GENERATION #HASHTAG: A NEW WAVE OF CONTENT IN THE AGE OF DIGITAL NATIVES

A Bain & Company study for the Forum d'Avignon 2014

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Executive summary

Barely a decade after digitized content challenged the reign of physical formats, a third wave of media formats and business models is taking center stage. Until recently, most digital media models sought to replicate the physical forms they replaced: e-books, downloadable music and movies, and linear video games. Now a new wave of native digital content breaks free of those formats. Long-form media downloads and sell-through models, inherited from the constraints of physical distribution, are giving way to unbundled, long- and short-form content streamed at will and monetized through subscriptions, microtransactions and advanced advertising solutions.

Bain & Company's annual survey of more than 7,000 consumers in Europe, the US and Brazil, Russia, India, China and South Africa (BRICS countries) characterizes the audience for this third wave of media: a new segment of content consumers that cuts across ages, comprising digital natives—who live and breathe the social media they grew up with—and older-than-25 digital migrants, who embrace native digital media as their primary content source. These digital-savvy consumers already outnumber analog diehards, and content formats and business models created for them are quickly gaining momentum.

While the profitability of these new models remains uneven, the rapid growth and potential value are generating tremendous interest and investment. New markets are at hand for players with a global perspective, a local playbook and the ability to create innovative business models across pervasive digital communications networks.

Beyond this next digital transformation, growth and value creation will hinge on the media industry's ability to capture its next billon consumers, mostly in emerging markets. To successfully engage those media consumers, we believe the industry will need to focus efforts in three areas.

- **Invest in native digital formats.** Innovate in third-wave media, tap into high-growth models and gather data to inform content creation and monetization.
- **Rethink the monetization playbook.** Go beyond the traditional choice between advertising and consumer purchases or subscriptions to develop a more nuanced palette of audience monetization options, with data as the core asset.
- **Strengthen the alliance between content and communications networks.** Set the right balance for content publishers, platforms and telcos to invest in and profit from the content experiences consumers will value.

Such momentous changes will ultimately call for industry transformation at the highest level. A renewed industrial policy for the content ecosystem could help ensure that all benefit from native digital content, as media companies and telcos cooperate to build a vibrant creative economy. Regulators all over the world have already begun looking into such critical issues as industry concentration and net neutrality—the question of whether carriers can prioritize users and charge more for better and faster access. With varying approaches, all should ultimately pursue a similar goal: Champion economic growth while supporting the innovation and cultural diversity that underpin it.

The end of the beginning

Our survey of more than 7,000 consumers in 10 countries points to the emerging supremacy of digital-savvy consumers, as the migration of familiar media forms to their digitized counterparts draws to an end.

All-digital consumption has become pervasive

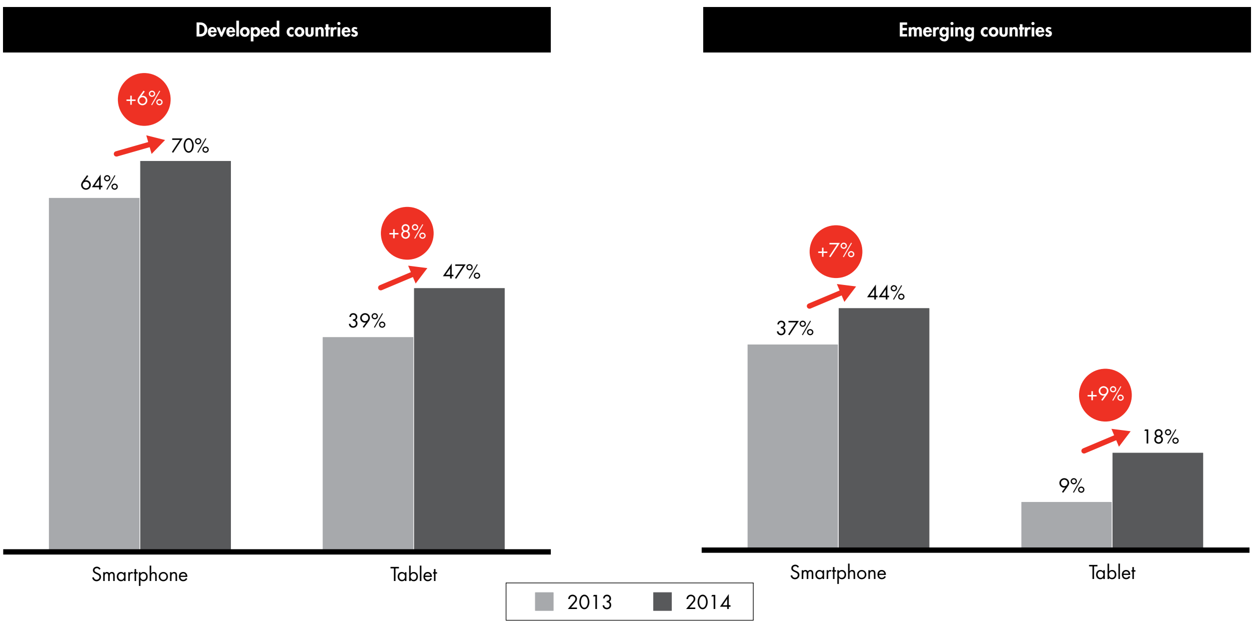
The revolution powered by tablets and smartphones, highlighted in our 2013 study, *The Age of Curation: From Abundance to Discovery*, shows few signs of abating. The arrival of cheaper models increased penetration rates, which in developed countries have reached 70% for smartphones and 47% for tablets in 2014. Among younger consumers, those numbers are even higher: 84% of 15-to-18 year-olds own smartphones. Meanwhile, 58% of those in Brazil and Russia, and 36% of consumers in China and India, said they own at least one smartphone (see Figure 1.1).

This growing penetration, combined with fast-developing communications networks, has led to a step change in the digital behavior of consumers of all ages (see Figure 1.2). In developed economies, 63% of adults older than 36 watch video online, 93% listen to digital music and 34% read e-books. The percentages for younger consumers are even higher: 87% of consumers aged 15 to 25 watch video online, 98% listen to digital music and 46% read e-books. Digital content consumption is now firmly entrenched across age groups.

The rise of digital natives

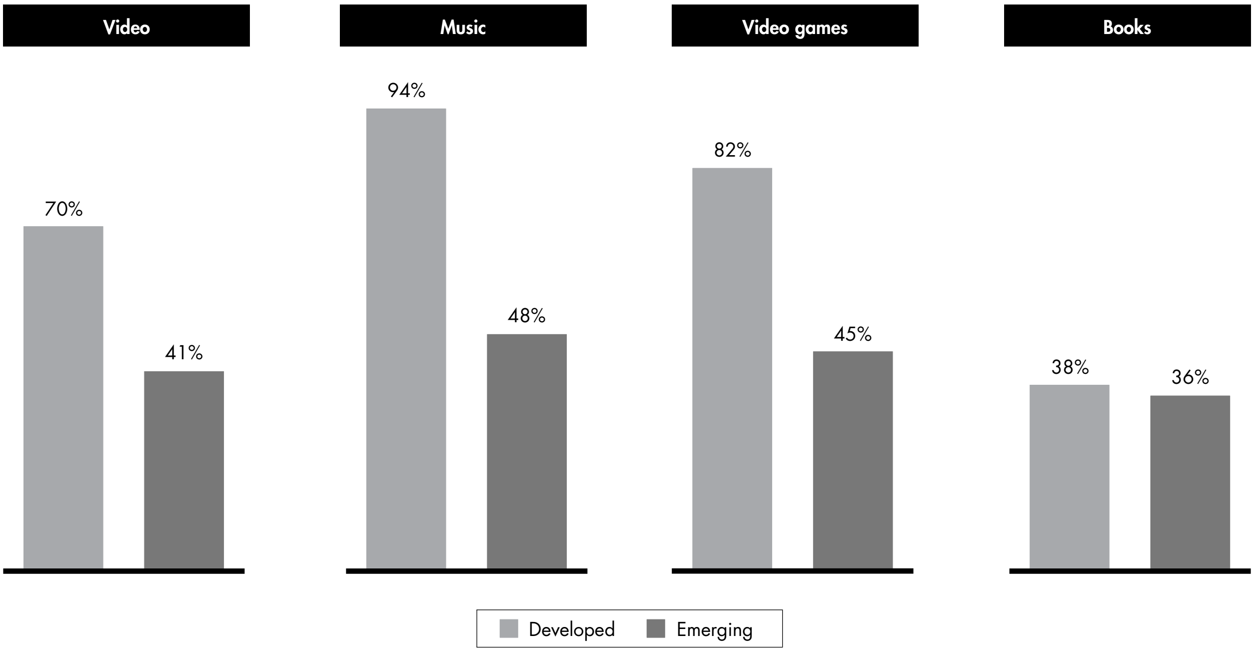
Millennials, some of whom have barely experienced physical media, are at the forefront of the digital revolution. In our survey, 20% of 15-to-18 year-olds in developed markets—nearly triple the percentage of respondents over 35—said they never use traditional media to watch videos.

