



BSAC Business Briefing

UK Movie Market Update 2014

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Market overview

British consumers spent £3.45 billion on all forms of movie products and services in the UK last year – a small (approx. 1%) rise on the 2012 total. This 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 (retail, rental and subscription – but again, the movie share only). Due to changes in our methodology for estimating spending on movie pay TV services, discussed below, this number is not directly comparable to that in previous versions of this annual report, which have been presented at the BSAC Film Conference.

Cinema

Admissions to UK cinemas decreased by 4% in 2013, the first decline since 2010. There were 165.5m tickets sold – one of the lower figures of the past ten years. Average attendance per capita stood at 2.6 visits, the lowest annual total since 2006, and significantly down on a recent peak of 2.8 in 2009. Gross box office takings broke through a symbolic level of £1 billion in 2010, where it has stayed ever since. However, total takings declined in 2013 by 1.5% to reach £1,083m, the first fall since 2006. This is against a backdrop of healthy box office rises in previous years. Ticket prices rose by 2.6% in 2013, hitting an average of £6.54. This is the lowest price rise since 2004.

Over recent years, ticket price rises (breaking the £5 barrier in 2007) have been driven up by the increased presence of 3D movie screenings – with premium pricing – in the overall exhibition mix. 3D film revenues actually accounted for 17% of total UK box office in 2013, down from 18.5% in 2012 and 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 2013. 3D premiums are therefore now factored into the overall ticket price and this sub-section of the market seems to have matured. For all releases that had a 3D version, the average box office taken by 3D screens was 42% in 2013. However, this average conceals a vast range: 92% of *Gravity*'s box office came from 3D screens, compared to 9.2% for *Saving Santa*. It appears that 3D is polarising towards the most credible 3D titles (conceived, produced and marketed as a 3D project), and new technologies, such as laser-illuminated projection, should help with consumer complaints of presentation quality.

Following the year of *Skyfall* was always going to be tricky for the cinema sector: that Bond outing earned £102m at the box office, making it the highest grossing film ever in the UK. In 2013 the top grossing film was *Despicable Me 2*, which earned the relatively low figure of £47.5m for the leading film, and the main reason for the overall poor performance was a lack of very strong titles. In 2012, 3 films grossed above £50m and 12 above £25m, compared to none above £50m and only 8 above £25m in 2013. UK films, including UK-US co-produced blockbusters, captured a total market share of 21%, with British independent films taking 6% of the market. Both of these figures are down on 2012. The latter category was led by *Philomena* (£10.8m) and *Quartet* (£8.6m).

We estimate that there were 3,897 active cinema screens in the UK by the end of 2013, a net growth of 39 screens during the year. The number of cinema sites dropped slightly (747 in 2013 compared to 750 in 2012), and the gently rising screen count underlines the consistently growing importance of multiplex cinemas. Of the screen base, an estimated 3,070 screens in 317 sites were classified as being multiplex (five screens or more), meaning that 79% of cinema screens in the country are now within such a multi-screen complex.

The transition towards a digital future for the cinema industry is now almost fully accomplished, with 3,868 digital screens in the UK – equivalent to a penetration rate of 99.3%. This final push during 2013 was mainly due to the progress of the Digital Funding Partnership (DFP), which brings together up to 400 smaller screens to be digitised as a group, and Empire Cinemas. Of the digital screens, 1,638 were equipped with digital 3D (42% of digital screens), down from a peak of 75% in 2010.

Digital cinema projection enables new content to be shown in cinemas alongside movies, known as 'Alternative Content' or 'Event Cinema', something that is a growing sector around the world. The UK is the strongest market for this non-film programming outside of the USA. The market value of this content in the UK approached £20m in 2013, up from £12.5m in 2012. The most popular content is proving to be that from NT Live, which distributes the live screening of plays from London's National Theatre. The highest grossing of these was *The Queen*, which earned nearly £1.8m in its live and 'Encore' screenings. However, the UK has also produced the highest-grossing event

outside the USA in *Dr Who 50th Anniversary*, which grossed £1.7m in the UK for its live screening alone – a £4,000 screen average. It played on a Saturday night and made TV producers sit up and take notice of the cinema as a promotional and financial source. Unusually for Event Cinema, where 3D is not often used, 96.8% of this revenue came from 3D screenings.

