



## **BSAC Business Briefing**

### **UK Movie Market Update 2013**

**March 2013**

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#### **Market overview**

British consumers spent £3.7bn on all forms of movie products and services in the UK last year, a small (less than 0.5%) decline on the 2011 total. This is the first time that the market has not grown in all of the years that we have been authoring this report for BSAC. The total spend figure included payments for cinema tickets, purchase and rental of DVDs and Blu-ray Discs (feature film share only), premium movie pay TV channels, TV-based on-demand platforms, and Internet downloads and streaming.

#### **Cinema**

Admissions to UK cinemas increased by 0.5% in 2012, slightly lower than 2011's rise of 1.4%. There were 172.5m tickets sold, the third highest figure in modern times, although still not rivalling the most recent peak of 176m in 2002. That peak was marked by average attendance per capita of very close to three visits per person per year, a symbolic metric that has not been broken for decades. There were 2.7 visits per person in 2012, a level that has remained consistent over the past three years, underlining the stability of the market.

However, gross box office takings did break through a symbolic level in 2010, moving above the £1bn level for the first time. This was sustained in 2011 and 2012, recording a gross box office figure of £1,099.5m last year. This was 4.6% up on 2011, building on healthy 10.5%, 6.6% and 4.5% rises in the three previous years respectively. The 2012 rise in ticket prices was therefore a relatively modest 4.0%, ending the year at £6.37, slightly higher than the 3.1% rise in 2011.

Over recent years, ticket price rises (breaking the £5 barrier in 2007) have been driven by the increased presence of 3D movie screenings – with premium pricing – in the overall exhibition mix. However, 3D film revenues actually accounted for 18.5% of the total UK box office in 2012, down from 21.5% in 2011. Until the advent of 3D, ticket prices grew at a similar rate to inflation and 2011 saw a return to this trend, which continued into 2012. 3D premiums are therefore now factored into the overall ticket price, and this sub-section of the market seems to have matured.

The success of the Olympics and Paralympics hit cinemas hard during the summer months, even with the success of *The Dark Knight Rises* in July. However, there was a strong end of year, which saw the release of *Skyfall*, *The Hobbit* and the next instalment of *The Twilight Saga*, all of which helped drive the market slightly upwards. The release of *The Avengers* in April provided a high point in the first six months. However, *Skyfall* defined last year, with James Bond's latest outing setting a new box office record for any film in the UK market, grossing £102m and still earning money 4 months after its release. UK films captured a total market share of 32%, including UK-US co-produced blockbusters, and with British independent films taking 9% of the market. The latter were led by *The Woman in Black* (£21m) and *The Best Exotic Marigold Hotel* (£20.4m).

We estimate that there were 3,858 active cinema screens in the UK by end-2012, a net growth of 34 screens during the year. The number of cinema sites dropped slightly (750 in 2012 compared to 761 in 2011) and the gently rising screen count underlines the consistently growing importance of multiplex cinemas. Of the screen base, an estimated 3,050 screens in 315 sites were classified as being multiplex (five screens or more), meaning that 79.1% of cinema screens in the country are now within such a multi-screen complex.

The march towards a digital future for the cinema industry accelerated sharply in 2012, with 91.4% of all screens now digitised, and the country on course to complete full digitisation in the next few months of 2013. This growth was driven by the leading exhibitors rolling out a circuit-wide conversion, and by the progress of the Digital Funding Partnership (DFP), which brings together up to 400 smaller screens for digitisation as a group. Total UK digital screen numbers increased to 3,538 in 2012 (from 2,714 at end 2011), of which 1,564 were equipped with digital 3D (44.2% of digital screens, or 40.4% of all screens).

Digital cinema projection enables new content to be shown in cinemas alongside movies, known as Alternative Content, which is a growing sector around the world. The UK is the strongest market for this non-film programming outside of the USA. There were 131 such Alternative Content events screened in UK cinemas in 2012, up from 109 in 2011, grossing an estimated £12.5m. The majority of these events, 52%, are live, and 65% of them are in the Opera, Ballet and Classical Music genres. The key economic driver for Alternative Content is the attraction of audiences into cinemas at off-peak times.

## **Home video**

The packaged home video business remains the most important profit engine for the entire movie industry; this position is set to continue, despite its recent, highly publicised, problems. Total consumer spending (on a retail and rental basis) on packaged video products fell 10.5% last year to

£1.8bn. This is £1.1bn lower than the market's 2004 peak of £2.95bn. Almost two thirds of spending on purchased DVDs was generated by feature films, with the rest coming from TV content, children's, music videos, special interest, etc. The vast majority of rental transactions through bricks-and-mortar stores are movie-based, but the equivalent proportion for online rental services is typically lower, at around 75%, due to a stronger demand for TV boxed sets.

