
Chazen Society Fellow Interest Paper

Media in Emerging Markets

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The state of the media business in the United States isn't very pretty. Traditional media companies, especially those with legacy assets in print publishing, have been struggling to retool their business models for the digital age. In emerging markets, however, the story is different. In these markets, both old and new media are booming, partly because of economics and partly because of technology. As the global economic recovery hastens, media markets in developing nations are likely to grab a bigger share of worldwide revenue. And companies based in developing nations are poised to move from national champions to global leaders.

Throughout the developing world, macroeconomic growth has led to increased wealth and a burgeoning consumer class. This, in turn, has attracted the interest of advertisers both local and global. With more disposable income, the demand for news and entertainment has also increased. Emerging economies from Brazil to India have seen a proliferation of television and print outlets in the past decade.

In the United States and other developed markets, the widespread availability of high-speed Internet, especially via broadband, helped make the Web the ubiquitous, disruptive force it is today. Since many developing markets lack much broadband infrastructure, Internet penetration rates among households in those countries remains relatively low. As a result, "old technologies" such as print and radio still have a significant value proposition for media companies and consumers. In fact, in places such as sub-Saharan Africa, where broadband fiber hasn't been widely laid, we see next-generation wireless and satellite technologies coexisting with an abundance of print outlets. For example, the Internet penetration rate in Nigeria remains

relatively low at 7.4 percent,¹ even as satellite television providers HiTV, DSTV and DaarSat compete fiercely on both price and programming options.²

Media businesses have traditionally been supported — at least in part — by advertising revenue. Thanks to the global credit crunch, last year was one of the worst in recent memory in terms of worldwide money spent on advertising. But industry analysts expect spending to rise again in 2010, and emerging economies are expected to see continued robust growth. “There are a good number of double-digit growth markets next year,” Brian Wieser, global director for forecasting at Magna, recently told the *New York Times*. Specifically, Mr. Wieser mentioned China, Costa Rica, Hong Kong, India, Indonesia, Lebanon and Singapore.³

What’s more, as the global ad industry rebounds, emerging markets are expected to take a greater share of the total amount spent. An analyst cited in the *Financial Times* said that “developing markets such as India, China, eastern Europe and Africa will grow a ‘healthy’ 7.8 percent in 2010 and 9.8 percent the following year, taking their share of global media spending to 35 percent by 2011.”⁴ Such growth hasn’t escaped the notice of industry titans. Rupert Murdoch, CEO and chairman of News Corp., recently said that, in the midst of the “digital revolution turning traditional business models upside down,” the media business will require the “optimism and creativity” of emerging markets to navigate.⁵

Equity markets have seemed to recognize and reward the ability of emerging market media companies to compete in the new environment. Even for companies whose main line of business is print publishing — one of the most out-of-favor sectors in global markets — those in emerging economies are viewed much more favorably. Since March 2007, according to data pulled from Capital IQ, developing-nation print media companies have seen shares rise 6 percent on average, compared to a 29 percent average decline for print media firms in mature economies.

Investors, too, have rewarded media companies in emerging markets with richer valuations than counterparts in developed economies. Publicly traded print media firms in developed nations trade, on average, at a forward price-to-earnings multiple of 14. By contrast, print media

¹ Internet World Stats, <http://www.internetworldstats.com/list2.htm>.

² Oyedemi, Buki. “The Shape of the Nigerian Media Industry in 2010.” *m2online*. (n.d.) <<http://m2weekly.com/feature/the-shape-of-the-nigerian-media-industry-in-2010/>>.

³ Elliott, Stuart. “Uptick in Global Ad Spending Is Forecast for 2010.” *New York Times*. 9 Dec. 2009.

⁴ Bradshaw, Tim. “Biggest Ad Markets Will See No Growth Until 2011.” *Financial Times*. 19 Oct. 2009.