Figure 1.1: Smartphone and tablet ownership continues to rise



Notes: Developed countries include France, Germany, Sweden, UK and US; emerging countries include Brazil, China, India, Russia and South Africa.
Source: Bain consumer survey (n=7,098)

Figure 1.2: Digital media consumption by media type



Source: Bain consumer survey (n=7,098)

Stark differences emerge between these digital natives and older consumers *(see Figures 1.3 through 1.5)*. Younger consumers rely more on their social networks to select media content: More than two-thirds of respondents aged 15 to 25 in developed countries said they choose video, music and books based on social recommendations, compared with fewer than half of those older than 35. Digital natives have spurred the growth of fresher-faced alternatives to YouTube, iTunes and even Facebook for consuming content, even as people over age 35 have embraced these platforms. Younger consumers also have a different take on data privacy: In developed countries, 57% of those 25 or younger would forego personalized recommendations to ensure their data remains private, compared with three-quarters of adults older than 35.

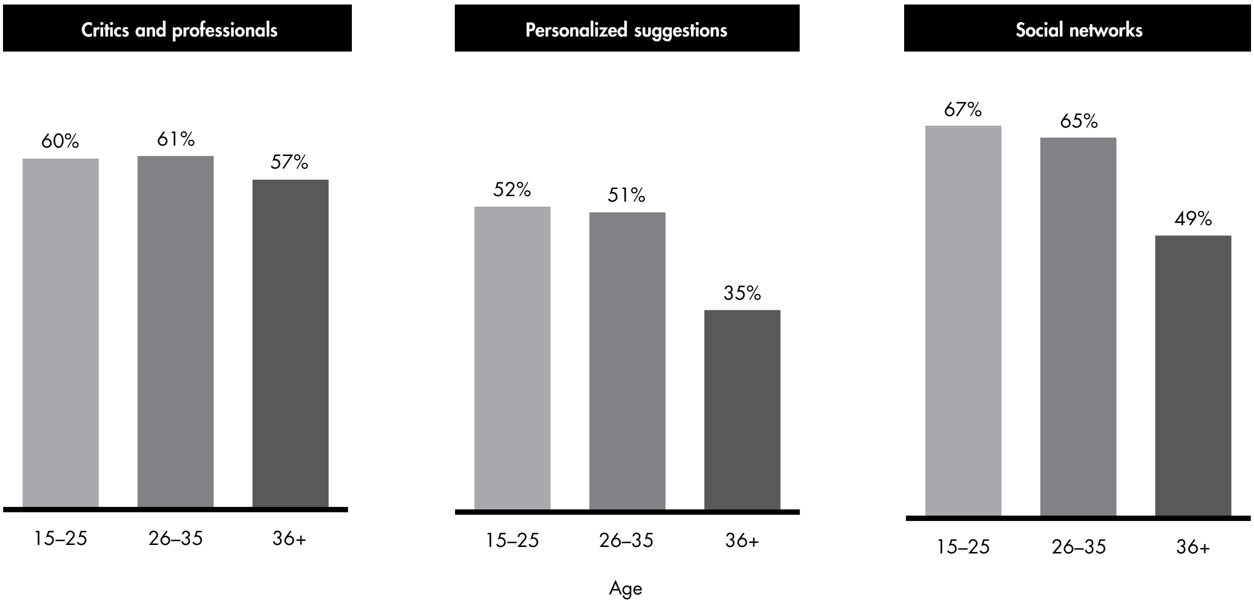
Digital migrants closing the generation gap

Still, age alone is too narrow a way to segment the next generation of content consumers. People younger than 35 may consume more content digitally, but consumers who are over 35 are following quickly, closing the gap, for example, on video and music *(see Figure 1.6)*.

Early digital breakthroughs in media, such as the iPod, helped users of all ages create a personal media consumption experience. In doing so, they helped produce what some called the iGeneration, a nod to the new levels of personalization brought by digitized media and to Apple's role in democratizing them at the same time. A decade later, a new social layer has been built around these technologies.

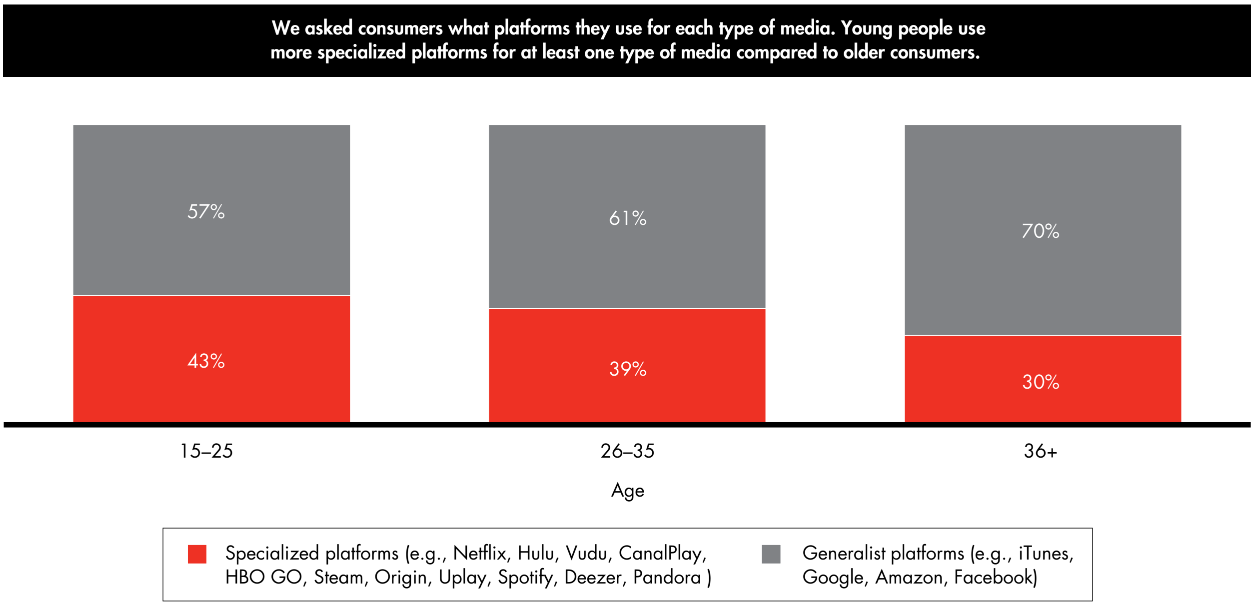
In our view, this next step brings a renewed sense of community to the digital content experience and marks the advent of Generation #hashtag. This new generation cuts across ages, including digital natives who grew up using social media, along with consumers older than 25 who favor digital media for their content.

