



Executive summary

Based on materials of the analytical research carried out for
the Russian Venture Company, under the Venture Kitchen project

«Media and Communication. New space. New Rules»

In partnership with



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Why media and communication industry in Russia is one of the most attractive for investment?

Media and communication industry is one of the most promising branches for investment since it is the sector where a technology boom, radically changing our reality and ways of interaction, is taking place. Some experts of the branch offer a concept of New Media Space indicating not only constantly expanding space of social communication via Internet, but also specific formats of the business models getting constantly scaled and raised thanks to active digital technologies use¹. This is the digital environment with the minimum seed investment. And finally, this is the branch with the highest gain of generated revenues.

According to the venture investors' poll from different countries, carried out by Deloitte in 2012², media projects and projects in "new media" are one of the most attractive. Since 2008 till August, 2013 American companies working in the sphere of communications, raised over 60 billion dollars of investments of all rounds, while a similar indicator of investment for the Russian companies for the same period makes over 296 million dollars.

Why we should invest now?

The structure of the American venture market, according to CrunchBase³ startup transactions, indicates that the biggest half of transactions is in media.

In a world context the market of communications in Russia is still one of the most attractive. According to the PwC survey "World review of show business and mass media: the forecast for 2013-2017", Russia (along with other countries of BRIC) will represent the "star" group with high growth rates and at the same time large volumes.

It is possible to give a clear comparison: Gross domestic product of the USA (\$15,8 trillion) and Russia (\$2,1 trillion) differs approximately by 7 times, whereas the volume of investment into media and communication industry in the USA and Russia – more than by 200 times (!).

Today the Russian seed and venture market cannot boast of plenty of projects, and the majority of them is in a segment of Internet advertizing and games. A growth of abroad transactions in this branch is estimated in a geometrical progression. The market in Russia is still, in fact, in a very early stage, and its prospects are very large-scale.

What projects should be invested in?

To select a project for investment one should consider a number of factors. Judging by the structure of transactions in the USA, it is obvious that the most popular investment segments are multimedia, social services, mobile applications, the Internet advertizing and video games.

¹ http://ru.m.wikipedia.org/wiki/New_Media_Space_%5C%D0%9D%D0%BE%D0%B2%D0%B0%D1%8F_%D0%A1%D1%80%D0%B5%D0%B4%D0%B0%D0%9E%D0%B1%D0%B8%D1%82%D0%B0%D0%BD%D0%B8%D1%8F

² http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/TMT_us_tmt/us_tmt_2012VCSurvey_08082013.pdf

³ CrunchBase – the most vast base of startup transactions in the USA, supported by techcrunch.com



The Russian market of venture transactions is not transparent; the statistics on efficiency of business models in the branch of communication is absent. A review "Media and Communications of Russia: New world. New rules", executed by Higher School of Economics (HSE) by request of Russian Venture Company (RVC), – the first step towards systematization of data on the branch in terms of its investment prospects.

The review includes detailed statistics of the branch, the forecast of its development, the road maps of branch developed within HSE fundamental Foresight research, as well as private data on transactions in the seed and venture market in Russia and in the world with the analysis of their business models. The research has no analogues in Russia.

Media and communication industry in Russia: a new world, new rules

At the moment, basic changes in understanding of the branch are globally taking place. The content and its appeal to consumers are the key factors of success, while the quantity of the content is growing extremely fast, as well as the speed of its creation. An essential share of the content is the share of "digital" content, which is phenomenally growing as a result of constant increase in capacity and number of digital channels.

Experts specify the following key trends in the content generation:⁴

- increase in the content created by artificial intelligence, robots. The most popular type of such content are news aggregators and search engines which actually structure news streams automatically, that is carry out the mass media fundamental function in priority rating of news. It should be noted that this trend cannot be directly referred to the process of content generation as it is not actually a creation of something new, but represents an aggregation of already existing content;
- growth of influence of the amateur content made by users (User Generated Content, UGC);
- growth of influence of own media, Owned media and I – media formats (blogs, profiles on social networks, etc.);
- content becomes more and more multimedia and is 24 hours available on various technological platforms in all social spaces (at home, at work, in transport, etc.) to "capture" the consumer. Double screens are planned to be actively used very soon (so that the user could manage to watch twice as much) and the cross-media format (automatic translation of a content via all media channels available for users).

