

More Than A Support Act



THE TRUE VALUE OF THE UK VIDEO INDUSTRY

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In Spring 2011, the British Video Association (BVA) commissioned Oxford Economics to conduct a study into the value of the UK's video entertainment sector, drawing on existing industry statistics and interviews with audio visual (AV) industry institutions and executives, including television producers, distributors and broadcasters; producers and distributors of independent and major motion pictures; the UK Film Council and the Independent Producers Alliance for Cinema and Television (PACT).

This summary document presents the key research findings, which highlight the value of the video entertainment sector to the AV industry as a whole.

As an increasingly important revenue stream for film and TV producers and distributors, it is clear that the video entertainment sector is a key driver in production decisions. This influences not only decisions to 'green-light' specific film and TV productions but also the level of quality and innovation that is invested in these outputs, which directly affects the thousands of skilled jobs associated with this sector.

The UK industry is responding dynamically to the opportunities presented by the digital environment and consumer demands for instantaneous and convenient delivery. At the same time, external barriers and threats, such as lack of interoperability, broadband speeds and piracy, need to be addressed in order for value to be maintained within the sector.

Within the UK AV industry as a whole, video entertainment is no longer a support act but has moved centre stage. In the changing digital environment, its value must be preserved.

MAINTAINING VIDEO'S CONTRIBUTION TO UK CREATIVE CONTENT - THE 3 RS

RECOGNITION – the role of the video entertainment sector in sustaining the production of creative content must be adequately recognised and encouraged by government and industry;

REACH – timely roll-out of the digital infrastructure, and industry support for digital distribution technology such as UltraViolet, are essential to ensure that the video entertainment sector can realise the potential offered by new media;

REGULATION – government must continue in its efforts to implement new regulations and provide public agencies with the necessary resources to enforce against copyright theft.

Terminology

Within this report, the terms 'video' and 'video entertainment' refer to DVD, Blu-ray Discs, video-on-demand (VOD), downloading, streaming and pay per view.

The AV market refers to cinema (i.e. theatrical), video and TV. Live sports transmissions and merchandising are not included in the revenue estimates for the AV sector as live sports coverage in particular is a form of 'derived demand' rather than the presentation of content specially for the AV sector.

Driving Business Growth and Creating Jobs

A key measure of the importance of the video entertainment sector is its financial value within the AV sector as a whole. Research shows that video entertainment plays a significant role in supporting returns to producers, distributors and, ultimately, to all those working within the filmed entertainment sector i.e. actors, directors, scriptwriters etc.

Data from the BVA Yearbook 2011 indicates that consumer spending on video entertainment was £2.6 billion in 2010.

Taking a wider perspective of the leisure market as a whole, the £2.6 billion spent on video entertainment in 2010 far exceeds expenditure on cinema, music and electronic games. If compulsory BBC licence fee revenues and subscriptions to ISPs are excluded, then video constitutes the second largest source of spending, ranking behind only cable TV and subscription service spending.

In 2009, total AV market revenues in the UK were estimated at £10.8 billion. Within three key genres – feature films, TV series and children's productions – the contribution of video entertainment is shown to be particularly significant and it is these genres that provide the substantive platforms for the display of

British content and support the employment of British AV professionals, such as writers, actors, producers and distributors. Video entertainment accounts for almost half of the total revenues for the feature film genre. For TV series, video sales provide over one third of total revenues. Within the children's genre, video revenues make up almost one fifth of the total revenues. Across the whole AV sector, video entertainment accounts for 24% of market revenues (excluding live sports revenues and merchandising revenues).

Discussions with industry executives indicate that their investment in producing and distributing content across these specific genres is based on making returns from video sales in broadly these proportions. Accordingly, any reductions in revenues from video entertainment will relate directly and proportionately to future investment.

Video entertainment is also critical to the success of key British TV series in the international marketplace. For example, excluding licence fee payments, 50% of the total revenues from Dr Who – one of the BBC's global 'Superbrands' – is estimated to come from video sales both in the UK and abroad.

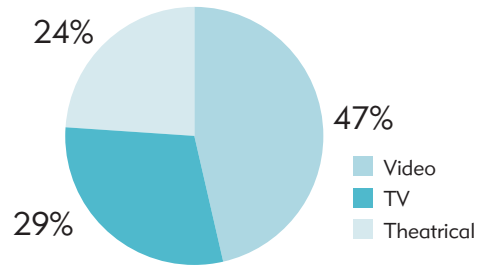


CASE STUDY: TRACTOR TOM – VIDEO IN THE DRIVING SEAT

Tractor Tom was a UK produced children's TV series (2003 and 2004) aired on Children's ITV (CITY) in the UK and also in Australia and New Zealand.