Home video

The packaged home video business remains the most important revenue generator for the filmed entertainment industry; this position is set to continue, despite its recent and highly publicised problems.

Total consumer spending (on a retail and rental basis) on packaged video products in the UK fell 9.3% last year to £1.6 billion. This is £1.3 billion lower than the market's 2004 peak of £2.9 billion. Almost two thirds of spending on purchased DVDs was generated by feature films, with the rest coming from TV content, children's, music video, 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 lower typically at around 75%, due to a stronger demand for TV boxed sets.

There were 143m DVDs sold to British consumers in 2013 – a fall of 11.5% from the previous year. The spiralling decline in DVD sales is as much due to the dramatic changes in the retail landscape over 2013 as it is to changes in mass market consumer behaviour – although the two trends are clearly inter-related. The closure of a substantial number of HMV stores in the first half of 2013 reduced UK consumer access to retail DVDs. The removal of some catalogue range from key supermarket retailers further compounded such issues.

The decline in ready availability of a catalogue range for consumers to browse has already stimulated changes in the mix of DVD product sold to consumers, adversely affecting catalogue and impulse sales. This has led to an ever more acute focus on higher priced, new release, products, and is directly reflected in the third consecutive year of average DVD price increases. As a consequence, total DVD spending fell less dramatically than volumes, down 9.7% to £1.2 billion.

Sales of Blu-ray Discs continued to increase through the year and, although the format is increasingly mature, sales growth in 2013 exceeded that of 2012. UK consumers bought 18.8m Blu-ray Discs in 2013, spending £252m. This represented an increase of 12.4% in unit sales, some three percentage points higher than that recorded in 2012. Owing to the continuing decline in average Blu-ray Disc price points, consumer spending increased a more moderate 10% in 2013, although this also exceeded the 3% growth recorded in 2012. Sales of the Blu-ray Disc format, accounting for 12% of total UK video sales, were buoyed strongly by the HMV sale that operated throughout Q1. A good deal of this momentum was maintained throughout the year, with many UK consumers being reintroduced to the format as a now affordable alternative to DVD.

The format has established a solid niche among physical video consumers in the UK, and at year-end 2013, 6.1m British households had invested in a stand-alone Blu-ray player. Additionally, and excluding stand-alone player households, a further 4.8m households are able to play Blu-ray Discs through Blu-ray Disc enabled games consoles, such as the PS3, PS4 and Xbox One.

Skyfall, *The Hobbit*, *The Twilight Saga: Breaking Dawn* and *Despicable Me 2* were the top four selling DVD titles of the year. *Star Trek Into Darkness* and *Taken 2* replaced *Twilight* and *Despicable Me 2* at the top of the Blu-ray Disc chart in 2013, demonstrating a clear difference in consumer preferences for Blu-ray Disc purchasing and studio release strategies compared to titles on DVD.

Pay TV

BSkyB remains the only company offering movies from the Hollywood Big-6 Studios in the first subscription pay-TV window in the UK via both broadcast, on the Sky Movies channels, and online, via Now TV and Sky Go.

The launch of Now TV enables Sky to exercise its internet delivery rights for movies, and has allowed those outside of the traditional pay-TV subscriber base to access these movies for the first time.

Films typically move into the first pay TV window 10-12 months after cinema release, and remain within it for a further 10-12 months, after which point they shift into either a secondary exclusive subscription window, or the Free-to-Air (FTA) window. Sky Movies can typically show releases at least 12 months before online subscription rivals, although competition from internet video streaming services is mounting.

