Positioned for growth: Content consumption and creation in Latin America

By Charles Kim, Daniel Hong, David Winterle, and Audrey Zhao; Media, Entertainment and Information Practice Area, Bain & Company

Overview

Please refer to Bain’s May 2011 Latin America Factpack materials for detailed facts and figures referenced in this paper.

Supported by improved macroeconomic fundamentals, the Latin American media and entertainment market is well positioned for future growth. As communications infrastructure continues to expand and becomes more sophisticated in the region, media platforms are expected to evolve and foster new content consumption and creation patterns. Multinational companies have been quick to realize this potential in Latin America, as evidenced by Brazil’s rapid adoption of social media, and have made strides towards expanding their Latin American presence. Local traditional media incumbents, however, have been relatively slow to migrate content online and expand to new digital platforms. As a result, Latin America currently lags other regions in innovative content development. Public policy initiatives could encourage the development of digital content creation and innovation by leveraging unique professional, social and cultural assets of the region.

I. Improving macroeconomic fundamentals

Latin American macroeconomic fundamentals have improved significantly over the past 20 years with a healthy deceleration in inflation, an associated decline in interest rates, sustainable GDP growth, and improved government budgets. While the top seven economies – Brazil, Mexico, Argentina, Venezuela, Colombia, Chile and Peru – represent 82% of the population and 90% of the total GDP of Latin America, income levels are rising all across the region. As evidenced, the share of the population earning more than $15,000 is expected to double from 2005 to 2015.

Though the Latin American media and entertainment market remains small relative to North America, EMEA, and Asia Pacific, industry revenue grew significantly faster in Latin America than in the rest of the world (8% CAGR vs. 1% CAGR) from 2005 to 2008. Regional industry growth, moreover, is expected to materially outpace global industry growth in the years ahead. Within Latin America, the media and entertainment industry continues to be dominated by

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1 Political and Macroeconomic Overview: Latin America, Bain analysis, March 2011
2 Euromonitor; Bain analysis
3 Latin America Media Market, Bain analysis, May 2011; PWC; Wilkofsky Gruen Associates
Brazil and Mexico, at $26 billion and $14 billion respectively. Together, these two countries accounted for 71% of total media spending in the region in 2008.4

II. Current infrastructure trends

Broadband infrastructure constraints are gradually loosening

Latin America is infrastructurally constrained relative to the rest of the world. Low home broadband penetration impedes many high-bandwidth activities, such as video streaming, file sharing, and music downloads, in many regions. Most of the ~5,500 cities in Brazil, for example, are not hardwired for the internet at all. Fortunately, many governments have launched national level initiatives to foster greater internet penetration. As these initiatives take effect, infrastructure constraints to greater digital content consumption and creation are likely to loosen.

This is good news for Latin American consumers who have embraced digital media where available. The number of internet households grew at 20% CAGR from 2005 to 2009, and the region’s internet audience now represents 8% of the global Internet audience.5 The average time spent online per user is also growing rapidly, with Brazil, Mexico, and Argentina showing the heaviest usage. Of note, 88% of Latin American internet users engage in social media, as this continues to be a central touch point for the web experience in this region6.

Exhibit 1: Internet households in Latin America have been growing at a high rate of 20%

Regional averages, however, mask a strong disparity between the have and have-nots of the region. While the number of web users in Latin America continues to grow yearly at a double-

4 Global entertainment and media outlook: 2009-2013, PricewaterhouseCoopers, June 2009
5 State of the Internet with a Focus on Latin America, comScore, June 2010
6 Digital Year in Review: Latin America, comScore, March 2011
digit rate and although Brazil, Argentina, and Mexico have reached the top 10 social media consuming countries worldwide, others countries lag far behind in digital media consumption. The stark difference reflects a large divide in digital infrastructure among countries within the region.

