

The Bigger Picture: Expanding Offerings Help Cinemas Fight Back

Krasimir Dinev, October 2019

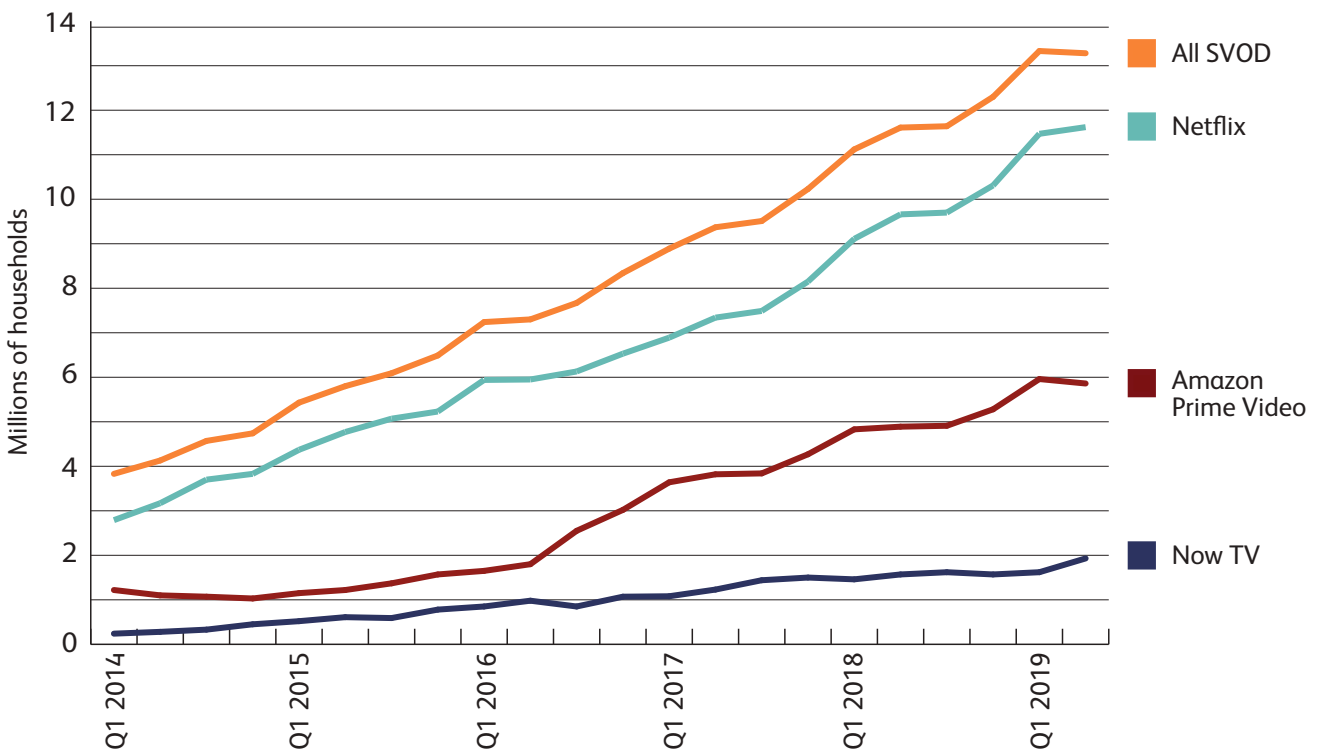
IBISWorld discusses the competitive threats facing the Cinemas industry and the strategies that companies have adopted to maintain demand.

Cinemas are facing a higher level of competition than ever before. The industry is under threat from consumer preferences for other forms of entertainment, sport and leisure. Other forms of home entertainment including digital pay TV and subscription video-on-demand (SVOD) service providers, such as Netflix, Amazon Prime Video and Now TV, allow customers to stream film and TV content. Although competition from SVOD services is rising, competition from TV has been decreasing and DVD sales have also been trending

downwards. Ofcom figures show that online streaming was more popular than pay TV in 2018, while Netflix subscriptions have overtaken Sky's satellite TV service subscriptions, which have been decreasing. Additionally, cinemas have also been threatened by film piracy.

