



UK Movie Market Update BSAC Film Conference 2009

Market overview

British consumers spent around £3.34bn on all forms of movie products and services in the UK last year. This included payments for cinema tickets, purchase and rental of DVDs and Blu-ray Discs, premium movie pay TV channels, TV-based on-demand platforms, and Internet downloads. This marks a small (2 per cent) rise in total movie spending over 2007 – an encouraging performance given the worsening economic climate.

Cinema

Admissions to UK cinemas increased almost imperceptibly in 2008 (1.1 per cent up), but given the economic deterioration this is impressive. There were 164.2m tickets sold – still down more than 11m from the modern high of nearly 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.

Gross box office takings came to £854.4m in 2008, up 4 per cent. This was driven by another rise in average ticket prices to £5.20 – having broken the £5.00 barrier for the first time in 2007.

Exhibitors benefited from the 2008 release of the UK's all-time highest grossing release – Universal's musical *Mama Mia!* – a phenomenon which generated £69.2m to overtake the previous record-holder *Titanic*. Behind *Mama Mia!*, franchise movies *Quantum of Solace*, *The Dark Knight*, and *Indiana Jones and the Kingdom of the Crystal Skull* all recorded takings over the £40m mark. Indeed, together the top 5 releases of the year accounted for more than one quarter of the year's total box office.

There were 3,661 cinema screens in the UK by end-2008, a net growth of 65 screens during the year. However, at the same time the number of different cinema sites actually declined – reflecting the increasing dominance of multiplex venues. There were 272 operating multiplex cinemas in the UK at the end of 2008 – 14 more than the year before. Almost three quarters of cinema screens in the country are now in a multi-screen complex.

The march towards a digital future for the cinema industry slowed in 2008, with the number of screens served by digital projectors increasing marginally during the year to 305 (up only eight d-screens). Of these, 70 were equipped for displaying digital 3D content (23 per cent), a ratio that will increase during 2009 as exhibitors focus on installing the revenue driver of digital 3D.

Marketing theatrical films

The cinema release window remains key to marketing a film and creating the value that can be recouped in subsequent release windows (home video, video-on-demand, pay TV, free TV, etc). According to the Film Distributors Association, a total of £170m was spent advertising the theatrical release of movies in 2008 – about £9m less than in 2007, which was the highest total on record. This excludes expenditure on premieres, publicity/PR and the (significant) cost of actually making promotional commercials.

As in all recent years, the largest component of the overall advertising spend was that allocated to TV advertising – almost £80m or 47 per cent of the total. Spending on TV commercials for movies actually increased by 7 per cent during the year, making it a rare bright spot in a dismal TV advertising market.

The biggest ‘loser’ as an advertising outlet for promoting movies was the ‘outdoor’ category, as there was an estimated £10m reduction in the amount spent on poster-based advertising during the year (£55m). While radio advertising expenditure has remained stable in the £8m-£9m per year range, spending on press adverts to promote films has been steadily declining – from over £30m in 2002 to £22.5m in 2008.

Given the explosive growth of web-based advertising, it is no great surprise that the largest new category of promotional spend for films in recent years has been ‘online’. However, having hit £4.7m in 2007, film distributors spent slightly less advertising movies on-line in 2008 (£4.2m).

On top of the £170m spent on advertising movies in the UK last year, distributors spent another £135m on making film prints (physical and digital) and trailers to promote forthcoming releases. Thus, total expenditure on ‘P&A’ (prints and advertising) in 2008 was £305m. After deducting these costs from total net distributor revenues, we estimate that the theatrical distribution window as a whole lost just over £7m in 2008 – a better result than 2007 when theatrical distributors were collectively £28m ‘in the hole’.

On average, this works out as a P&A spend of £579,000 per release. This means that the average theatrical release lost nearly £14,000 for its distributor last year, after subtracting these P&A costs.

Home video

Despite excitable press reports suggesting terminal decline, home video continues to be the most important profit engine for the entire movie industry. Total UK consumer spending (on a retail and rental basis) on video packaged media products was more or less flat last year at £2.6bn, down from a high of £2.95bn in 2004. However, not all of this is derived from movies. A little over 50 per cent of the value of purchased DVDs is generated by feature films, the rest coming from TV content, children’s, music video, special interest, etc. While the vast majority of rental transactions through physical stores are movie-based, the equivalent proportion for online rental services is typically around 75 per cent.

There were 253m DVDs sold to British consumers in 2008 – another all-time record and the eleventh consecutive year of growth for the format. However, lower average prices meant that total DVD spending was down slightly to £2.27bn. Four of the top five best-selling titles in the year

were also in the top five theatrical releases. *Mamma Mia!* officially became the UK's fastest-selling DVD in history, achieving sales of 3.1m in its first full week in the shops, and 5.1m by the end of 2008 (just five weeks later).

Total spending on rental of DVDs fell for the third consecutive year to £267m. This was despite continued strong growth in the subscription-based online DVD rental sector, which now accounts for more than one third all rental spending (£92m).

Following resolution of the high definition disc format battle, 2008 was the first real test year for the victorious Blu-ray Disc format. Screen Digest estimates that about 275,000 British households had invested in a stand-alone Blu-ray player by year-end; 1.9m households possessed a PlayStation 3 console equipped to play Blu-ray Discs. The net result was that 3.7m Blu-ray Discs were sold last year, more than four times the number sold in 2007. Warner's *Dark Knight* Blu-ray release sold 281,000 copies and the category as a whole generated £66m at retail.

Pay TV

Within the pay TV sector, only one company – BSkyB – still offers premium pay movie services. The pay TV window generally starts 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 consumer spending of around £920m (inc. VAT) in 2008.

TV platform video-on-demand

Screen Digest estimates there were almost 4m British households equipped to receive true video-on-demand services via a TV-based set-top box at the end of 2008. Most of these (around 3.5m) were Virgin Media digital cable customers. Another 400,000 were enabled via British Telecom's BT Vision service. By comparison, 8.4m households were able to receive so-called Near-Video-on-Demand (NVoD) – primarily via BSkyB's Sky Box Office service.

Total revenues from TV-based on-demand services in the UK in 2008 totalled £192m, according to Screen Digest estimates. Out of this total, movie (excluding 'adult') transaction revenues (pay-per-view payments) from nVoD and VoD came to £113m. If NVoD and push VoD services are excluded, revenues from movie-based true VoD amounted to just £49m in 2008, up from £38m in 2007.

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.

Internet-based video-on-demand

Distribution of movies over the open Internet can potentially replicate most of the business models offered in the physical world – i.e. retail ('download-to-own', DTO, or 'electronic sell-through', EST), rental, subscription and 'free' (ad-supported). To date, development of online movie distribution in the UK is still at a nascent stage, and this is represented in the revenues being generated.

The two most successful open Internet movie services in the world – Apple’s iTunes and Microsoft’s Xbox Live online service for the Xbox 360 games console – are both device-based platforms. By contrast, web-only platforms that have no device strategy have gained little traction in the market.

Apple began offering movies for rental and retail via the UK iTunes store in June 2008 and rapidly took up a controlling share of the country’s transactional digital movie market. In second place is Microsoft, which has made movies available to UK customers through Xbox Live since December 2007. There were only about 1.3m paid-for movie Internet downloads in the UK last year, which generated a little over £6m. Close to 70 per cent of the downloads were rental transactions as opposed to download-to-own retail transactions.

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