Amazon Prime Instant Video (previously LOVEFiLM Instant) has first window rights for films from StudioCanal, while Netflix has equivalent deals with MGM, Miramax and Lionsgate.

In early 2013, Sky entered a deal with Sony Pictures to exclusively carry new release movies on Sky's TV channels and on its Now TV service on a subscription basis. Last year also saw the launch of Sky Movies Disney, which offered both classic and new Disney and Disney/Pixar movies via a linear channel and on-demand across the Sky services. The deal also included first pay-TV movie rights for other Disney titles.

Following allegations of anti-competitiveness by BT, Sky made its movie channels available on the BT TV platform for the first time in October 2013, offering both linear channels and on-demand content on a monthly subscription basis. The launch of YouView in the UK has meant that first window movies can be viewed via the Now TV service (available on the YouView box), or via the Sky Movies packs on TalkTalk TV and BT TV.

We estimate that BSkyB's spending on film rights was £320m in 2013, up from £286m the year before.

Due to the complex bundling and pricing of channel packages, it has become increasingly challenging to calculate a stand-alone figure for 'consumer spend' on subscription movie channels. Subscribers typically sign up a package of channels, of which movie services are just one element, so any sub-division is, to some extent, a little arbitrary. For this reason, we have adopted a different methodology in this paper, which is a departure from previous editions of this report. The new methodology uses the proportion of BSkyB's total programming budget that is allocated to movies as a proxy to allocate a percentage of total consumer pay TV spending to movies. On this basis, we arrive at a 2013 total consumer spend of £955m – up from £860m in 2012.

TV platform Video-on-Demand

The UK pay-TV on-demand market has seen significant growth in the past year as operators have expanded catalogues and access, with each offering its unique selling point in the market. Interactive video services, both on the set-top box (YouView, Sky On Demand) and on 'over-the-top' (OTT) platforms, have helped raise consumer awareness of Video-on-Demand (VoD) overall, helping to boost consumption.

Nearly 5.5m British households are estimated to receive true-VoD services via a TV-based set-top box at the end of 2013. The number of Internet Pay TV (IPTV) homes doubled in the UK in 2013, accounting for 1.69m true-VoD homes with the help of the YouView set-top box. Virgin Media saw its TV base decline in the year, ending with 3.75m true-VoD homes.

IPTV growth has, for the first time, been dominated by TalkTalk TV. With an aggressively priced proposition, TalkTalk added more than 0.65m VoD homes in the year, reaching a total of 0.73m households. By comparison, BT TV added nearly 0.19m homes, taking its total base to 0.956m. The launch of the YouView box has particularly worked in favour of TalkTalk, due to its low-cost TV proposition and offering of YouView set-top boxes for no extra cost to new and existing broadband customers.

By end-2013, BSkyB's satellite platform connected more than 4.35m households to its progressive download broadband-delivered VoD service, Sky On Demand (previously Anytime+) – more than a 250% rise year-on-year. An additional 6.8m Sky households are estimated to have been receiving PVR-based push-VoD services. All 9.8m Sky subscribers were able to receive a near-VoD service, Sky Box Office.

TV based on-demand services in the UK generated £245m in 2013, according to IHS estimates. Transactional (pay-per-view) movies, excluding adult content, accounted for nearly £130m of total on-demand revenues. When excluding near-VoD, transactional revenue from movies on Internet-delivered VoD and true-VoD services amounted to £104m in 2013, an increase of over £80m on 2012.

Revenue growth continues to come largely from the expansion of Sky's Sky On Demand service, in terms of household reach and increased purchases. The increased convenience and flexibility offered by Sky's broadband-based Internet-delivered VoD service has meant that the traditional near-VoD service has continued to see a decline in consumption. Transactional revenue from Sky On Demand exceeded that from Sky Box Office for the first time in 2013.

