FILM, TV & GAMES CONFERENCE 2015

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Session 5: Movie Market Update
Ben Keen, Chief Analyst & VP, Media, IHS

This report summarises a session that took place at the BSAC Film, TV & Games Conference 2015.

Ben Keen delivered his annual Movie Market Update. He explained how the distribution of profits between different parts of the film, TV and games markets had changed over the past ten years in both relative and absolute terms.

This presentation was accompanied with the publication of a BSAC Business Briefing, a copy of which can be downloaded here:
http://bsac.uk.com/briefing-papers.html?download=309:uk-movie-market-update-2015

Summaries of other sessions from the day and a complete report of the Conference are available from www.bsac.uk.com

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ABOUT BSAC

The British Screen Advisory Council (BSAC) is an independent, industry funded membership body for the audiovisual sector.

We uniquely bring together the widest possible range of interests, knowledge and contacts to exchange ideas and information about business and policy issues. Our Members are invited to join on the basis of their personal qualities, experience and expertise, and are drawn from the major TV broadcasters, independent film and TV producers, distributors, exhibitors, US studios with major operations in the UK, trade associations, trades unions, training providers and new media companies, such as Google and Spotify.

Many of our activities take place privately, which enables business leaders to freely discuss the fast changing nature of the industry.

On policy, we provide opportunities for industry and policy makers to hear a breadth of viewpoints and, wherever possible, for the sector to speak with a single and authoritative voice. Over the years we have worked closely with the Treasury, HMRC, DCMS, BIS, IPO, the European Commission, WTO, and WIPO.

We also enjoy the support of Associate Members, which are businesses with a particular interest in the sector. These include legal firms, accountancy practices and investment management firms, and are an important port of call for obtaining views and expertise.

We commission and generate research and reports to underpin our work.

We host a series of events that are open to a broader invited audience. These include an annual Film, TV and Games Conference, an Interview Series and occasional seminars. These provide high quality debates and networking opportunities.

More information can be found at www.bsac.uk.com

MOVIE MARKET UPDATE

BEN KEEN, CHIEF ANALYST & VP, MEDIA, IHS

This review is presented annually at the BSAC Conference. It was accompanied with the publication of a BSAC Business Briefing, a copy of which can be downloaded here:
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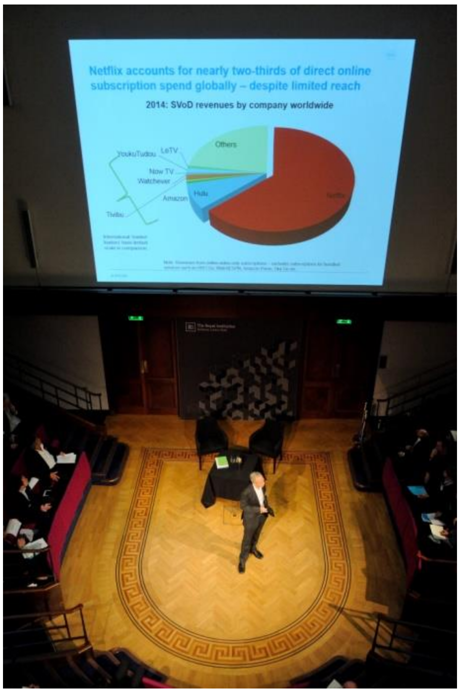

Ben Keen observed that one of his favourite aphorisms was that people tended to overestimate the amount of change that would take place over the next two years, but also to underestimate the ten year horizon. Consequently, for this year's Movie Market Update, he had thought that it would be interesting to examine the changes that had happened to the film, TV and games markets over the past decade.

Ten years ago, the market had been considerably simpler: cinemas had accounted for much of the market and this, along with shiny plastic discs – either sold or rented – represented a huge chunk of the consumer spend on movies. However, this had also been the point at which the first beginnings of video on demand (VOD) had started to emerge, although this had been quite small back then.

Since then, the physical market had dropped in value by about half. Cinema box office had grown, and there were now more releases, but also much greater fragmentation. This had been made possible by the total digitalisation of all screens – there had been just ten digital screens a decade ago, which today had increased to every single screen in the UK.