There were 162m DVDs sold to British consumers in 2012 – a fall of 15.5% from the previous year. The spiralling decline in DVD sales is as much due to changes in the retail landscape over 2012 as it is to changes in mass market consumer behaviour, although the two trends are clearly inter-related. Declines in price over recent years have reduced retailer revenues from home video, encouraging stores to shift retail space to other, more profitable categories. Supermarkets, and even HMV (prior to its current troubles), reduced the volume of DVDs offered for sale by diversifying their product mix away from catalogue DVD. This has led to a more acute focus on higher priced, new release product, pushing average DVD prices up for the second consecutive year. The result was that total DVD spending fell less dramatically than volumes, down 13.9% to £1.3bn.

Though sales of Blu-ray Discs continue to increase, growth of the increasingly mature format slowed substantially over 2012. UK consumers bought 16.7m Blu-ray Discs in 2012, spending £229m. This represented an increase of 9% in unit sales but, owing to the continuing decline in average Blu-ray Disc price, an increase in consumer spending of just 2.8% over 2011. The Blu-ray Disc format, accounting for 10% of the UK video sales, has undoubtedly established a solid niche among high-end physical video consumers. However, in failing to engender broader appeal to UK consumers, the format has not enjoyed the same depth of retail support as its predecessor. Despite this, 4.8m British households had invested in a stand-alone Blu-ray player by year-end, with a further 5.3m households being able to play Blu-ray Discs though PlayStation 3 games consoles.

*The Dark Knight Rises, Twilight: Breaking Dawn, Ted and Warhorse* were the top five selling DVD titles of the year. *The Amazing Spiderman* and *The Bourne Legacy* replaced *Twilight* and *Warhorse* at the top of the Blu-ray Disc chart in 2012, demonstrating a clear difference in consumer preferences for Blu-ray Disc purchasing – and studio release strategies – compared to titles on DVD.

The home video rental market accounted for £268m in consumer spending in 2012, down just 2.2%. Whilst this reflects the broader stabilisation of the overall rental sector since 2009, strategies to aid the recovery of the store-based rental sector failed to gain traction amongst consumers. Consumer spending on store based video rental fell 12% to £116m in 2012, with the increasingly dominant subscription based, online, rent-by-mail sector growing 6.6% to £152m.

## **Pay TV**

BSkyB remains the only company offering premium subscription pay movie services in the UK, although it is facing a growing competitive threat from online streaming services, led by LOVEFiLM and Netflix. These services are challenging for rights in the first pay TV window, which generally starts 10-12 months after cinema release, and which continues up to 12-18 months

before the start of the free-to-air TV window. LOVEFiLM has first window rights from StudioCanal, while Netflix has similar rights in its deals with MGM, Miramax and Lionsgate.

BSkyB has responded by increasing its investment in movie rights and by renewing output deals with Hollywood major studios Sony Pictures, Warner Bros. and NBC Universal. BSKyB also acquired exclusive rights to the James Bond film franchise, and in October, launched a dedicated channel, Sky Movies 007, to capitalise on the publicity surrounding the release of the latest Bond film, *Skyfall*. The News International-owned company also bought exclusive rights to the *Harry Potter* movies from Warner Bros. for a three-month period, including Christmas and New Year. We estimate that BSKyB's spending on film rights was £307.4m in calendar year 2012, slightly up on £305.7m the year before.

We estimate that around two thirds of BSKyB's subscribers (9.6m in the UK at year-end) take its movie package, which currently costs £16 a month on top of a basic £36 subscription. All of BSKyB's film channels (except for Sky Movies 007) are available on third party platforms Virgin Cable and Talk Talk.

The challenge for pay TV rights is not without its upside for BSKyB. The company was the subject of a long-running enquiry by the Competition Commission, triggered by allegations that its agreements for pay TV rights with the Hollywood studios were anti-competitive. In April 2012 the Commission finally cleared BSKyB, partly on the grounds that the emergence of LOVEFiLM and Netflix offered consumers an alternative to the pay TV platform. Furthermore, the launch of its online Now TV service – initially offering access to Sky Movies to non-subscribers – undermined the allegation that BSKyB was guilty of not fully exploiting the rights in its output deals with the majors.