**Extensive mobile infrastructure supporting adoption of mobile content**

Latin America’s extensive mobile infrastructure has helped foster strong adoption of mobile content consumption and creation. Mobile connection penetration has reached 97% in 2010, growing at a 17% CAGR since 2005. Mobile phones will likely gain importance as a media consumption platform, moreover, as a higher percentage of the population purchase smartphones that can connect to higher speed networks. Smartphone sales are expected to grow at a 57% CAGR from 2009 to 2015 and 3G connections are expected to grow by 37% CAGR over the same time period.

**Exhibit 2:** Smartphones sales and 3G subscribers are growing exponentially

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**III. Growing appetite for multi-platform consumption**

Latin America is seeing multi-platform content consumption patterns similar to those in the U.S. and Western Europe, driven by penetration of broadband and mobile. Incumbent Latin American media companies have embraced a transition of some of their traditional content to new platforms, in part due to the fact that most users in the region have demonstrated a willingness to pay for online movies, music and videos.

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7 Wireless Intelligence, 2011; Latin America Media Market, Bain analysis, May 2011
8 Wireless Intelligence, 2011; Latin America Media Market, Bain analysis, May 2011
Traditional media companies begin to embrace new formats

For now, traditional media such as television and print remains relatively healthy in Latin America. Recognizing that the industry will evolve dramatically within the next few years, traditional media corporations are adapting their business model in order to retain their viewership while looking abroad for demand. Brazilian-based television network, TV Globo, is adapting to the increase in online consumption by providing paid access to TV shows and free access to their newspaper and encouraging consumer engagement by allowing viewers to comment on popular reality shows online. Grupo Abril is also following their consumers online. Through Abril.com, Internet users have access to the entire content of each magazine, with more than 80 sites dedicated to Abril’s brands. In 2009, there were more than 156 million pages views, with around 26 million unique visitors.

Foreign media companies are a major force for media innovation

Some of the high-profile media innovation in the Latin American market is currently being driven by foreign firms. Orkut, for example, a social networking website owned by Google, is the clear favorite among Brazilians. Currently 8 out of 10 Brazilian web users have an account, and Brazilians represents more than half of the total members in the network.9 (Google was quicker than Facebook to translate its network to Portuguese, which drove high adoption rates.) Twitter has also seen phenomenal growth in Latin America over the past year. 16% of total Twitter users are Latin American, and Brazil has demonstrated extremely high adoption growth.10

Online consumption outpaces digital ad spending

Though traditional media companies have looked towards new media formats to complement their portfolio offerings, consumer appetite for online content is growing at a faster pace. There has been great resilience in ad spending on traditional media, especially in TV, while ad spending on digital media remains a relatively small piece of overall Latin America advertising ecosystem. While the growth rate in advertising online and within digital publishing is growing at a fast rate, there is a “stickiness of spend” to advertiser spending that will need to be addressed as consumption patterns continue to evolve. Structural issues such as “Bonus on Volume” are hampering migration of spend from traditional media. In addition, online and mobile ad inventory still not optimized for brand building campaigns.

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9 State of the Internet with a focus on Latin America, comScore, June 2010; Social Media in Latin America, Synthesio, January 2011
10 Indonesia, Brazil, and Venezuela Lead Global Surge in Twitter Usage, ComScore, August 2010
Exhibit 3: While traditional media is thriving, ad spend on digital media is growing much more rapidly

![Diagram showing Latin America Ad spending by platform]

Note: LatAm market built on the basis of 6 major geographies, which form ~90% of LatAm GDP; TV exclude online and mobile TV advertising, Print include Newspaper, magazines, B2B publishing, and consumer and educational books (exclude advertising revenues from digital and electronic versions)

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

IV. Key drivers of the evolution of content creation

Democratization of creation process driven by user-generated content

The nature of content creation, or the business of storytelling, is rapidly evolving in Latin America. Much of the content is still created “top-down” from traditional media companies, although this content is becoming increasingly distributed through new digital platforms. A more seismic change, however, has come from the democratization of the “bottom-up” content creation process enabled by free or low-cost digital distribution platforms such as blogs and YouTube. Trends towards more user-generated content, collaborative authoring and instant upload of videos and photos have altered the content creation processes.

