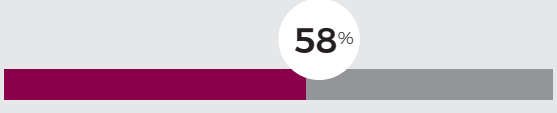
9.3% lift in purchase intent for brands who advertise in Sports podcasts.

14%

BUSINESS

14% lift in purchase intent for brands who advertise in Business podcasts.

The trust and respect listeners have with podcasters tend to ensure that they are much more receptive, don't tune out and are engaged on the podcast for a long while, allowing for absorption of messages.



Ads integrated or edited into programming accounted for 58% of the podcast ad inventory.

Source www.singlegrain.com

DEMOGRAPHICS

70%

70% of the US population are familiar with the term 'podcasting'.

51%

51% of the US population have listened to a podcast.

32%

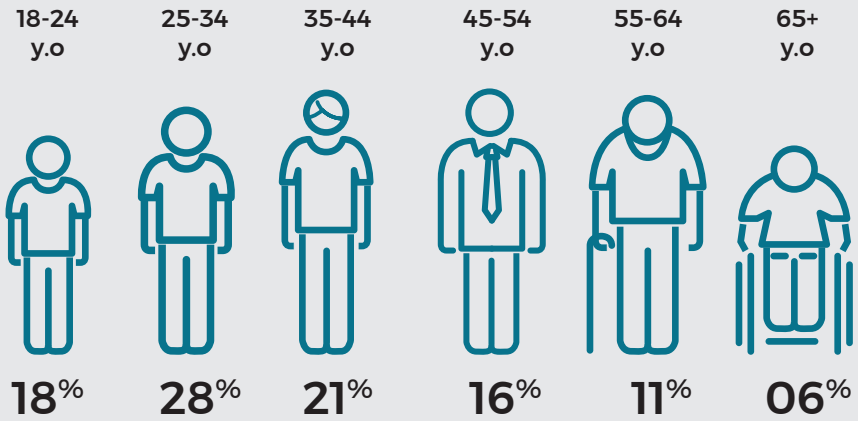
32% of the US population listen to podcasts at least every month.

22%

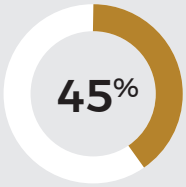
32% of the US population listen to podcasts weekly.

06%

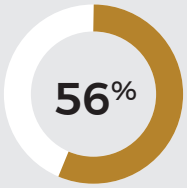
6% of the US population are 'avid podcast fans'.



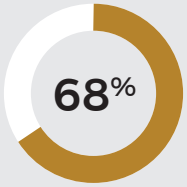
EDUCATION



Podcast listeners are 45% more likely to have a college degree.

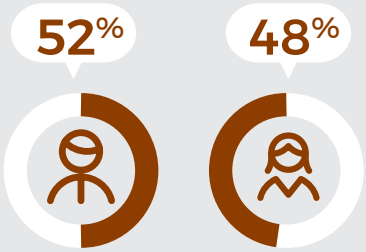


Podcast listeners are 56% more likely to be under graduates.



Podcast listeners are 68% more likely to be post graduates.

GENDER



52% of US podcast consumers are male, 48% are female.