Figure 1.3: Younger consumers rely more on recommendations from social networks



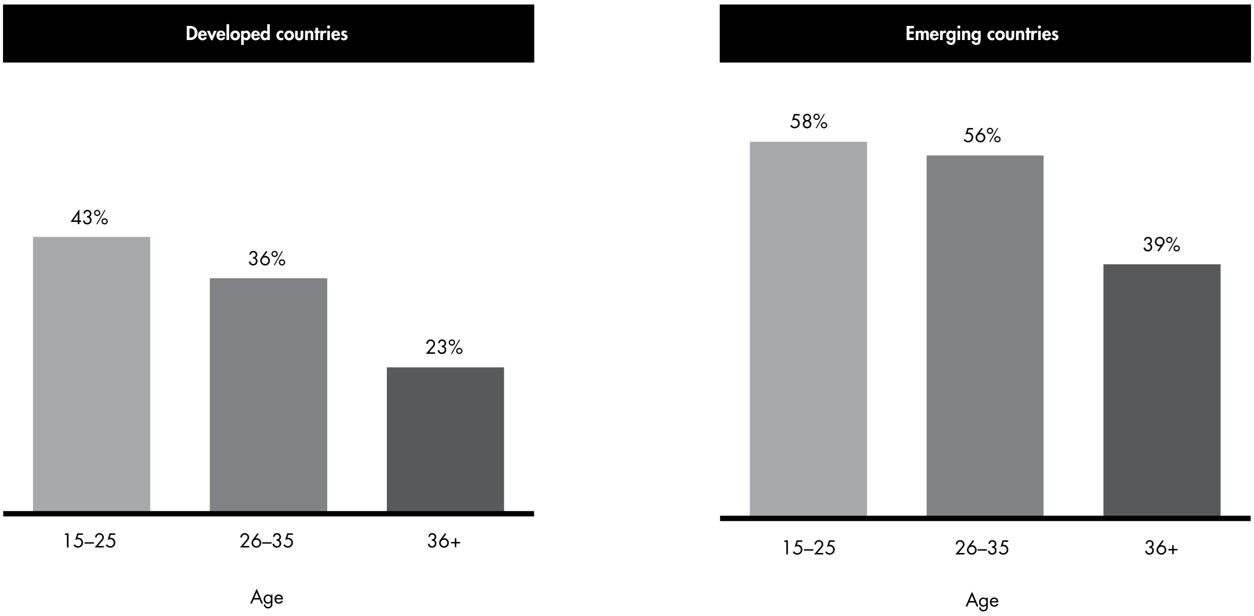
Note: Data is for these developed countries: France, Germany, Sweden, UK and US.
Source: Bain consumer survey (n=4,565)

Figure 1.4: Younger people use more specialized platforms



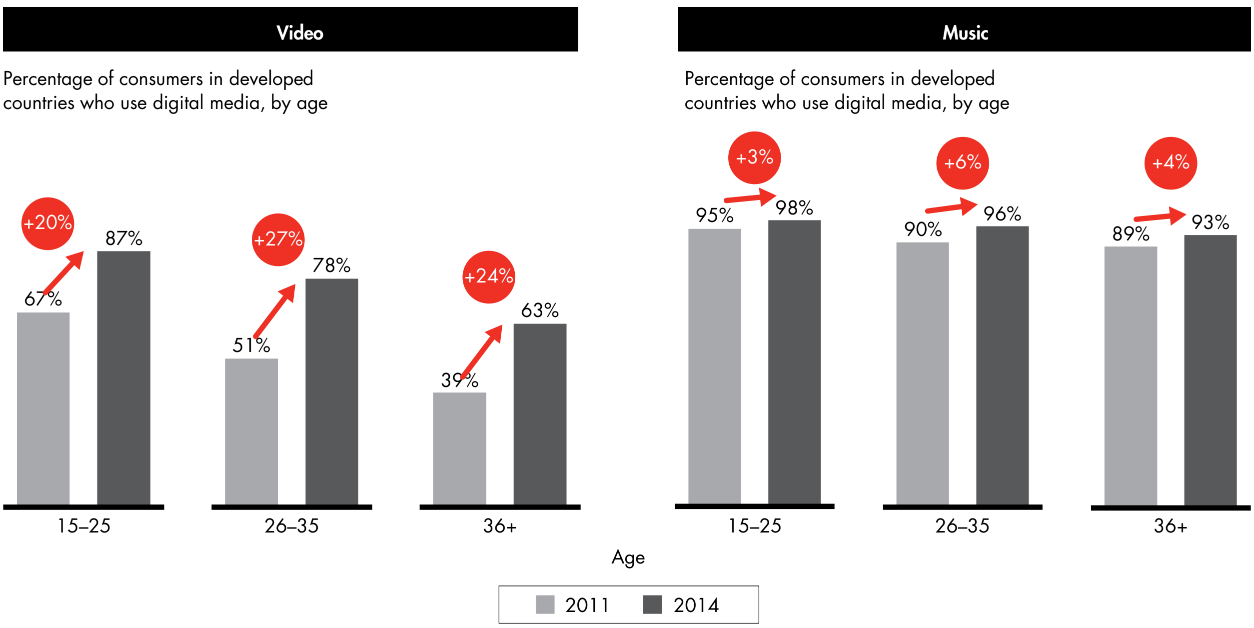
Note: Data is for these developed countries: France, Germany, Sweden, UK and US.
Source: Bain consumer survey (n=4,565)

Figure 1.5: Younger consumers say they are more willing to trade personal data for recommendations



Notes: Developed countries include France, Germany, Sweden, UK and US; emerging countries include Brazil, China, India, Russia and South Africa.
Source: Bain consumer survey (n=7,098)

Figure 1.6: Digital migrants are closing the generation gap as older users embrace digital forms



Note: Data is for these developed countries: France, Germany, Sweden, UK and US.
Source: Bain consumer survey (n=4,565)

Native digital formats on the rise

Only a decade after digitized formats caused an upheaval in the media industry, Generation #hashtag changes the rules once again—bringing to the table new formats and players.

As the first digital transition ends, another begins

Digital is fast becoming the dominant model of media delivery. All media have now developed digitized counterparts: The song download has largely replaced the CD, streamed movies are replacing DVD rentals, TV shows can be watched on demand and on a variety of screens, and even blockbuster video games can be downloaded. Powerful companies were born from this shift, such as digital video powerhouse Netflix, or reborn, like Apple, thanks to its iTunes store.

In this transition, however, digital content initially remained a lot like its physical counterpart. Creation remained in the hands of movie studios, music majors, AAA game developers and book publishers. Consumers retained ownership over their purchases, and the prevalent monetization model was based on the purchase price of products, translated directly from the physical models.

Native digital models reconfigure the media playbook for a fully digital world. Start-ups use always-on networks, social media, user-generated content and crowdsourcing to address the needs of the next generation of content consumers. Holding no analog legacy, they are changing the rules of content creation, distribution and monetization. The long-form downloads and purchasing models, which were based on constraints of physical distribution, no longer apply. The new model delivers unbundled, short-form content streamed at will and monetized through subscriptions, microtransactions and advanced advertising (see Figure 2.1).

Figure 2.1: Three waves of media by format

	Physical	Digitized	Native digital
Music	• CDs and vinyl records	• MP3 downloads e.g., Apple iTunes	• Music streaming • Social sharing e.g., Spotify, SoundCloud
Video	• Linear television • DVDs and Blu-rays	• Video downloads • Video on demand e.g., Catch-up TV, Netflix	• User-generated, low-cost video streaming e.g., Twitch, Maker
Video games	• Cartridges and DVDs	• Packaged game downloads e.g., Steam, Uplay	• Mobile, casual • Massively multiplayer e.g., King, Riot
Publishing	• Printed books	• E-book downloads e.g., Amazon Kindle	• Unlimited e-book services • Self-published shorts e.g., Oyster, Kindle FreeTime