Several local media companies have embraced user-generated content to create a substantial online following. Founded in Argentina in 2007, Psicofxp has become one of the largest social networks for content, offering a comprehensive platform for sharing information and multimedia content. Psicofxp provides forums for discussions varying from literature to the popular TV shows, and allows users to upload photos and videos to share with the community. The site receives an impressive 10 million unique visitors monthly, mainly from Argentina, Mexico and Spain.11 Given Latin Americans’ fervor towards sports, it comes as no surprise that the topic is a favorite within user-generated content. Famous Brazilian columnist Juca Kfouri has gained popularity through his sports blog, providing frequent commentary on various matches.12 Additionally, KiGOL, a real-time social media site, allows soccer fans to share and

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11 Latin Interactive World: Digital Power Houses, Today Psicofxp, Portada, Sep 2010; Psicofxp.com
12 Blog do Juca Kfouri, May 2011, Bain analysis
discover game and player updates, discuss and review major moves, and predict the results of matches.\textsuperscript{13}

**Social media has become an important tool for developing effective consumer engagement and driving innovative content production**

Social media has a very high reach among Latin American users, reaching near 90\% of web users. As a result, roughly half of Latin American companies use social media platforms for consumer engagement.\textsuperscript{14} Ford, for example, created a platform to answer consumer questions by developing a series of short films on YouTube starring Ricardo Mauricio Martinex, a midfielder for the renowned Cruz Azul Hidalgo football club. The campaign averaged over 1,000 views per video and over 11,000 questions. Meanwhile, for the launch of their new credit card in the Mexican market, Visa organized a competition calling on participants to produce their own videos explaining why they prefer to pay by credit card rather than cash. Following the “I’ll pay by card” social campaign, Visa saw a 19\% increase in card payment in Mexico between April and June 2010.\textsuperscript{15}  

Exhibit 4: Social networking has very high reach among Latin American online users

Stemming from the success of social networking sites is the growth in popularity of social gaming. Social gaming companies such as Vostu has grown quickly in Brazil with a collection of games offered through Orkut. Vostu estimates to have 20 million active players a month, a tenfold increase in users since the beginning of 2010, and reaches a quarter of all Brazilians who use the Internet.\textsuperscript{16}

\begin{itemize}
  \item \textsuperscript{13} KiGOL, May 2011, Bain analysis
  \item \textsuperscript{14} Social Media in Latin America, Synthesio, January 2011
  \item \textsuperscript{15} Social Media in Latin America, Synthesio, January 2011
  \item \textsuperscript{16} Vostu, The Zynga of Brazil, Raises $30 Million At $300 Million Valuation, TechCrunch, November 2010
\end{itemize}
Innovative mobile content becomes strategically relevant to the value chain

The mobile content market reached approximately $2.4 billion USD in Latin America in 2009 and has about 63 million users across the region. As the mobile market continues to grow and become more saturated, value-added services, particularly mobile content, become strategically relevant for many telecommunication and media corporations. As a result, the mobile content market within Latin America has seen the development of innovative multimedia services, most popularly video, games and music. Claro, the second largest mobile telecommunications provider in Brazil, offers content such as its Ideias Music store, which includes over 900 thousand music tracks and Minha TV, which provides access to channels such as Bandeirantes, MTV and Discovery. The company also offers popular international services to mobile sites such as Orkut, Myspace and Youtube.

V. Roadblocks to expanded content creation

Traditional media companies struggle with monetization of new content formats

While traditional media companies recognize the impact of the digital revolution on Latin American consumers, large corporations have been slow to adapt their business models to a new digital reality. Large Latin American heritage TV and print operators are aware of the struggles that their North American and European brethren have faced in their transitions online, and are not eager to accelerate their own transition. Although there are no easy solutions, there is hope that Latin American companies will become more daring as they learn from current media business model experimentation that is taking place in other regions of the world.