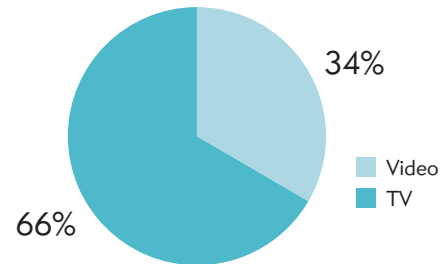
The producers, Contender Entertainment, invested £1 million in the series. The expectation of significant video entertainment revenues was used to 'green light' the series. This expectation of high volume sales of video was realised in the UK. Furthermore, the series also generated international sales and led to additional revenue streams via merchandising and a stage show. Given that production of the TV series received the go-ahead partly on the back of expected video revenues, these spin-offs and export success can be attributed largely to the strength of the video entertainment sector, a clear indicator of video entertainment playing a leading role in AV production decisions.

Revenues from Feature Films



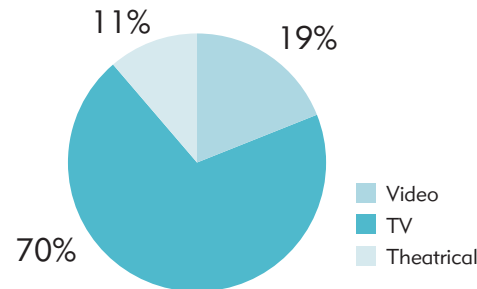
Total film revenues (Video, TV, Theatrical): £3.1 billion
Source: Oxford Economics

Revenues from TV Series



Total TV series revenues (Video and TV): £1.9 billion
Source: Oxford Economics

Revenues from Children's Genres



Total children's revenues (Video, TV and Theatrical): £1.5 billion
Source: Oxford Economics

1/3
of TV series revenues from video

2nd
largest source of leisure spending (exc TV licence fees and ISP subscriptions)

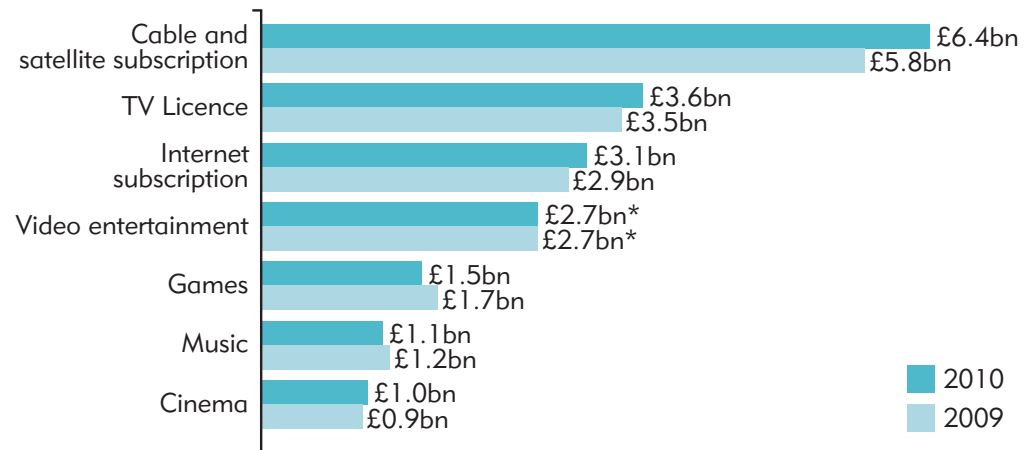
£2.6 bn
consumer spending on video entertainment

24% of total UK AV revenues from video

47% of feature film revenues from video

50% of global revenues for Dr Who from video

Spending on UK Leisure Markets in 2010 (£ billion)



* Includes sports and event programming available through some video services.

Source: IHS/Screen Digest BVA Yearbook 2011

Supporting Creativity and Quality Productions

The video entertainment sector is critical not only to supporting the financial viability of film and TV productions, and the jobs of the people who work on them, but is also a major factor in decisions relating to quality. Interviews carried out with industry executives, as part of Oxford Economics' research, found a consistent and striking theme was the fact that video entertainment 'came into its own' for major British productions such as high quality dramas. In particular, higher cost TV productions tend to be more reliant on video entertainment revenues than is the case for the average programme and these programmes are made with an expectation of substantial video entertainment returns. Conversely, a decline in such revenues would impact on such investment. A good example of this is *Downton Abbey*, where nearly half (46.7%) of the UK revenues for this series were derived from video entertainment. This in turn helped to fund production of a second series.