⁵ Hagey, Keach. “Emerging Markets Key to Global Media Future.” *National* (Abu Dhabi). 19 Nov. 2009. <<http://www.thenational.ae/apps/pbcs.dll/article?AID=/20091119/BUSINESS/711199972/1052/rss>>.

companies in developing nations have an average price/equity ratio of 21.⁶ Of course, these valuations may reflect embedded expectations about higher overall economic growth in the developing world. But at 21, the P/E ratio of print media companies is even higher than the average 17.9 overall country P/E ratio of a selection of emerging-market economies as aggregated by New York University finance professor Aswath Damodaran.⁷

In fact, some of these traditional media companies from emerging markets have begun to assert themselves on a global stage. One of the standouts: Cape Town-based Naspers Ltd., Africa's largest media conglomerate. The company has roots in newspaper publishing — and still prints South Africa's largest newspaper, the *Daily Sun* — but has booming businesses in pay television and digital media. Since the start of 2006, shares in Naspers⁸ have advanced 133 percent, compared to a decline of 15.5 percent for News Corp. and 41 percent for Time Warner.

Naspers has aggressively been expanding into other emerging markets. CEO Koos Bekker (Columbia MBA '84) told South Africa's *Business Day* that the company would keep its print portfolio intact for the time being, but has no plans to expand it.⁹ Rather, the global expansion focuses on Internet properties, such as Tencent Holdings Limited, the largest instant messaging client in China and of which Naspers owns a 46.5 percent share. Indeed, unlike many Western media companies, Naspers rarely buys a firm outright. Instead, it prefers to take minority stakes and leave the management — those with intimate knowledge of the local landscape, consumer and government — in place to run the business.

Naspers' forward emphasis is clearly on digital; print media now produces just 35 percent of the company's revenues and 20 percent of profits. Yet Mr. Bekker does recognize the enduring power of the printed word — especially in developing nations. “An open society needs newspapers,” Mr. Bekker told *Business Day*. “They are best suited to in-depth analysis and robust debate. Neither TV nor Internet do these things very well.”

The implications are significant for traditional, developed-market media companies. In the developed world, their business models are under attack. Revenue streams such as newspapers and television, which brought in analog dollars, are being supplanted by Internet media, which,

⁶ Data pulled from Capital IQ; PE ratios were available for 55 developed-country firms and 10 developing-country firms. Stock price data was available for 145 developed-country firms and 47 developing-country firms.

⁷ See collected emerging markets data at Professor Aswath Damodaran's website at www.stern.nyu.edu/~adamodar/pc/eqegs/emmkt.xls

⁸ Naspers ADRs trade over the counter in the United States with the ticker symbol NPSNY.

⁹ Benjamin, Chantelle. “Naspers: Well-Read in Bouncing Back from Bad Ventures.” *Business Day*. 16 Oct. 2009.

executives complain, are bringing in digital pennies. On the other hand, the developing world will likely straddle the technological divide for some time to come. That means that tremendous growth opportunities for “old media” — the business models that big Western media companies know the best — do exist.

The rub, though, is that emerging markets have remained tantalizingly out of reach for those companies. So far, emerging markets have been served mainly by savvy players such as Naspers, which has first-hand experience navigating the technology gap in its native South Africa, as well as home-country-focused native champions such as the Nigerian Broadcasting Corp. and the Abu Dhabi Media Company.

The Western media giants understand this, but are still moving gingerly. Emerging media markets have undeniably attractive macro tailwinds, but those often come with restrictions on foreign ownership, limits on corporate competition and tight media censorship regimes. In a keynote address at the Abu Dhabi Media Summit in March, Mr. Murdoch urged the United Arab Emirates and other Middle Eastern governments to ease regulations on the media sector.

Mr. Murdoch’s entreaty was widely noted. But the success of Naspers, with its relatively hands-off approach to local investments in emerging markets, has shown that in the near term the accommodation is likely to come from the corporate sector. Fox International Channels, a News Corp. subsidiary that produces and distributes content for Fox-related networks around the developing world, recently made Abu Dhabi a regional hub for sales and production. And the Abu Dhabi Media Summit attracted hundreds of media executives, from the likes of Mr. Murdoch and Google’s Eric Schmidt, to Korea Telecom CEO Suk-Chae Lee, even to World Wrestling Entertainment CEO Shane McMahon. As Mr. McMahon told *The National*: “You have to go where the money is.”¹⁰

¹⁰ Shah, Angela. “Hollywood Stars? I Prefer a Media Summit Any Day.” *National* (Abu Dhabi). 13 Mar. 2010. <<http://www.thenational.ae/apps/pbcs.dll/article?AID=/20100314/OPINION/703139838/1080/FOREIGN>>.