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 On Demand. Again, the added benefits of Internet-delivered VoD over the more limited near-VoD proposition has meant that a growing proportion of Sky Movies consumption is now taking place on an on-demand basis, and moving away from linear channels.

The introduction of the YouView set-top box has meant that consumers who connect their box to the Internet are now able to access an array of on-demand movie services via their set-top box. This gives access to pay-TV operator services, such as BT and TalkTalk, as well as to monthly subscription OTT VoD services, such as Now TV and Netflix. Overall, this should lead to an uplift in movie viewing in UK households due to the wider range of content available on the TV set, although customers are still required to pay for each movie service.

BT has changed the structuring of its TV proposition, moving away from its initial push of VoD as a unique selling point, with the launch of linear channel packages for the first time. Previously, BT customers were required to take one of two Subscription Video-on-Demand (sVoD) packs in order to access TV services, one which comprised an on-demand VoD movie service. With the restructuring and offering of linear channel packs, the BT Film service is now offered as an optional sVoD pack for £5 per month.

Despite the huge growth in TV uptake on TalkTalk, a very small proportion of its base is using the set-top box for paid-for content, including transactional movies. IHS estimates that, on average, TalkTalk customers rented one movie title in the year via the TalkTalk Box Office service. By comparison, the average digital pay-TV subscriber in the UK rents 2.8 movies annually via their pay-TV VoD service. TalkTalk also offered free access to LOVEFiLM Instant for a short period of time to its 'Plus' broadband customers.

Cable TV operator Virgin Media entered a deal with online streaming service Netflix to offer its TV customers access to the OTT sVoD service via the higher-end TiVo set-top box. Available since November 2013, Virgin Media is offering six months free access to Netflix to all new customers on its top-tier 'Premiere' and 'VIP Collections' packages, and one month free access to all of its other TV customers.

BT, TalkTalk and Virgin Media all offer the Sky Movies packages and NBC Universal's Picturebox along with their own/partnered movie services. This means that subscribers on these platforms can now access movies in all TV windows via their pay-TV service.

Another development is that both BT and BSkyB have announced their intention to offer consumers the chance to buy movie and TV content on a retail model via their TV platforms (see below).

Internet video-on-demand

The market for online movies – the distribution of movies over the open Internet – saw significant growth in 2013, and is an increasingly important segment of the total movies market in the UK. Last year saw the first full year of UK operation by Netflix and BSkyB's Now TV platform, as well as entrance from newcomer Wuaki.tv. Total consumer revenue on online movies (retail, rental and subscriptions) increased to £185m, a 50% rise from 2012 – with most of the growth coming from the sVoD sector.

Growth of digital rental and digital retail – also known as DTO ('download-to-own') or EST ('electronic-sell-through') – slowed in the year, while Internet-delivered subscription-based services more than doubled to overtake retail and rental revenues. In a bid to improve the performance of 'digital', all major US studios are now aligned on use of 'Digital HD' as a consumer-facing marketing term for a movie or TV programme digital file – and it is now common for codes that unlock a digital download to be bundled with the physical copy of the title. To further enhance the perceived value of the Digital HD download, some studios have begun to experiment with digital releases ahead of the DVD/Blu-ray Disc release. In the US, this tactic has been more widely adopted and appears to have had a positive impact on digital purchasing of movies.

A separate, but related, initiative is the 'digital locker' solution that is marketed as UltraViolet (UV). This offers consumers a 'Cloud-based' solution to organize and store their rights to purchased digital versions of movie and TV content. The number of consumers who have registered UV accounts in the UK and Ireland has now exceeded 1m. Although the UV initiative was first made available in the UK in December 2011, there is still no firm date for a formal consumer launch of the UV proposition in the UK.

The number of UK-based UV accounts has risen alongside increases in UV-enabled titles being released on DVD and Blu-ray Disc. IHS analysis indicates that the number of new UV releases hit 148 in 2013, which was 63 more releases than in 2012, bringing the total number of UV releases on disc in the UK to 247 at the time of writing.