Source: Bain & Company

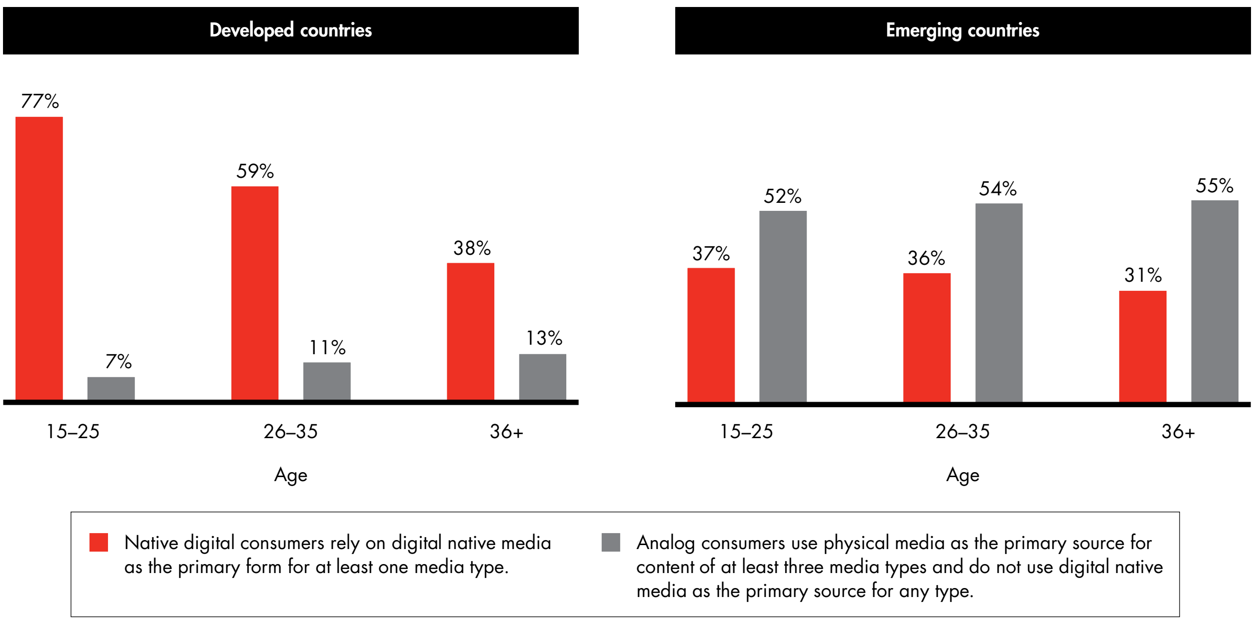
Native digital formats and models are spreading across media

Many of these start-ups have already acquired sizable user bases and market clout. Spotify's unlimited music service, for instance, reached more than 40 million active users in only six years. Twitch, a video-streaming website for gamers, launched in 2011, already attracts 45 million unique viewers per month. Supercell, a developer of socially oriented casual video games, grossed close to $1 billion in 2013, its third year of existence. King, the maker of the smash-hit game *Candy Crush Saga*, went in one year from 100 million monthly unique users to 350 million. These players, and more, are fast turning music, video and gaming into native digital ecosystems. Even book publishers, who have struggled to move beyond a depressed physical distribution network, are beginning to innovate by combining text, video, music and interactivity in the educational and children's genres. Amazon is experimenting with short-form e-books like Kindle Singles, which resemble short stories or lengthy magazine essays but differ from those original forms in that they are sold separately with price points around $1 to $3.

Starkly illustrating the rise of Generation #hashtag, these new formats have started to propagate beyond younger, digital-native consumers. While respondents 25 and younger clearly lead the adoption of native digital media, we saw a material share of consumers older than 25 in both developed and emerging markets who have already migrated to third-wave media (see Figure 2.2). As a result, consumers of native digital content already outnumber analog diehards today.

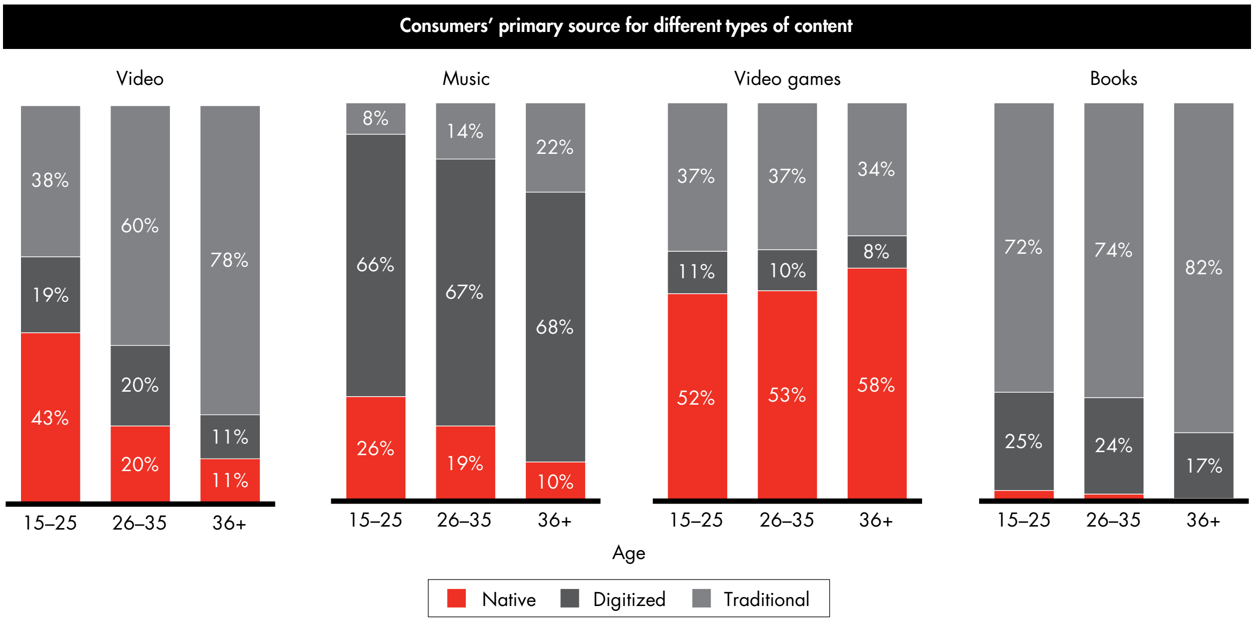
We found that 11% of those over 35 in developed countries are watching mostly streaming videos rather than downloaded digital video or TV, and 10% are listening to streaming music, compared with 43% and 26%, respectively, for consumers aged 15 to 25 (see Figure 2.3). Interestingly, the percentage of older consumers who play

Figure 2.2: Native digital formats are on the rise and beginning to dominate in developed markets



Notes: Developed countries include France, Germany, Sweden, UK and US; emerging countries include Brazil, China, India, Russia and South Africa.
Source: Bain consumer survey (n=7,098)

Figure 2.3: Native digital formats are favored by younger users, and in video games all ages prefer them



Note: Data is for these developed countries: France, Germany, Sweden, UK and US.
Source: Bain consumer survey (n=4,565)

mobile and "freemium" games is actually higher than that of respondents aged 15 to 25—58% compared with 52%. This may be because younger gamers prefer—and have more time for—long-form console games, whereas their older peers are devoting less time to their gaming habits and so prefer shorter digital games.

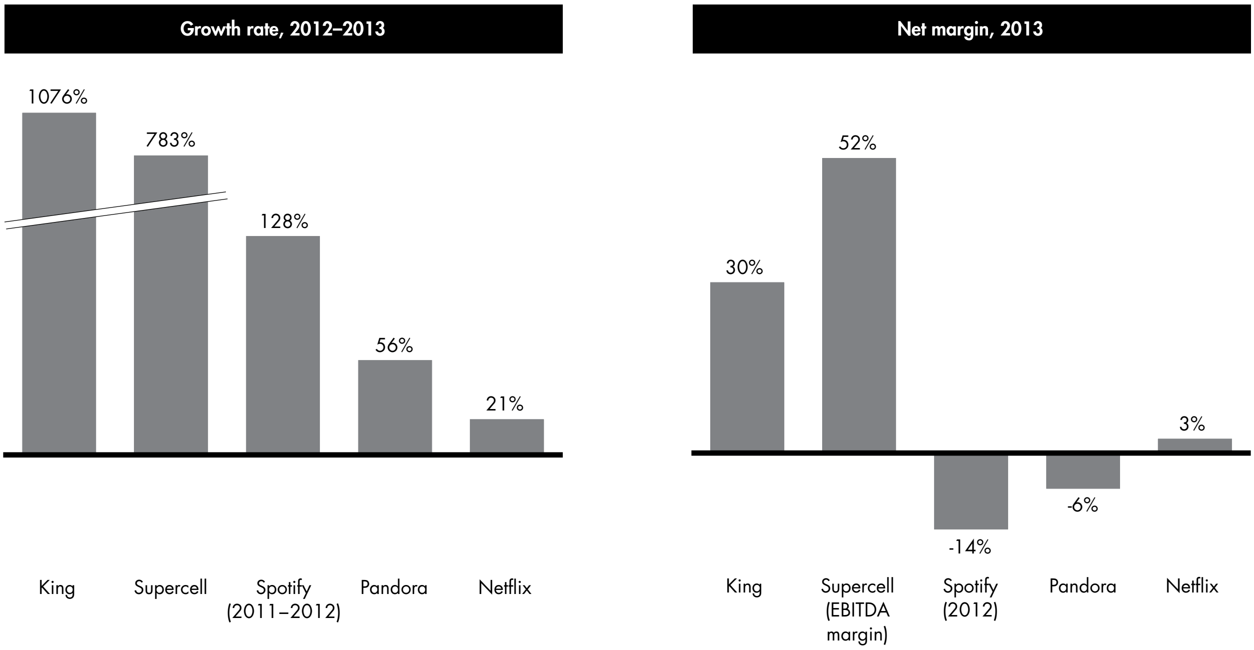
Although delivery systems are adapting to this third wave of media, content forms are just beginning to shift. Games may be the furthest along, as shown by the success of short-form games developed with smartphone screens in mind, such as Candy Crush Saga. While the video and music industries still focus mostly on producing traditional content, some creators are developing new forms of native digital media. SoundCloud, for example, offers a platform for musicians to share sounds or bits of music to prompt creativity among its wide user base.