From the investment point of view the most attractive segments are branches of production and content promotion since they usually require rather less capital investment in creation and development of projects in comparison with storage and data transmission branches. These segments, productions and content advances, are described in the review in more detail.

Success of investment fully depends on understanding of dynamics of the project and its market. Key indicators are given below.

⁴ New information-communication environment. Current situation, problems, challenges. Trying to find the sense. Edited by A.G. Bystrytskova (I.V.Kiria and others), P. 31-33, img.rg.ru/pril/article/48/38/20/Doklad-svyaz.pdf



Short summary of the review:

1. Efficiency of traditional media (communication and mass media) has been constantly decreasing for the last few years and consequently the volume of investment into these segments of branch has been also falling.
2. A mobile content (57% for 2009-2011), online games (19% for 2009-2011) and video content (21% for 2009-2011) show the greatest dynamics in a segment of "Content production". Analysts of the market note an audience readiness for perception of the "big content" new format as users have mastered a mobile and musical content, game appendices, short videos, photos, etc. Next, a more advanced level of the audience requirements will constantly grow, in fact forming demand for "new Hollywood", big formats entraining billion people, nonexistent today, similar to cinema and rock'n'roll phenomena in the 20th century:
 - a. Mobile content production is rapidly growing, its share in Russia is 57% out of the all digital content whereas in the USA video segment which includes online video, digital television and the services VOD (video on demand) is an unconditional leader in the digital content market.
 - b. The most rapid growth is observed in a segment of mobile applications. In Russia it makes 295% in comparison with the previous period that significantly exceeds world growth rates.
 - c. Mobile video – rate of a segment gain during 2011-2012 reached a point of 217%, by 2015 its annual double growth is expected.
 - d. In 2012 "online games" segment grew by 16%, its further growth is expected.
 - e. It is expected that 2013 final figures will give the digital audio content segment an increase by 13%, which will make 1,74 bln. USD.
3. Segment "Content promotion" is enjoying revolutionary changes.
 - a. Traditional media (TV, the press) are losing control over the consumer, volumes of the funds allocated in advertizing on these channels as a result decrease.
 - b. The Internet advertizing segment (35% in 2012) shows the greatest growth, advertizing on cable and satellite TV (27% in 2012) and movie advertizing (18% in 2012) shows also good dynamics.
 - c. A context advertizing has grown at maximum rate in the market of Internet advertizing – by 45% is a results of 2012, the media advertizing – by 17%, according to the expert forecast it will grow at similar rate in the nearest few years and will gain a part of reallocated budgets of other media (radio, the print media, outdoor advertizing).
 - d. A new technology, RTB, is one of the most effective and promising in this segment (real time binding – auction of advertisements in real time). According to the expert forecast in RTB can take about 5% of the market of display advertizing in 2013, and by 2015 – over 20%.
 - e. The market capacity of mobile advertizing in Russia made 60,8 million dollars. According to eMarketer forecast, it can grow up to 157 million dollars, or nearly by 3 times by 2016.
4. **A convergence** of the Internet and the mobile environment is now taking place which involves new markets emergence and reduction of those classical markets which have attracted a lion share of advertizing budgets for a long time.



About National Research University Higher School of Economics

NRU HSE – Russia’s leading university in the fields of economics, media and communications, management, and other social sciences, the Higher School of Economics (HSE) hosts 41 research institutes and centers along with 32 research and educational laboratories in Moscow and 3 regional branches (St. Petersburg, Nizhny Novgorod, and Perm).

In the field of media and communications, HSE offers a variety of publications – from foresight to applied research in specific segments, – conducts cross-media promotion projects, and a number of other initiatives.

HSE’s international partners include London's LSE and Warwick University (UK), Paris-I Panthéon-Sorbonne University and ESCP Europe (France), Erasmus University (the Netherlands), Humboldt University (Germany), and many others.

The full version of the review, prepared by HSE experts in collaboration with professional investors of media and communication industry for the RVC, is available on demand. Please contact us at nporotnikova@gmail.com.