Budget cuts in recent years at major TV broadcasters have reduced commissions to independent UK producers. In order to compensate for lower commissions, and rather than reduce quality, increasing focus is now being given to 'secondary markets' i.e. video entertainment sales and more emphasis is also being placed on the sale of video rights/licences to overseas markets.

The UK is seen as 'punching above its weight' internationally due to an increased emphasis on video entertainment exports and the high quality of the exported material. The BBC's *Planet Earth* was a global success on DVD and Blu-ray with sales of seven million units globally, making it one of the most successful documentaries of all time. Ongoing profits from video sales are re-invested via BBC Worldwide into further productions such as *Human Planet* and *Frozen Planet*.

Video entertainment is particularly important to the British independent film sector where, typically, around 50% of revenues are generated from this source. As such, video entertainment provides a lifeline to independent film productions, which, generally, do not have wide access to cinema and TV exposure and the corresponding incomes from these revenues streams.



Planet Earth – a global success. Profits generated by BBC Worldwide through commercial activities, including video products, are re-invested in new programming, funding longer location shoots and higher number of episodes than would be covered by licence fee funding alone.



Video products have played an important role in supporting alternative music documentaries such as *Punk: Attitude*, a film exploring the punk era, which derived three quarters of its revenues through international DVD pre-sales. Without such sales, the project would not have occurred.



CASE STUDY: KiDULTHOOD: HELPING SMALL FILMS GROW UP

The 2006 independent film *KiDULTHOOD* is a good example of the importance of video entertainment in sustaining the UK independent film sector. The film deals with the troubled lives of teenagers in West London.

With production costs of around £600,000, *KiDULTHOOD* earned around £500,000 through initial cinematic release. However, the sale of some 700,000 copies of the film through video entertainment provided a critical source of revenue for the producers, who subsequently received sufficient funding to release the sequel, *AdULTHOOD*, in 2008.

A photograph of three women in early 20th-century attire standing outdoors. The woman on the left wears a light-colored, long-sleeved dress with a dark floral pattern and a wide-brimmed hat. The woman in the center wears a vertically striped dress with a dark belt and a matching hat. The woman on the right wears a plain white dress with a wide-brimmed hat. They are standing in a grassy area with trees and a large building in the background.

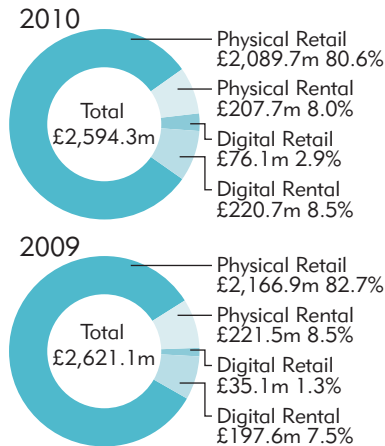
“The UK ‘punches above its weight’ internationally due to an increased emphasis on video entertainment exports and the high quality of the exported material.”

“Nearly half (46.7%) of the UK revenues for the first Downton Abbey series were derived from video entertainment.”

MULTI-CHANNELS

Sales of physical video discs accounted for the lion's share (81%) of total video entertainment during 2010. Physical rental accounted for 8% of the market in 2010 and was exceeded in value for the first time by digital rental, which in 2010 increased to 8.5% of the market. The digital retail segment accounted for 2.9% of the market. The BVA expects physical media to remain the preferred choice of consumers for the foreseeable future, although viewer behaviour is changing due to the much greater range of formats, devices and platforms enabling greater flexibility in terms of the time and place of viewing content. Between 2009 and 2010, the value of digital retail sales (download to own) more than doubled from £35.1 million in 2009 to £76.1 million in 2010.

UK Video Market Breakdown (value)



Source: IHS Screen Digest/BVA Yearbook 2011

The illustration on page nine depicts the video entertainment landscape, highlighting the wide range of services and formats, including physical and digital delivery, currently available to consumers of video entertainment.