Promised land or race to the bottom?

In spite of all this activity, many native digital disruptors have yet to show resilience. To date, the value created from native digital models has varied widely by category (*see Figure 2.4*).

In music, Spotify is investing to grow its user base and to drive a switch from its free, ad-supported model to its subscription-based product. As a result, while its revenue more than doubled from $253 million in 2011 to $576 million in 2012, its losses also increased from $60 million to $77 million over the same period. Netflix appears to have adopted a similar "land grab" strategy in the video market. As it focuses on growing its worldwide footprint and strengthening the content it offers with star-studded productions, its EBIT margin has dropped from reassuring double digits over the two-year period from 2009 to 2011 to 5.2% in 2013. For now, investors take comfort in its impressive expansion: Its 27% growth rate between 2009 and 2013 resulted in a tenfold share price increase over the same period.

Figure 2.4: Growth and profitability profiles of native digital players



Sources: Annual reports; the *Wall Street Journal*

Conversely, leading third-wave video-game publishers have already achieved spectacular profitability levels. For example, King, the maker of *Candy Crush Saga*, saw a more than tenfold revenue increase in 2013, as sales skyrocketed to $1.88 billion from $164 million in 2012. Supercell, the maker of *Clash of Clans*, achieved an EBITDA margin of 52% while increasing sales ninefold in 2013. For these players, however, the issue is the opposite of the one Spotify and Netflix face: Profitability soars as sales of new hits take off, but growth is dangerously fickle. Former gaming superstar Zynga saw its revenue drop by 32% in 2013 as interest withered in *FarmVille*, its key franchise, and as other launches failed to replace it. Zynga's EBITDA margin dropped from 17% to 5% that year. Rovio Entertainment, the maker of *Angry Birds*, may suffer the same fate: Growth stalled in 2013, forcing the company to slash its net margin in half to try to get the engine going again with investments.

Such examples could be anecdotal were it not for these players' prominence. As users migrate en masse to models that sometimes tend to prioritize share over monetization, fears emerge that industry revenue and profit pools may dry up. Enticed by the promise of free, innovative services, users are becoming accustomed to paying ever less for content—yet they sometimes end up generating more value through microtransactions and new forms of advertising. Cracking monetization on native digital media is, yet again, one of the key challenges the industry needs to address.

The next billion content consumers

As developed economies continue to face deep value shifts, new markets will come online, opening up a vast revenue pool for those media companies able to navigate it.

Competition overheats in developed economies

Traditional media companies and content producers have established firm footings on digital platforms, as digitized formats have become paramount to the distribution of marquee content and franchises. For example, Beyoncé's eponymous 2013 album was released overnight as an iTunes exclusive, successfully generating enthusiastic free promotion from surprised journalists and bloggers.

At the same time, physical distribution still represents a major, if declining, revenue stream for most content industries. In fact, 66% of respondents in developed countries still use physical media as a primary source of content for video, 19% for music, 35% for video games and 80% for books. Yet the ears, eyes and fingertips—as well as the dollars associated with them—of that native digital media gain come at the expense of such models, giving the industry's established players new headaches.

For once, traditional media players are not alone in worrying about organic growth prospects. Global digital players also seem to worry about their innovation mojo and ability to capture the attention and spend of Generation #hashtag. Both groups are dipping their toes into the native digital pool, mainly through acquisitions. Disney purchased the YouTube multichannel network Maker Studios for $500 million—plus $450 million if it meets growth targets. Apple acquired Beats, which runs a music-streaming service on top of selling premium-priced headphones, for $3 billion—$2.6 billion in cash and $400 million in stock. It was Apple's largest acquisition ever and happened the same year its music downloads decreased for the first time. Amazon purchased Twitch, a live-streaming platform focused on the fast-growing entertainment form of video-game spectating, for $970 million. Such competition from deep-pocketed companies has fueled a renewal in M&A activity and an increase in acquisition prices, raising the blood pressure of CFOs across the industry.

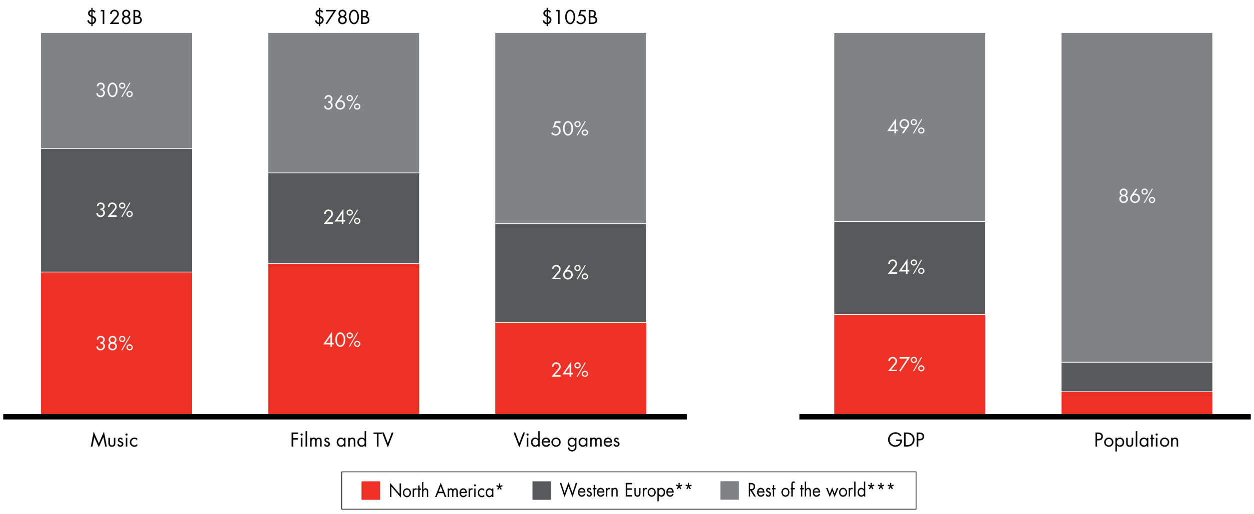
Growth will come from emerging markets

As much as these shifts put media and content profit pools under pressure across developed markets, such tensions may become irrelevant in the bigger economic picture. Today, media markets remain exceedingly concentrated in these few mature geographies. In 2013, Western Europe and North America still accounted for as much as 70% of music, TV and film industry revenues (*see Figure 3.1*). Yet as Generation #hashtag rises globally, vast new markets will create significant opportunities for players with global reach and ambition, as well as for local and regional leaders.