BUSINESS INSIGHTS

THE MILLENNIAL-MINDED GENERATION

KERRIN LAND, CEO OF OLD MUTUAL WEALTH

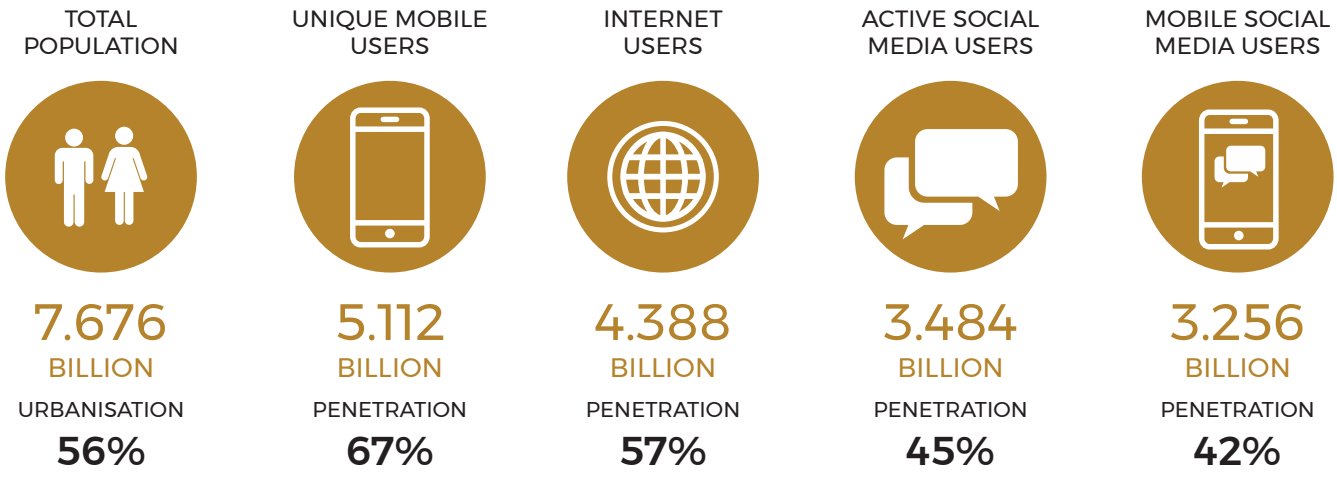
"Digital channels are also evolving faster than wealth managers and their clients anticipated three years ago. In 2016, only 20% of clients projected that they would prefer to use mobile apps for wealth management activities by 2019, whereas this year's research shows 41% of respondents preferring mobile apps as their primary channel for wealth management." EY, 2019.



According to Global 2017, wealth managers identified two major concerns in relation to their practices are staying relevant to a younger generation, and keeping up with new technology. Although technology and digital are often used interchangeably, it's important to understand that technology is the tool while digital represents the culture. The differences in culture between generations mean that they use technology differently, at a different pace and to a different extent. Therefore, the way to look at digital should be along cultural lines. For example, the difference in those who are fast adapters is reflected as "millennial-minded". They don't have to be millennials, but how they choose to interact is usually aligned to the younger generation. They are more likely to use technology for advice, making them more 'digitally savvy'.

It is important to note that the digital culture is not about the technology itself, but rather about choice which the current media landscape offers us in abundance. It is also about knowing what is available before deciding and the ability to customise content to suit your interests and needs (and this is an area where streaming is very popular). Most of us are time poor and given that South Africa boasts 22 daily and 25 weekly major urban newspapers, over 200 radio stations, more than 30 television stations, 281 billion e-mails, 3.5 billion google

DIGITAL AROUND THE WORLD IN 2019



SO, HOW ARE WE DRIVING THE CASE FOR CHANGE IN WEALTH ADVICE?

- Millennial-minded investors are using their timelines and online searches to compare advisers and investment solutions. Even though there is an even split in the number preferring self-directed or adviser advice, 85% of affluent mature clients still want the human interaction.
- Even though online accounts for 65%, mobile is growing rapidly at 35%. This aligns back to clients being on the move and therefore time poor.
- Digital is redefining personal relationships as the "Facebook friends" phenomena has meant that around 30% of clients across all age groups are open to meeting and engaging remotely with their adviser.
- Retail and content streaming, even though from totally different industries, are putting a lot of pressure on wealth managers to digitise.
- The digital landscape forces simple language as the way we write digitally doesn't allow for complex language with multitudes of jargon. The values of Plain Language and Treating Customers Fairly are truly coming into play, which again entrenches how we put our clients first.

The key statistic to take out of this is the fact that despite the shiny beautiful developments in FinTech, 85% of clients still want a personal relationship with their advisers. Even more interesting is the fact that this number is at 82% for millennials, the generation we should focus on for business sustainability. This means that millennials see technology as just one of the ways to make investment decision and still value personal relationships. It is a time of change, and change is at the worst of times, filled with opportunity. Here's to the fourth revolution!

Although millennials make up only 22% of the population, more generations are acting "millennial" by leveraging digital tools to interact and engage with the world. Therefore, you can say that millennials are less a demographic and more a psychographic.

Sources: Global 2017, Wealth Report 2018 and EY 2019

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