### **TV platform video-on-demand**

Nearly 4.65m British households are estimated to receive true Video-on-Demand services via a TV-based set-top box at the end of 2012. Around 3.8m of these were digital cable TV customers on Virgin Media's platform, with the remainder on IPTV platforms.

BT Vision added nearly 0.1m households in 2012, reaching a total of 0.77m VoD enabled households by the end of 2012. By comparison, TalkTalk accounted for just under 0.1m VoD enabled homes. However the latter also increased its IPTV subscriber base for the first time since 2010, aided by the launch of the hybrid set-top box platform YouView.

By the end of 2012, BSKyB's satellite platform connected more than 1.7m households to its progressive download broadband-delivered VoD service, Sky Anytime+, a year-on-year rise of 0.5m. An additional 6.9m Sky households are estimated to be receiving PVR-based push-VoD services. All 6.7m Sky subscribers are able to receive a near-VoD service, Sky Box Office, although the same line up of movies is available on Sky Anytime+.

TV based on-demand services in the UK generated £245m in 2012, according to IHS Screen Digest estimates. Transactional (pay-per-view) movies, excluding adult content, accounted for nearly

£135m of total on-demand revenues. When excluding near-VoD, transactional revenue from movies on Internet-delivered VoD and true-VoD services amounted to £90m in 2012, an increase of over £20m on 2011.

The rise in revenue comes largely from the growth of Sky's Sky Anytime+ service, while near-VoD has declined as consumers eschew it in favour of more convenient streaming or download services. Unlike the traditional near-VoD service, Sky's broadband-based Internet-delivered VoD service gives the user greater flexibility in choosing when to view the content. As a result, the average enabled user is purchasing a greater number of movies on Sky Anytime+ in comparison to Sky Box Office. In Q4 2012, movie transactions on near-VoD and IP-VoD on Sky TV had roughly a 50:50 split.

Along with pay-per-view movies, Sky Movies customers are able to watch films included in their linear subscription on an on-demand basis for no additional fee via Sky Anytime+. Again, similarly to the benefits of Internet-VoD over near-VoD, an increasing number of Sky Movies customers are viewing films on-demand rather than via linear broadcast.

### **Internet video-on-demand**

The market for online movies – the distribution of movies over the open Internet – remains a small but growing segment of the total movies market in the UK. Last year was characterised by the significant growth of online subscription services, driven by the launch of Netflix and the first full year of operation of the LOVEFiLM Instant service. Total consumer spending on online movies (retail, rental and subscriptions) increased to £128m, a 116% rise from 2011.

Before 2012, the market was essentially split between two transactional business models – digital rental and digital retail (also known as DTO ('download-to-own') or EST ('electronic-sell-through')). However, last year saw the rise of subscription online video services in the UK. Online DVD rental pioneer LOVEFiLM had the first full year of its standalone streaming plan, LOVEFiLM Instant, whilst the arrival of Netflix in January 2012 and Now TV from BSkyB in July further increased consumer awareness of online streaming services.

Last year, Amazon-owned LOVEFiLM continued to build its catalogue of movies, inking additional deals in the second subscription pay TV window with NBC Universal and Twentieth Century Fox. The service ended the year with significantly more movies than its rival Netflix for its streaming proposition. US firm Netflix has first pay TV window rights to MGM, Lionsgate and Miramax titles. Although the company is still confident that it is in the running to acquire rights from the major six Hollywood studios, 2012 saw incumbent pay TV operator BSkyB sign renewals with three of the big six, thwarting both Netflix and LOVEFiLM in their attempts to acquire further premium content for their catalogues.

Device-centric online movie services, such as Apple's iTunes, Microsoft's Zune (which serves the Xbox 360 games console), and Sony's PlayStation Store, as well as new entrant Google, continued to dominate the market, together accounting for almost 94% of all online movie transactions in 2012.

Last year was again characterised by rapid growth in the number of deals struck by content owners to deliver services to connected devices. These devices, which connect directly to the internet via a home broadband connection, provide a way for consumers to access content on demand on their living room TVs. The LOVEFiLM streaming service, for example, is available on the Nintendo Wii and Wii U games consoles, as well as launching on Amazon's Kindle Fire tablet and smart TVs from LG.

Online video viewing still represents a small proportion of overall video consumption, once linear TV channels are taken into account, and it is therefore important to keep in perspective the impact that these services are likely to have on the ways in which consumers watch movies over the next few years.

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