Across the BRICS countries, the percentage of consumers 25 and younger—who are, on average, 40% more prevalent than in developed economies, according to Euromonitor—suggests the rapid rise of Generation #hashtag in emerging markets. At the same time, developing economies are catching up quickly on smartphone and tablet penetration, as noted in our 2013 survey. Over the past year, smartphone ownership rose significantly in emerging markets: from 45% to 50% in China, 14% to 21% in India, 45% to 54% in Brazil and 45% to 63% in Russia. Tablets are gaining traction, too: One in four respondents in China said they own a tablet, 8% in India, 23% in Russia and 22% in Brazil. Younger demographics combined with better access to connected devices suggest the rapid growth of Generation #hashtag across emerging countries (*see Figure 3.2*).

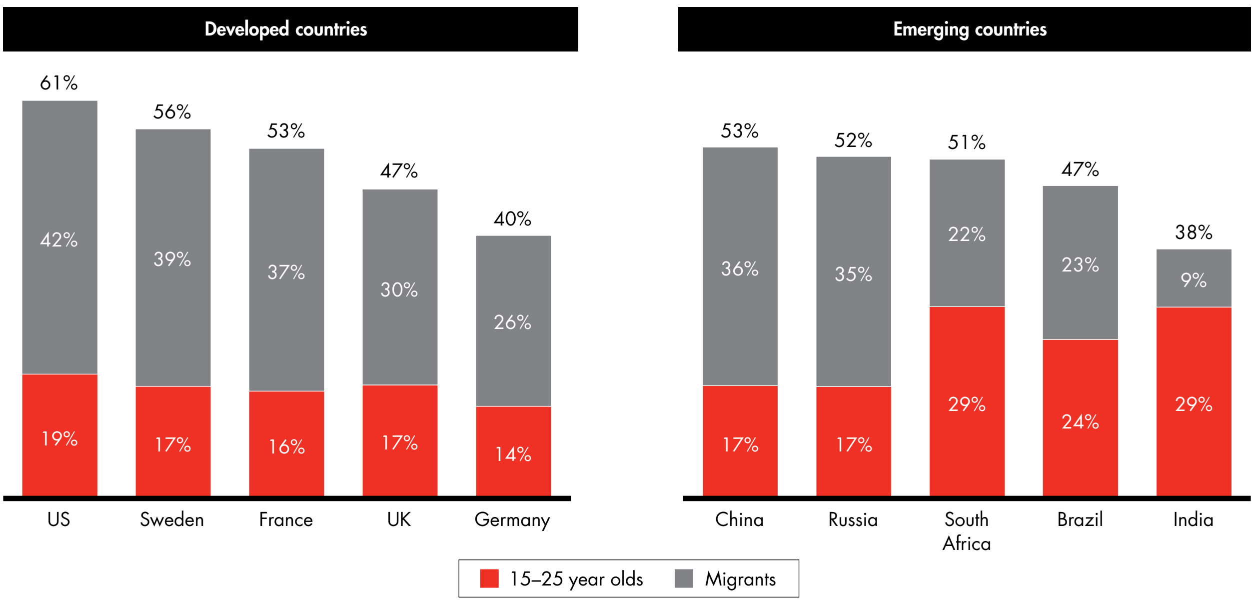
Figure 3.1: Industry revenue by media and by region

GDP and population vs. industry revenues for music, films and TV, and video games, by region in 2013



* Canada, US
** Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK
*** Central and Eastern Europe: Czech Republic, Hungary, Poland, Romania, Russia, Turkey; MEA: Israel, Saudi Arabia, Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, the United Arab Emirates, South Africa; APAC: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam; LATAM: Argentina, Brazil, Chile, Colombia, Mexico, Venezuela
Sources: Euromonitor; PricewaterhouseCoopers; Bain analysis

Figure 3.2: Generation #hashtag makes up more than half of digital consumers in some markets



Note: Percentage of Generation #hashtag is the percentage of the population aged 15 to 25, plus the percentage of migrants (those 26 and older using native media as their primary source of content for at least one media).
Source: Bain consumer survey (n=7,098)

This leveling of the global playing field starkly contrasts with the significant gap poised to remain between emerging and developed markets in disposable income and physical distribution infrastructure. In our view, this suggests the opportunity for emerging markets to leapfrog legacy distribution and monetization models to finally provide a viable alternative to piracy in the BRICS countries.

With consumers, freemium models could help early movers capture a large user base and monetize the growing sliver of the population that can afford a better service and experience. The opportunity appears equally large for business services, as the audiences and data built up through native digital services could be used for marketing purposes to reach the next billion consumers.

Once again, media companies must adapt to survive, but this time they also have a vast new opportunity. Challenged in their core markets, they see huge growth prospects abroad. As native digital models gain traction, industry leaders will need to rethink their approaches to content creation, distribution and monetization.

Riding the third wave

Overall, the return to long-term value creation hinges on capturing growth from Generation #hashtag globally—and on overcoming several longstanding challenges in the process.

Invest in native digital formats

It takes a different content approach to operate in a native digital world. Hit casual games *2048* and *Flappy Bird* were each created in a few days by single developers, whereas *Assassin's Creed IV: Black Flag* took hundreds of developers and years of work to develop. Many YouTube stars reached global fame with little more infrastructure than a webcam and a dorm room.

Despite the apparent simplicity of such content, media companies will need to operate differently in order to succeed in this environment of thin margins, community orientation and trial-and-error releases. Content generation needs to transition from strictly top-down approaches to mixed models, including bottom-up and crowdsourced elements.

Disney's acquisition of Maker Studios was not only an opportunity to secure a strong foothold in Generation #hashtag with 380 million subscribers but also to obtain firsthand expertise in the algorithms that draw audiences in the era of native digital media. With this move, Disney can experiment freely without risk to its primary brands while also developing new data analytics capabilities and applying them to Disney-branded content online. In the video-game industry, Epic Games is the main middleware vendor supplying the software engines that power AAA games from traditional publishers, while it also crowdsources the next version of *Unreal Tournament*, one of its marquee franchises. Sony Computer Entertainment is investing millions in the next generation of its award-winning Uncharted series. At the same time, a nearly forgotten game for Sony's Playstation, *Amplitude*, is being revived by game developer Harmonix Music Systems, thanks to crowdsourced funding through Kickstarter. Media groups may need to relearn how to balance heavy-hitting franchises with a longer tail of small, innovative projects led by users and innovators around the world.

Organizations will need to adapt to new formats as well. They must do this not only to mimic the low-cost models of garage-dwelling start-ups that are more in line with native digital monetization models, but also to make them the more open innovation models that combine internal and external expertise as well as established and emerging talent to create differentiating content.

Rethink the monetization playbook

Few companies have cracked the code on profits for native digital formats. Many community-oriented services, which require a lot of customers to reach a critical scale and deliver value, roll out free models to promote fast growth. Even subscription models are lower than traditional counterparts. Netflix recently increased its monthly streaming subscription by $1, but its price of $8.99 is still affordable and attractive in the US market—so the $1 increase didn't result in too many lost customers.

The revenue potential and investment case for capturing Generation #hashtag and for native digital models may appear unattractive to players accustomed to richer spoils. Yet as consumers across developed and emerging markets jump in, their wallets and those of advertisers are likely to follow. Leapfrogging traditional models, native digital media will be critical to accessing this revenue pool—the composition of which may differ significantly from that of past markets.