The move to accessing media content through digital and/or mobile devices will be a key issue in future years. According to a recent Ofcom report:

- UK consumers are spending almost half their waking hours watching TV, using their smart phones and other communications devices;
- mobiles have become an accepted entertainment device, with nearly 11% of people saying that they would be likely to watch a full TV episode on their mobile;
- among 16–24 year olds, over half (52%) of media activity is simultaneous, compared to just over one fifth (22%) for people aged over 55.

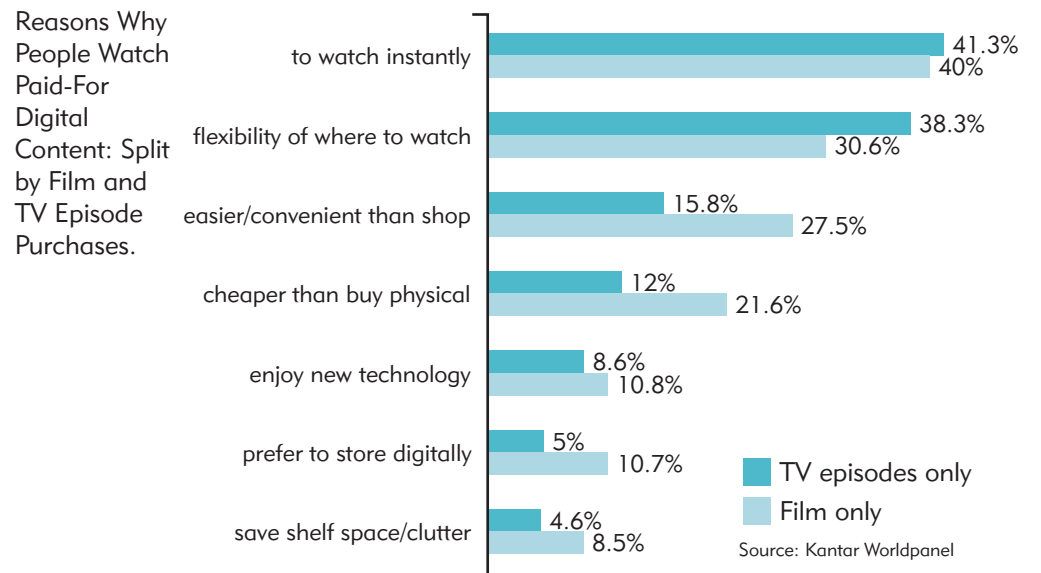
The increasing availability of digital platforms offers a major opportunity for the video entertainment sector. The key question is whether this huge potential market will actually convert to paid-for video usage. Research by Kantar Worldpanel indicates that just over half of the GB population (54%) accessed