Shortage of funding for entrepreneurial media ventures

While there are many media innovations percolating up from Latin America, financing for small, start-up media companies remains a challenge in the region. It is estimated that only 10% of small businesses in Latin America have access to financing from banks and commercial lenders; the other 90% depend on financing from friends, relatives, or other informal sources of capital. The absence of a robust venture capital culture and the resulting lack of early-stage lending opportunities constrict the growth of entrepreneurs hoping to impact the media landscape.

Regional consumer diversity

Another roadblock to expanded content creation in Latin America is the unique cultural and social backdrop of each country. Far from homogeneous, Latin American consumers vary dramatically in online habits and preferences. The lack of a critical consumer mass outside of Brazil and Mexico has made it more difficult for global media companies to enter and innovate.

17 Mobile Content Services Growing Fast in Latin America, Finds Frost & Sullivan, Portada, June 2010
18 Mobile Content Market in Brazil, Mobile Content Observatory in Brazil, September 2009
19 Supporting Small Businesses in Latin America, Latin Business Chronicle, June 2007
This phenomenon is further complicated by the fact that demographic changes within each country are bringing media to new consumer segments. As a result, there remains a big opportunity for local content developers to increase their own content footprint following the unique characteristics of each market.

While language disparities are most apparent, other key differences among different Latin American countries will impact how media will be received and consumed across the region:

- **Degree of digital engagement.** For instance, although online Brazilians and Mexicans are on similar in terms of fundamentals such as emailing, Brazilians demonstrate a higher level of online engagement, especially in social media.
- **Media exposure and expectations.** Given that the digital market is relatively new, it will be important to understand the appropriate allocation of traditional and digital media content for the target audience.
- **Growth of youth movement.** Youth community participation is crucial in the adoption of innovative platforms for both creation and distribution of emerging content.

### VI. How public policy can foster content development and innovation

Most public policy initiatives within Latin America place a higher priority on developing technological infrastructure than on fostering innovation in content creation. If there were greater emphasis placed on investment in content development, Latin America could see a subsequent spike in content innovation, especially in the fast-growing sectors of online and mobile.

As an example, **Start-Up Chile** is a program funded by the Chilean government to attract foreign, high-potential entrepreneurs to start their businesses in Chile. With the hope of creating a Latin American Silicon Valley, the government program provides recruited startups with a $40k grant, co-working space, and a range of local and international business contacts. While the program does not specifically focus on media, the mission to transform Chile into the entrepreneurial hub of Latin America serves as a model of government support that will help drive innovation into the industry.

Governmental support in the **Brazilian film industry** has also fostered new content creation. Through the Audiovisual and Rouanet law, private and state-owned companies established in Brazil, as well as individual taxpayers, are allowed to invest part of their income tax obligations in the production of Brazilian films. Local indie film "Trair e cocar e so começar" (Non-stop Cheating), for example, has raised 63% of its 5.6 million reals ($2.6 million) budget through the Audiovisual law. When the Audiovisual Act first passed, the 2004 Brazilian film figures nearly tripled versus the previous year and saw the largest number of Brazilian films released in nearly two decades.

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20 An Introduction to Latin American Online Consumers, June 2010, Forrester
21 Chile: The New Silicon Valley for Early-Stage Entrepreneurs, All Top Startups, January 2011
22 Brazil – Global shooting guide, Marcelo Cajueiro, American Film Market, October 2006
Conclusion

Despite lagging other regions in technology infrastructure, Latin America has been quick to adopt new trends in content creation. The emergence of user-generated content, social media and mobile platforms has fundamentally shifted how media is consumed in this region. However, companies must evolve their current business models to keep pace with the Latin American consumer.