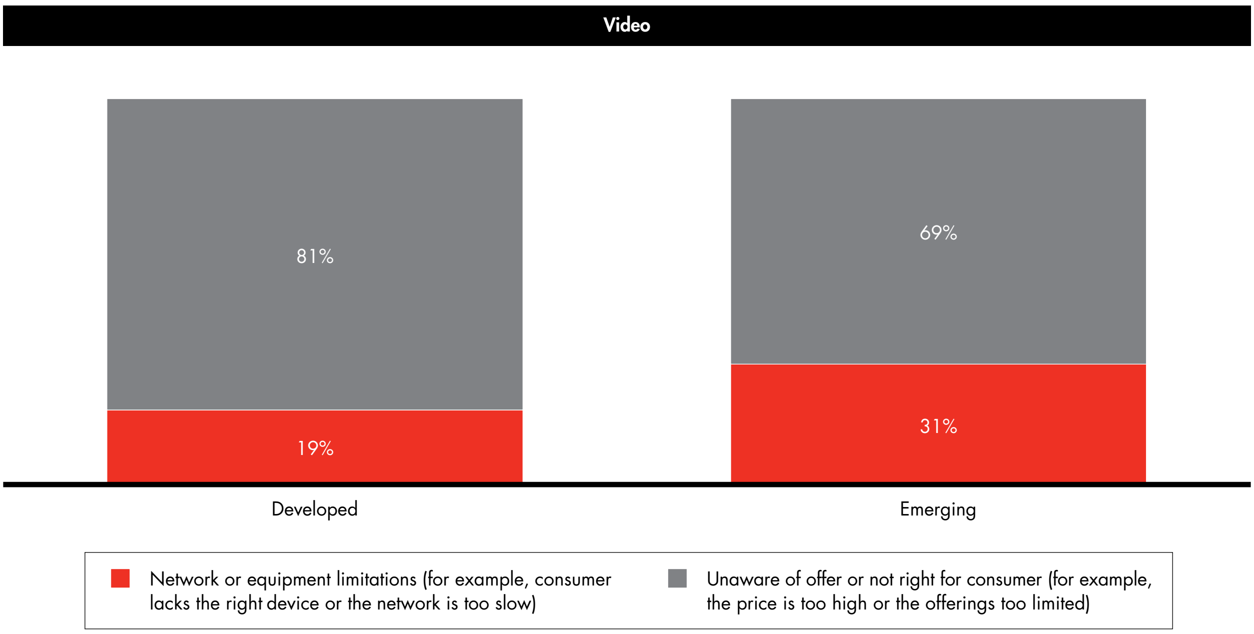
Freemium models provide a path to monetization by upselling from a free service to premium options. Another revenue model taps the inherent data richness of native digital content. Data stashes have value on the B2B market—as Facebook and LinkedIn have demonstrated successfully. Monetization opportunities based on data could prove essential in countries where consumers have less money to spend on media, as the industry continues to try to find a balance between consumer-pay models and advertising. Media companies may use a portfolio approach, selecting various combinations of business models in each market. In a global, data-driven marketplace in which willingness to pay differs from one place to another, the choice between advertising and consumer-pay may even become tactical rather than strategic. Navigating this evolution with agility will become a prerequisite for survival in the native digital era.

Strengthen the alliance between content and communications networks

Consumers who want to stream high-quality, third-wave video, games or music depend on always-on networks and lightning-fast connections. While the availability of relevant content remains the primary driver for adopting new media platforms, access to the right technology follows closely as a key enabler (*see Figure 4.1*).

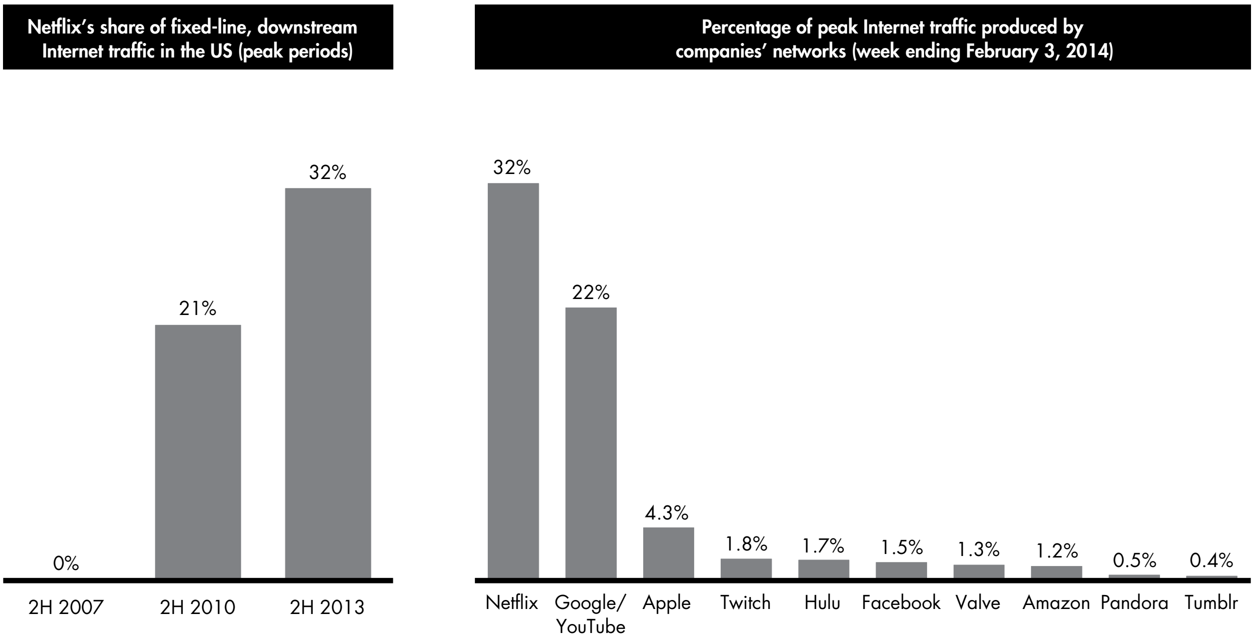
Telecom operators around the world face enormous challenges upgrading their networks to the levels that evolving media distribution models require. Already in the US, streaming video on Netflix accounts for about one-third of downstream traffic during peak evening hours, straining the capacity of telecom pipes in spite of rollouts of fiber and 4G technologies (*see Figure 4.2*). The introduction of 4K video will further strain networks' abilities to deliver high-quality video experiences. Media players cannot hope to continue innovating and providing richer content experiences to consumers without further network investments.

Figure 4.1: Main reason not to subscribe to a streaming video-on-demand service



Source: Bain consumer survey (n=7,098)

Figure 4.2: Content delivery platforms dominate downstream network traffic in the US



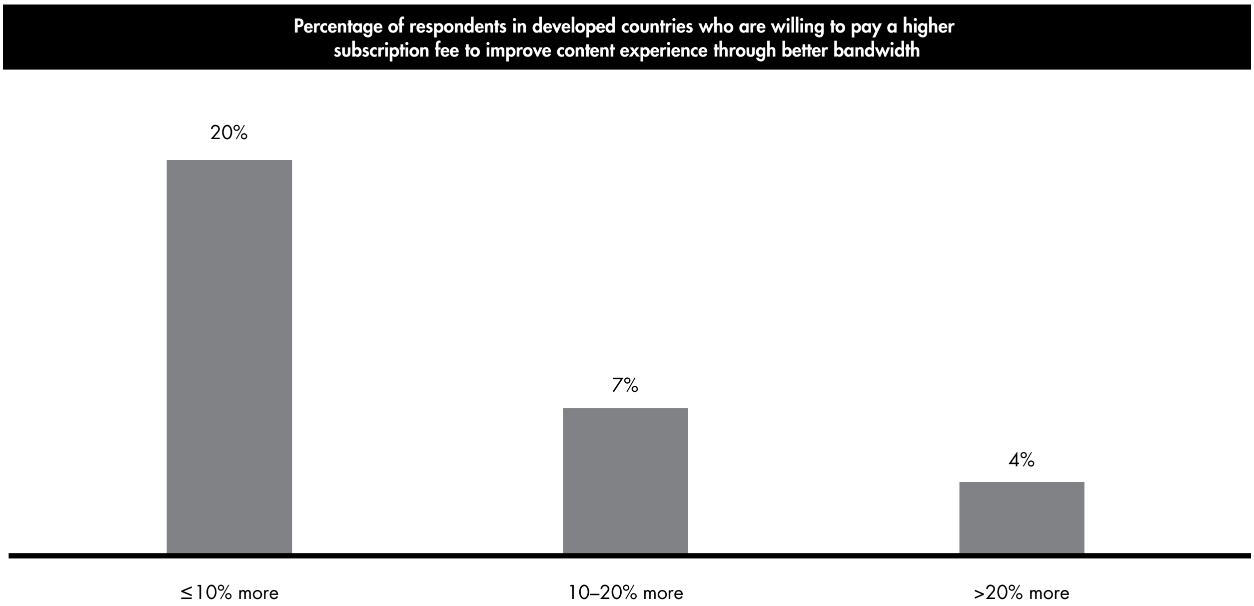
Sources: Sandvine's Global Internet Phenomena Reports; the *Wall Street Journal*; DeepField

The debate over net neutrality—that is, whether telecom carriers can deliver different access and speed to various providers based on the amount they pay or other criteria—is critical to the future of both industries. Telecom and media executives must work together with regulators to strike the balance between excessive regulation that could dampen telcos' incentives to support the content ecosystem and too little regulation that results in a system where market forces may crush diversity and deter consumers.