Delivering Consumer Choice

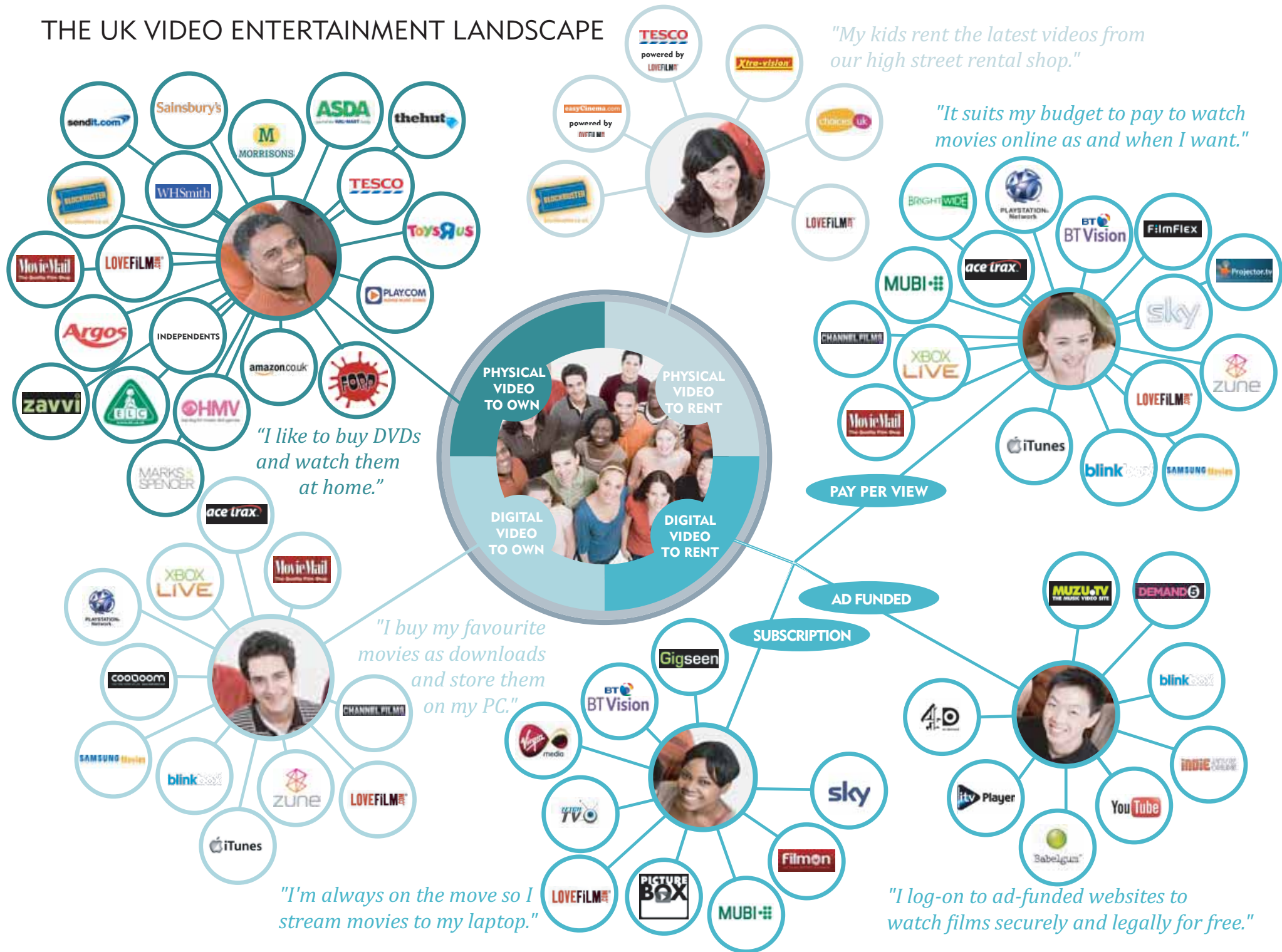
some form of legal digital service during 2010 and that just over one quarter (26%) of the population paid for digital content at least once, with 18% of the population having used paid-for digital services at least three times. This indicates that paid-for digital content is not just a novelty but that consumers are adopting such services as part of their mainstream activity.

In the age of Facebook and YouTube, consumers have become accustomed to expecting instantaneous communications and interactive responses within the digital environment. It is not surprising, therefore, that when asked why they watch paid-for digital content, the top three reasons provided by consumers are instantaneous delivery, flexibility and convenience.

In tandem with the development of digital media in general has been the rise of catch-up TV such as BBC iPlayer. The Kantar Worldpanel survey found that the growth of new users of paid-for digital products was likely to come from users of free catch-up TV. Take-up of iTunes also demonstrates this trend: 58% of iTunes users who 'trial' the iTunes paid-for video service become regular users. This indicates that familiarising users with the advantages of digital capabilities, encourages further paid-for usage. Free catch-up TV may serve as a springboard to drive digital audiences to paid-for services.



THE UK VIDEO ENTERTAINMENT LANDSCAPE



THE FUTURE

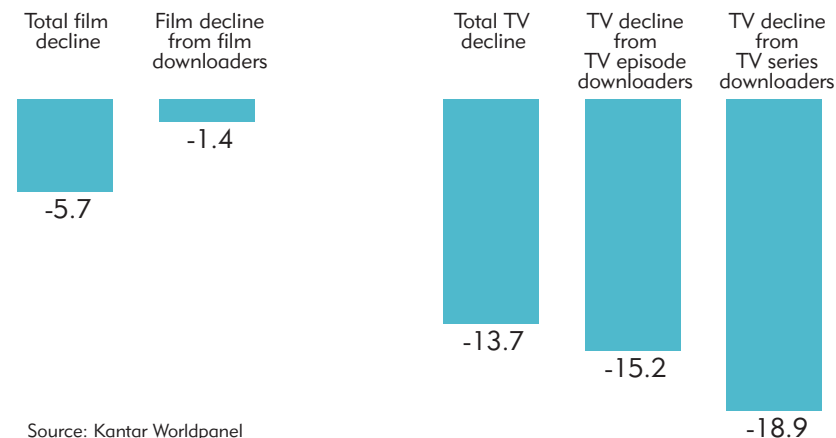
Industry data suggests that the value of the UK video entertainment sector will remain broadly steady in the years to 2014. However, as with all forecasts, there is no certainty about future trends and a number of key issues are considered below which are critical to maintaining the development of the sector.

