



## **BSAC Business Briefing**

### **UK Movie Market Update 2012**

This paper will be presented by IHS Screen Digest at BSAC's annual Film Conference on 22 March 2012.

#### **Market overview**

British consumers spent £3.7bn on all forms of movie products and services in the UK last year – about a five per cent rise on the 2010 total. This 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 1.4 per cent in 2011, reversing a decrease in 2010. There were 171.6m tickets sold – a relatively high figure in a modern context, 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 2011.

However, gross box office takings did break through a symbolic level in 2010, moving above the £1bn level for the first time and this was sustained in 2011, recording a gross box office figure of £1,051.6m. This was 4.5 per cent up on 2010, building on healthy 10.5 per cent and 6.6 per cent rises in the two previous years. The rise in ticket price was therefore a modest 3.1 per cent, ending at £6.13, lower than the inflation rate over the year and considerably lower than the 9.4 per cent rise of the previous year.

The recent ticket price rises, breaking the £5 barrier in 2007 and £6 this year, have been driven by the increased presence of 3D movie screenings – with premium pricing - in the overall exhibition mix. 3D film revenues actually accounted for 21.5 per cent of the total UK box office in 2011,

down from 27.5 per cent in 2010. Until the advent of 3D, ticket prices grew at a similar rate to inflation and 2011 saw a return to this trend.

Exhibitors benefited from two good periods during the last year, February and August. This was driven by three very different films: *The Kings Speech* (£45m) released in February; the last instalment of the *Harry Potter* franchise, *Harry Potter and the Deathly Hallows: Part 2* (£73m); and *The Inbetweeners* (£45m). These films are all officially classified as UK films, with the US a co-production partner in the *Harry Potter* series.

There were 3,824 active cinema screens in the UK by end-2011, a net growth of 83 screens during the year. The number of cinema sites remains relatively static (761 in 2011 compared to 763 in 2010) and the gently rising screen count underlines the consistently growing importance of multiplex cinemas. Of the screen base, 2,985 screens in 307 sites were classified as being multiplex (five screens or more), meaning that 78 per cent of cinema screens in the country are now within a multi-screen complex.

The march towards a digital future for the cinema industry accelerated sharply in 2011, with 71 per cent of all screens now digitised, and the country on course to complete a full digitisation in 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 2,714 in 2011 (from 1,415 at end 2010), of which 1,475 were equipped with digital 3D (54.3 per cent of digital screens and 38.6 per cent of all screens).

## **Home video**

Whilst the packaged home video sector remains the most important profit engine for the entire movie industry, total spending by UK consumers through the category declined further in 2011. Total consumer spending (on a retail and rental basis) on packaged video products fell 7.6 per cent last year to £1.9bn. This is £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 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 per cent due to a stronger demand for TV show boxed sets.

There were 192m DVDs sold to British consumers in 2011 – a fall of 9 per cent from the all-time record high of 253m in 2008, which ended 11 consecutive years of growth in DVD unit volumes. An increase in the proportion of the market accounted for by higher priced, new release product, alongside the second consecutive VAT increase, pushed average prices higher. This meant that total DVD spending fell less dramatically than volumes, down 7 per cent to £1.5bn.

Increased sales of Blu-ray Discs helped to cushion the decline in the overall home video category, but were unable to reverse the overall downward trend. UK consumers bought 15m Blu-ray Discs in 2011, spending £223m. This represented an increase of 12 per cent over 2010 and it is fair to say that the Blu-ray category's performance continues to be something of a disappointment for the industry. About 3.4m British households had invested in a stand-alone Blu-ray player by year-end, up from 2.1m in 2010; 4.7m households possessed a PlayStation 3 console that is also equipped to play Blu-ray Discs.

*Harry Potter and The Deathly Hallows, parts 1 and 2, The Inbetweeners, and The King's Speech* were the top four selling DVD titles of the year. This marked the end of the Harry Potter franchise, an almost perennial best seller since 2001. The titles also topped the Blu-ray Disc charts in 2011, followed in third place by *Transformers - Dark Of The Moon*.