Already relationships are tense between video-streaming services and telcos. In the US, both Netflix and YouTube have taken to publicly shaming carriers when their customers receive less bandwidth than they need to watch high-definition video. Similar debates occur in Europe—for example, in the UK in 2008, after the BBC's iPlayer streaming service took off beyond expectations. More recently, in France, Free was accused of blocking or hindering YouTube videos. In the US, Netflix has signed peering agreements with AT&T, Comcast, Time Warner Cable and Verizon to guarantee its access to Internet backbone connectivity and improve streaming quality for its customers in exchange for fixed fees.

However, we also see some examples of successful collaborations as telecom operators discover the positive impact on revenue and churn of over-the-top (OTT) app usage, including streaming media. Commercial arrangements between OTT content providers and telecom operators are becoming widespread, either through dedicated apps set up directly into set-top boxes and handsets or through the exclusion of their data consumption from contractual data caps. In France, telecom leader Orange has teamed up with music-streaming service Deezer, a deal aimed at improving Orange's penetration of the home market while differentiating Deezer's service in a highly competitive market.

Figure 4.3: Nearly one-third of consumers would pay more for better access



Note: Data is for these developed countries: France, Germany, Sweden, UK and US.
Source: Bain consumer survey (n=4,565)

Governments also play a key role, including but not limited to their authority over competition laws. In France, the audiovisual regulation authority Conseil supérieur de l'audiovisuel (CSA) recently suggested that digital platforms could gain differentiated access to bandwidth in exchange for a measurable commitment to invest in locally produced content.

Against this ongoing, sometimes heated debate, our survey indicates that more than 46% of respondents in developed economies are open to some form of differentiated network access. We found that 31% were willing to pay more for high-speed access and, conversely, 23% were willing to sacrifice the quality of their content experience if they could pay less *(see Figure 4.3)*.

Conclusion

As in most industries, the growth in media is centered in developing markets rather than in the mature economies of Europe and North America. Unlike many of those other industries, however, the form of media products is shifting so rapidly that media companies, in order to tap that growth, must learn not only how to play in new markets but also how to develop and publish an entirely new wave of native digital forms favored by consumers too young to remember life before the Internet.

We consider these native digital forms to be the third wave of media—the first being the original long formats of books, newspapers, movies, TV shows, music albums and console video games; the second, the digital formats that electronically mimicked those same forms so they could be delivered online. Now the formats have broken free of their legacies: Digital natives prefer short-form videos, single tracks and music riffs, and aggregated news and social content that are easy to browse and digest. The future success of media companies will depend on how well executives and creators learn to understand and embrace the preferences of this new generation of consumers, whom we call Generation #hashtag.

Such a dramatic change will require transformations at every level of the industry, from regulation to content creation and distribution. Business models are changing, too. As a larger share of the world's media consumption shifts to developing markets where consumers have less money to spend on music, video and other formats, media companies will need to look beyond their traditional advertising and consumer-pay models to new opportunities that make better use of the data exhaust, the by-product of digital transactions. They will also need to form new partnerships across the media, telecom and technology industries—sometimes with competitors—to ensure that the playing field remains open enough to allow innovation while regulated enough for the climate to remain attractive to new investment.

Notes on methodology

Bain & Company conducted an online survey in July 2014 with a panel of 7,098 people over the age of 15. Representative of national populations according to gender, age, region and income, this included: 1,014 in France; 1,007 in the UK; 1,035 in the US; 998 in Germany; 511 in Sweden; 501 in Russia; 509 in Brazil; and 506 in South Africa. It also included 510 people in urban India and 507 people in urban China, who are representative of the urban populations according to gender, age and region.

Notes on figures

Penetration rate of connected devices: percentage of people who own each device.

Penetration rate of digital media by region: percentage of respondents who use some form of digital media, including digitized media and native digital media.

Sources of recommendation: percentage of respondents using critics and professionals; percentage of respondents using personalized suggestions; percentage of respondents using social networks by age group.

Penetration rate of specialized platforms: percentage of people using generalist platforms (iTunes, Google, Amazon, Facebook) for at least one media vs. percentage of people using specialized platforms (Netflix, Hulu, Vudu, CANALPLAY, HBO GO, Steam, Origin, Uplay, Spotify, Deezer, Pandora) for at least one media.

Trading personal data for recommendations: percentage of "connected" respondents who are willing to trade their personal data in exchange for personalized recommendations, for all media by age group, for developed countries and emerging countries.

Digital migrants closing generation gap: percentage of respondents who use some form of digital media, including digitized media and native digital media, in 2014 compared with 2011, by age group for video and for music.

Native digital formats are on the rise (1/2): by geography (developed vs. emerging) and by age group, percentage of native digital consumers (those for whom native digital media is the primary source of content for at least one form of media) compared with the percentage of analog consumers (those for whom physical media is the primary source of content for at least three media, and for whom native digital is never the primary source of content).

Native digital formats are on the rise (2/2): by media and by age group, percentage of respondents for whom native digital media is the primary source of content, along with the percentage of respondents for whom digitized media is the primary source of content, and the percentage of respondents for whom traditional media is the primary source of content.

Penetration of Generation #hashtag by country: by country, percentage of population aged 15 to 25 plus percentage of migrants (those 26 years and older who use native digital media as their primary source of content for at least one type of media).

Main reasons not to subscribe to streaming video-on-demand (SVOD) service: by geography (developed vs. emerging) percentage of respondents not subscribing to SVOD service due to network or equipment limitations (for example, they don't have the right device or the network is too slow) compared with the percentage of respondents who do not subscribe to a streaming service because they aren't always aware of it or the offer is not right for them (too expensive or too limited).

Willingness to pay extra to ensure better content experience: for developed countries, percentage of respondents willing to pay up to 10% extra, vs. from 10% to 20% extra vs. more than 20% extra for an improved content experience through better bandwidth.

External sources

Amazon, Apple, DeepField, Disney, Entertainment, Time, Euromonitor, King, Netflix, Ovum, Pandora, PWC, Rovio Entertainment, Sandvine, Spotify, Supercell, the *Guardian*, the *Wall Street Journal*, Twitch and Zynga.

Key contacts and Acknowledgments

Forum d'Avignon

The Forum d'Avignon aims to strengthen the links between culture and the economy, suggesting subjects for reflection at global, European and local levels. The Forum was created after the ratification of the UNESCO convention on cultural diversity and, since its beginning, has been backed by the French Ministry of Culture and Communication. With its partners, the Forum organizes international meetings each year, which provide opportunities for unique discussions and exchanges among participants from the worlds of culture, the creative industries, the economy and the media.

A think tank dedicated to culture. Each year the Forum d'Avignon publishes new studies highlighting the essential links between culture and the economy on themes suggested by its advisory board. Throughout the year these themes are examined and proposals are put forward by working groups organized by the Forum with experts, international consulting firms, and its public and private partners. The Forum's think tank tackles subjects such as culture, financing and economic models; culture and attractiveness of the territories; culture and digital; and culture and innovation.

The international meetings of culture, the economy and the media. An international and cross-sector event with performances by artists as well as lively debates, the Forum d'Avignon is a field for reflection, which explores the economic dimension of culture and the roles of social cohesion and job creation in cultural areas. The Forum brings together concrete proposals, unique networking opportunities, heritage and innovative discoveries. The directions explored each year are disseminated among national and international authorities. More than 400 committed people come together: artists, chairmen, writers, professors, film directors, philosophers, students from international universities and representatives of the creative and cultural industries. The diverse points of view are also symbolized by the cosmopolitan diversity of the speakers, who come from all over the world.

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