One of the promises that digital cinema had offered had been to lower the barriers to entry and consumer choice; this now appeared to have happened and the number of films given a theatrical release had increased by more than 60% over the last decade. However, and while more movies were competing for more cinema screen time, the average take at the box office for a release had declined by about 18%. Combined with the dramatic decline in the physical market, this had unsurprisingly led to a reduction in the number of movies that were considered viable for DVD release. Consequently, considerably fewer movies were being made available through retail or rental channels than a decade ago, and revenues were considerably lower: over the last decade the average consumer spend generated from each DVD release had decreased from £1.4m to about £400,000.

The market after-broadcast for TV content had also fragmented as a result of the development of on demand services, which offered an increased breadth of methods through which content could be consumed. However, this market had slightly declined in size overall.

The games sector had seen interesting developments. Ten years ago, games, like movies, had been dominated by physical discs that were played over PC's or dedicated consoles. However, more than any other cultural medium, games had effectively exploited the transformation that the digital evolution of the market had made possible. Digital business models for gaming had evolved more effectively over this 10 year horizon and, while the value of physical console gaming had slightly decreased over this period, the size of the games sector overall had grown dramatically as a result of the explosion of online outlets for gaming.

He compared the changing fortunes of the movie, after-broadcast TV and games markets over the past decade: while movies and after-broadcast TV had declined slightly in consumer spending terms, the games sector had grown massively, and had now even overtaken movies in terms of consumer spend.

However, these were completely overshadowed by the sector that had seen the greatest growth in consumer spend, that of pay-TV, which now captured a greater share of consumer income than the other three sectors combined. Subscription TV had shown its success as a business model and had grown massively over the last ten years. While drama and high end entertainment were growing in importance, this sector's success had been completely underpinned and driven by sports rights – football in particular – as could be seen by the explosion in the cost of sports rights, which had grown by 66% since 2013.

He provided a global overview of the TV market, of which subscription pay-TV was the main driver of growth.

Over The Top (OTT) services constituted a relatively small part of the market but were growing rapidly. The online video market could be further subdivided into three main monetisation models: transactional, where individual pieces of content were sold or rented; ad-supported, where services were free at the point of use but funded by advertising; and subscription (Subscription Video on Demand, or SVOD), where, similarly to pay-TV, consumers could pay a monthly fee to access a catalogue of content. All segments of this market were growing rapidly, with SVOD seeing the fastest rate.

He examined the worldwide SVOD market. Netflix currently dominated this sector, accounting for almost two thirds of all SVOD spend globally. If you were to consider that they had still only launched in a relatively small number of markets to date, and had plans to expand into 200 territories by 2017, then it was clear that this sector was still far from mature. While there were some interesting local services, such as Tibvu in Turkey or LeTV in China, Netflix was the only global player in this space to date.

Although still relatively small in monetary terms, SVOD services were also starting to have an impact on conventional viewing patterns. He had calculated that every 5% of penetration that Netflix had into the market associated with an approximate decrease of 6 hours of viewing of linear broadcast TV.

He compared Netflix's growth in subscribers against their content spend and showed that the two were in very close correlation, meaning that their content spend was driving their business growth. He clarified that this included their total spend – 80% of which went to acquisitions – and not just their headline grabbing original TV productions. He also observed that Netflix had been growing increasingly creative and innovative in their approach, such as by seeking to acquire first run territorial exclusives – notably *Breaking Bad* – and rights acquisitions ahead of broadcast, including buying the rights for *Gotham* ahead of the first transmission. Netflix was now a major investor in content and was spending more in total than the BBC, albeit across a much larger number of markets, and if you were to exclude sports rights, also had a considerably higher content spend than Sky.

This was a fast developing market with numerous new entrants that were now posing significant challenges to the established incumbents. Other points of interest included that Amazon was now spending more on content that ITV. The world was changing rapidly.

Beyond the pure financials, SVOD services were driving a shift in emphasis away from movies and towards high-end TV drama. The data showed that TV series were more widely consumed over SVOD services than movies and that high-end TV drama was especially popular. This was being reflected in the spend on the production end, and the public service broadcasters and Sky were now spending more per hour on high end TV than the average UK film production did – *Game of Thrones* was particularly notable as spending considerably more per episode than most feature films.

He concluded by summarising some of the global patterns in content spend. On a global level, Warner Bros. was investing more than any other entity in the world on production, although this included their games spend. Also, and despite the changes to the film, TV and games markets that he had previously described, the major studios were continuing to spend considerably more than any of the largest players in the games industry.

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