UK consumers have turned back to lower cost movie consumption during the harder economic times. From 2009 onwards, video rental has experienced a period of recovery. Indeed, the market has largely stabilised through to 2011. Consumers spent £274m on video rental last year in all its forms, a decline of just 1.2 per cent compared to 2010. The weight of consumer spending has, however, shifted in 2011, from traditional store-based video rental to rent-by-mail providers, predominantly Lovefilm in the UK. The rent-by-mail sector, subscription based online DVD rental, accounted for just over half (52 per cent) of all rental spending in 2011.

## **Pay TV**

Within the pay TV sector, only one company – BSkyB – offers premium subscription pay movie services. The pay TV window generally starts 10-12 months after cinema release and lasts 12 to 18 months before the free-to-air window starts. BSkyB acquires and transmits library movies and first-run titles (about 2,500 movies per year in total).

Currently about two thirds of Sky Digital subscribers take the premium Sky Movies package. We estimate this generated UK consumer spending of over £1.1bn (inc. VAT) in 2011 – a little more than was spent at the cinema box office, but still less than the total spend on the movie home video category, the two other largest spending categories.

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

IHS Screen Digest estimates there were nearly 4.5m British households equipped to receive true video-on-demand services via a TV-based set-top box at the end of 2011. Most of these (around 3.8m) were Virgin Media digital cable customers. Another 0.7m were enabled via British Telecom's BT Vision service. By comparison, 6.4m households were able to receive so-called

Near-Video-on-Demand (NVoD) – primarily via BSkyB’s Sky Box Office service. BSkyB’s push-VoD service had more than 5m enabled households, and an additional 3m were enabled for its newer IP-VoD service.

TV based on-demand services in the UK generated more than £200m in 2011, according to IHS Screen Digest estimates. Out of this total, movie (excluding ‘adult’) transaction revenues (pay-per-view payments) from NVoD and VoD came to approaching £120m. If NVoD, push VoD and IP-VoD services are excluded, revenues from movie-based ‘true VoD’ amounted to almost £54m in 2011, a £5m increase on 2010, as consumer spending recovered following the recession.

Unlike the US market, subscription-based on-demand services (SVoD) in the UK are mostly based around non-movie content categories. This is because movie rights in the subscription pay TV window that SVoD operates in are mainly controlled by BSkyB. However, with Sky’s launch of the Sky Anytime+ progressive download VoD service, Sky Movies customers can now watch films included in their subscription on an on-demand basis for no additional fee.

### **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 a mixture of some new service launches (like YouTube Movies, Film4 on Demand, HMV movies and launch of Sky Go) and the impact of the first full year of operation from others. Total consumer spending on online movies (retail, rental and subscriptions) increased to £54m, a 37 per cent rise from 2010.

The market is essentially split between two transactional business models - digital rental and digital retail, also known as DTO (‘download-to-own’) or EST (‘electronic-sell-through’). Subscription online video service uptake has been limited to date. Online DVD rental pioneer Lovefilm has been offering online streaming of movies as a part of their physical subscription packages, and since December 2011, when it launched a standalone streaming plan alongside its traditional physical-only and bundled physical plus digital offers. Lovefilm has recently been joined by US counterpart Netflix, which launched its UK streaming-only offer in January 2012. Netflix has high hopes for the UK, indicating that long-term, it wants to be competing with incumbent pay-TV platform Sky for customers.

Device-centric online movie services, such as Apple’s iTunes and Microsoft’s Zune (which serves the Xbox 360 games console) and Sony’s PlayStation Store, continued to dominate the market, together accounting for almost 91 per cent of all online movie transactions in 2011.

Last year was characterised by the rapid growth in number of deals to deliver content 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 new models from Sony and Samsung, and more recently on PS3 and Xbox games consoles. However, given the long replacement cycles for hardware devices such as TVs, it will take a number of years for the installed hardware base to build to levels where viewing on connected TVs, in particular, is mass-market.

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