Digital

The previous section shows how numerous companies within the UK video industry are already responding to consumer demands for digital delivery. However, the digital marketplace also presents challenges, such as replacing the falling sales of physical discs with paid-for digital sales. Between 2009 and 2010, DVD sales of feature films declined by 5.7%, however, revenue from film downloads-to-own declined less than film revenues as a whole (down 1.4%). During the same period, the percentage decline in physical sales from TV downloads-to-own outstripped the overall percentage revenue decline in physical TV sales. Bearing in mind the importance of video entertainment revenues to this market (as considered in previous sections) it is vital that adequate returns are achieved from digital media.

Consumers place a high value on instantaneous delivery of media content and there is strong 'willingness to pay' for immediacy, offering opportunities for video entertainment providers to ensure future revenues through strategic digital delivery and pricing strategies.

Percentage Change in DVD Sales Revenue for Films and TV Series/Episodes (2010 vs. 2009)



Source: Kantar Worldpanel

Catch-up TV

Catch-up TV (such as BBC iPlayer) is another area offering both opportunities and threats to the video entertainment sector. In theory, free catch-up services compete with video entertainment revenues through consumers substituting it for the rental or purchase of video entertainment products. This could lead to a decline in video entertainment sector revenues, with the knock-on effect being a reduction in future investment in British production. A contrary view is that catch-up TV can be seen as a marketing tool, increasing viewers' familiarity with digital services and awareness of content that people might subsequently pay to view; it could shift behaviour so that purchasers of video entertainment would be those who were sceptical of replacing physical discs with content they want to rent or keep to view many times, perhaps on a variety of different devices. The implication is that in time consumers may also be willing to pay for premium quality in Premium windows, thereby reducing the reliance on revenues from physical discs and the potential cannibalising effect of free catch-up services.

Broadband Speed and Penetration

The Ofcom *Communications Report 2010* shows that total broadband penetration stood at 71% of households in the first quarter of 2010. However, for the video entertainment sector, the primary concern is the availability of high-speed connections. The European Commission report *Single European Electronic Communications Market (2010)* noted that in the UK the share of high-speed lines above 10Mbit/s comprised just 19.8% of all connections – below the EU average of 23.3%. Within the UK, there are geographical inequalities: rural areas have slower speeds than the UK average and Wales, Scotland and Northern Ireland lag behind England in terms of broadband speed.

An important initiative is the development of initiatives such as UltraViolet, which is planned for roll-out in the UK market in the near future. This technology improves the interoperability across multiple platforms and devices such as computers, TVs, game consoles, smart-phones and tablets enabling consumers to watch TV and film content seamlessly and easily. UltraViolet will enable multiple users in one household to access UltraViolet-compatible content, which may be downloaded and moved to several devices.

“For many consumers, the speeds available to them via ADSL are not sufficient for a high-quality experience of high-bandwidth services such as internet TV, or for connecting multiple devices to the internet.” Ofcom 2010

Given its demands in terms of broadband capacity, if digital video entertainment is to be provided in accordance with changing consumer expectations, it is important to ensure that the infrastructure is capable of handling complex and multi-platform consumer needs.

Piracy

A further threat, heightened by the spread of high-speed broadband, is piracy, which costs the UK AV sector over £0.5 billion a year in lost sales. Copyright theft has long been recognised as a serious problem for the industry as a whole and to the video entertainment sector in particular. The introduction of the Digital Economy Act 2010 and its measures aimed at curbing illegal file-sharing and streaming from unauthorised websites is a welcome development, albeit with disappointing delays in implementing the legislation. The need to reduce the impacts of copyright theft on the video entertainment sector, in order to maintain its value and returns on investment in the production of quality film and TV content, will become even more critical as the use of web-enabled devices becomes more widespread.

Future Gazing - Survey of Industry Executives

SCENARIO	RESPONSE/COMMENTS
What if video entertainment revenues fell by... 15%	“Could manage” “Less titles would be produced/distributed, resulting in a smaller organisation” “Content production would decline”
25%	“Pushing it”
50%	“Questionable that people have any incentive to produce” “Would hit the bigger TV shows the most – hard to replace that [video entertainment] income” “Would have a severe impact. Production would fall by more than half” “There would be a migration to certainty. You wouldn’t be able to fund all of the current productions and output would decline. There may also be a loss in quality.” “Production budgets would be cut, though volumes would be less affected”.



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