UV registrations to date give the service a household penetration rate of around 4.0%. While not directly comparable, in 2009 – some two years after the Blu-ray Disc format first launched – there were around 750,000 households with a Blu-ray Disc player or recorder, a respective penetration rate of 2.8%. In the US, UV has the support of major retailers including Walmart, which is the largest single video retailer in the world; however, UK retailers have not been as quick to outline their plans for the service. Moreover, Disney has opted to launch its own digital locker service, branded Movies Anywhere, in partnership with Apple.

The DTO market for movies and TV shows should get a boost this year from the launch of services by pay TV operators BT and Sky. Initially, BT's offer will only be available via its YouView set-top boxes, while EST content offered via the Sky Store will be compatible with multiple devices. However, neither company has yet committed to enabling UltraViolet as part of their proposition.

The market for online sVoD services has become increasingly competitive in the UK, with rivals vying to offer more extensive catalogues, promotional offers and exclusive content deals.

Growth of online sVoD services was largely driven by Netflix, which we estimate ended the year with 2m subscribers. Original programming (e.g. *House of Cards*) and exclusive content (e.g. *Breaking Bad*) helped boost Netflix's subscriber base. Netflix entered a multi-year deal with DreamWorks Animation to offer original first-run television series on its service. A carriage deal between Netflix and Virgin Media in 2013 allows Netflix to gain access to approximately 2m Virgin Media homes with a TiVo box.

Amazon Prime Instant Video continues to offer more titles than its rival Netflix, including second subscription window pay-TV movies with NBC Universal and Twentieth Century Fox. Netflix has first pay-TV window rights to MGM, Lionsgate and Miramax titles, although its original productions have been the prime area of new content investment in recent times.

Sky now has an array of online services under its portfolio with varying business models. Its online sVoD service saw growth towards the end of the year as Now TV began heavier advertising and lowered its prices in line with other OTT sVoD services (from £15 per month to £8.99 per month in October 2013).

At the beginning of 2013, Sky launched its Sky Go Extra service, which allows Sky TV subscribers to download and view content on-the-go over mobile devices, including Sky Movies. Although this service requires customers to pay an additional fee of £5 per month to access this functionality, it is the only online video service in the UK that offers the ability to download Hollywood movies on a subscription basis. As well as being able to download movies for an additional monthly fee, Sky Movies customers can stream movies for free via an Android app.

Lastly, Sky opened its transactional movie service, Sky Store, to non-Sky customers. Previously only available via Internet-connected Sky+ HD homes, the movie rental service can now be accessed via PCs, a Now TV box, Roku and YouView.

As a consequence of these various moves, Sky now offers access to movies on a transactional and subscription basis for both its linear TV subscribers and to non-TV subscribers. It also offers added benefits to its TV customers by offering free services, as well as the ability to download movies on a sVoD basis.

Device-centric online movie services, such as Apple's iTunes, Microsoft's Xbox Video (which serves the Xbox 360 and Xbox One games consoles) and Sony's PlayStation Store, as well as new entrant Google, continued to dominate the transactional market, together accounting for almost 94% of all online movie transactions in 2013. Google Play, the third largest online movie store in the UK, launched its retail TV service via the Play store in 2013.

Deals continued to grow with connected devices, though launches have slowed with most providers hitting key ecosystems. Focus has been on improving the user experience on existing platforms instead of chasing new device integrations.

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.

The UK movie market has faced many changes in the past year, and seen a blurring of the lines between traditional pay-TV VoD services and online streaming offers. Pay-TV operators are increasingly moving services to online delivery in order to reduce churn, while OTT sVoD streaming services are making an entry on the home screen through operator partnerships. British consumers now have access to a bewildering array of on-demand services which allows them to watch movies in an ever expanding number of ways, via a multiplicity of devices, and at varying price points.

Ben Keen, IHS Screen Digest

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