



UK Movie Market Update

BSAC Film Conference 2010

Market overview

British consumers spent £3.4bn 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 (feature film share only), premium movie pay TV channels, TV-based on-demand platforms, and Internet downloads. Despite the weak economy and the declines witnessed in a number of key market segments, this actually represented a small (2.7 per cent) rise in total movie spending over 2008.

Cinema

Admissions to UK cinemas increased by 5.5 per cent in 2009, an impressive increase given the uncertain economic climate. There were 173.5m tickets sold – the highest figure since the modern 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.

Gross box office takings came to £943.8m in 2009, up 10.5 per cent. This was driven by a relatively high rise in average ticket prices to £5.44 – having broken the £5.00 barrier for the first time in 2007. The rise was driven partly by the increased presence of 3D screens, and box office for 3D movies, which also include a ticket price premium.

Exhibitors benefited from the early success of Oscar success *Slumdog Millionaire* in January 2009, with a series of successfully staggered titles keeping the upwards momentum going throughout the year (*Monster vs Aliens*, *Star Trek*, *Transformers*, *Terminator Salvation*, *Harry Potter 6*, *Up*) towards the climax of the eagerly awaited *Avatar* in December 2009. The latter is now the highest grossing film of all time in the UK and on a global level. Indeed, together the top 5 releases of the year accounted for 20.4 per cent of the year's total box office (only including revenues from *Avatar* registered in 2009).

There were 3,696 cinema screens in the UK by end-2009, a net growth of 89 screens during the year. The number of cinema sites remains relatively static (766 in 2009) and the rising screen count underlines the importance of multiplex cinemas. Of the screen base, 3,055 screens in 389 sites were classified as being part of a 'Circuit' (an average of 7.9 screens per site) and 641 screens in 377 sites (1.7 screens per site) were 'Independents'. 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 picked up sharply in 2009, with digital screens more than doubling (107.1 per cent growth). This growth was driven in part by exhibitor excitement over 3D. Digital screen numbers increased to 642 in 2009 (310 at end 2008), of which 449 were equipped with 3D (70 per cent).

Home video

Whilst home video continues to be the most important profit engine for the entire movie industry, total UK consumer spending on the video category fell significantly in 2009. Total consumer spending (on a retail and rental basis) on video packaged video products declined 9.3 per cent last year to £2.4bn, from its high of £2.95bn in 2004. A little over 55 per cent of the value of purchased DVDs was 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, with demand for TV show boxed sets being particularly strong.

There were 235m DVDs sold to British consumers in 2009 – a fall of 7 per cent from the all-time record high of 253m in 2008, ending 11 consecutive years of growth in DVD unit volumes. Lower average prices meant that total DVD spending fell even more, down 13 per cent to £2.02bn.

Increased sales of Blu-ray Discs helped to cushion the decline in home video, but were unable to reverse the overall downward trend. UK consumers bought 8.3m Blu-ray Discs, spending £140m. Although this represented an increase of over 100 per cent over 2008, it is fair to say this result is something of a disappointment for the industry. About 1m British households had invested in a stand-alone Blu-ray player by year-end, up from 275,000 in 2008; 3m households possessed a PlayStation 3 console that is also equipped to play Blu-ray Discs.

Harry Potter & The Half Blood prince, the 2008 film Quantum Of Solace, Twilight, Transformers - Revenge Of The Fallen and Slumdog Millionaire were the top selling DVD titles of the year. By contrast the top selling Blu-ray Discs were Transformers and Star Trek 11. None of the top selling home video titles in 2009 was able to achieve even half the 5.1m disc sales generated by Mamma Mia!, the top selling title from 2008.

More consumers typically turn to the lower cost movie consumption option of rental during economic hard times and there is evidence this has been happening again during this latest downturn. Total spending on home video rentals was stable last year, ending four consecutive years of decline, with consumers spending £221m on DVD and Blu-ray Disc rental. Underlying this was continued growth in the Lovefilm-led subscription-based online DVD rental sector and a slowing of the decline in store based video rental. Subscription-based online DVD rental now accounts for almost half of all rental spending (£108m) in the UK.

Pay TV

Within the pay TV sector, only one company – BSkyB – still offers premium subscription 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 UK consumer spending of around £900m (inc. VAT) in 2009.

TV platform video-on-demand

Screen Digest estimates there were almost 4.2m British households equipped to receive true video-on-demand services via a TV-based set-top box at the end of 2009. Most of these (around 3.7m) were Virgin Media digital cable customers. Another 450,000 were enabled via British Telecom's BT Vision service. By comparison, 8.7m 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 2009 reached £185m, according to Screen Digest estimates. Out of this total, movie (excluding 'adult') transaction revenues (pay-per-view payments) from NVoD and VoD came to £108m – actually a four per cent reduction on the 2008 figure achieved. If NVoD and push VoD services are excluded, revenues from movie-based true VoD amounted to £49m in 2009, flat on 2008, largely as a consequence of decreased per household spending during the economic downturn.

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 video-on-demand

The UK market for online movies – the distribution of movies over the open Internet – remains in its infancy, generating £17.3m in consumer spending in 2009 from transactional business models (digital retail – also referred to as 'download-to-own', DTO, or 'electronic sell-through', EST – and digital rental).

In general, consumers are reluctant to pay for content that is tethered to the PC, which might explain why 10 standalone transactional Web-based movie stores in the UK closed their doors in 2009. It is those services which enable content to be consumed on another device that account for the lion's share of online movie spending. Apple offers a prime example of a hardware-centric ecosystem: consumers buy the device, then buy content for that device.

Thanks to the installed base of its video-capable iPod devices and iPhone handsets, Apple has established itself as the leading provider of online movies. However, the company is facing increased competition from other device-based service providers, notably games console manufacturers Microsoft and Sony, which both expanded their proprietary online movie stores in the UK in 2009. These three device-based services dominated the market in 2009, accounting for 90% of the 3.1m online movie transactions in the UK.

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