Nonetheless, revenue in the Cinemas industry is expected to rise at a compound annual rate of 1.7% over the five years through 2019-20 to £1.6 billion, including marginal growth of 0.2% in the current year.

Subscription VOD rates in the United Kingdom



SOURCE: BARB ESTABLISHMENT SURVEY

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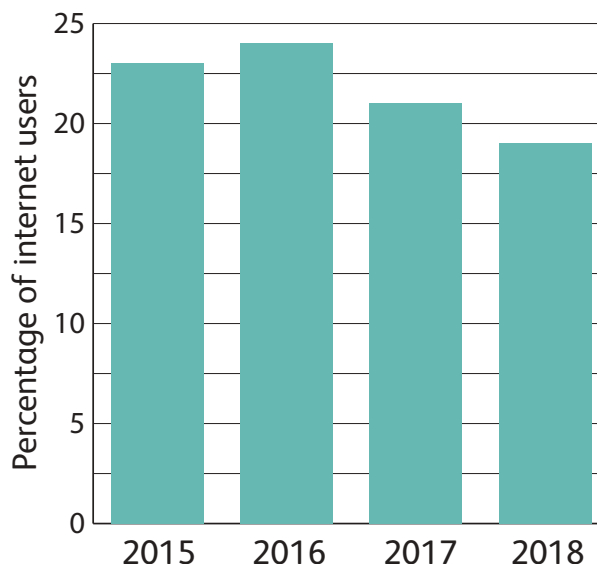
Although the industry has faced high external competition, a strong film slate over the period has resulted in an increase in cinema admissions, while the average spend per visit has also grown. This is primarily due to improved services being offered by cinemas, including premiumisation, a wider choice of content and impressive graphics, all of which incentivise patrons to continue visiting cinemas.

Adapting to competition

A key strategy used by cinemas to cope with competition is premiumisation. Operators have attempted to add more value to the cinema experience. Some are widening their services, improving the movie-going experience by offering comfortable reclining chairs and providing meals and alcoholic drinks, making it more personalised for patrons in order to lure them from their home. For example, Everyman Cinemas has been offering a more personalised, high-end experience to patrons by providing sofas and table service, offering wine and freshly made pizza. The company's revenue increased by an impressive 37.4% in 2017, and then by a further 27.7% in the following year. By the end of 2019, ODEON plans to launch a Luxe & Dine cinema, an upgrade to its Luxe cinemas. The Luxe cinemas offer recliner seats, extra leg room and fold out trays for snacks. However, the Luxe & Dine will offer a full dine-in menu, with food brought to customers' seats by waiters. The menu includes Wagyu beef, pizza, vegan burgers and cocktails.

To mitigate competition from TV and online streaming services, some operators have enhanced their product offerings, such as by streaming alternative content like live theatre, concerts and sporting events. Tickets for alternative content typically command higher prices than regular cinema tickets. Other offerings include screenings of old films, as well as Q&As with actors and producers. Many such offerings are provided by smaller operators as they enter niche markets, differentiating themselves in order to attract customers. As a result, enterprise numbers in the Cinemas industry are expected to grow at a compound annual rate of 5% over the five years through 2019-20. Over the same period, establishments are projected to rise at a compound annual rate of 2%, a slightly lower rate of growth due to limited availability of sites and consolidation activity being undertaken by industry operators.

Film piracy in the United Kingdom



SOURCE: INTELLECTUAL PROPERTY OFFICE

Piracy

One threat faced by the industry is internet film piracy. While greater internet accessibility and a higher number of digital platforms have increased the opportunity for online copyright infringement to occur, statistics show that the level of access to illegal film content has been decreasing over the past five years. The Intellectual Property Office states that film piracy declined to 19% of internet users in 2018, compared with 21% in the previous year. This has largely been the result of a crackdown on illegal providers. For example, 123Movies, which was widely regarded as one of the most popular illegal streaming websites in the world, was shut down in 2018. Similarly, media player Kodi had a number of popular add-ons that were illegally streaming content shut down in June 2019 following a member of the public being arrested by the police on suspicion of running such an add-on. Internet service providers have also joined the battle against piracy by sending letters to customers who have been found to be using their internet connection to access media illegally.

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Graphics

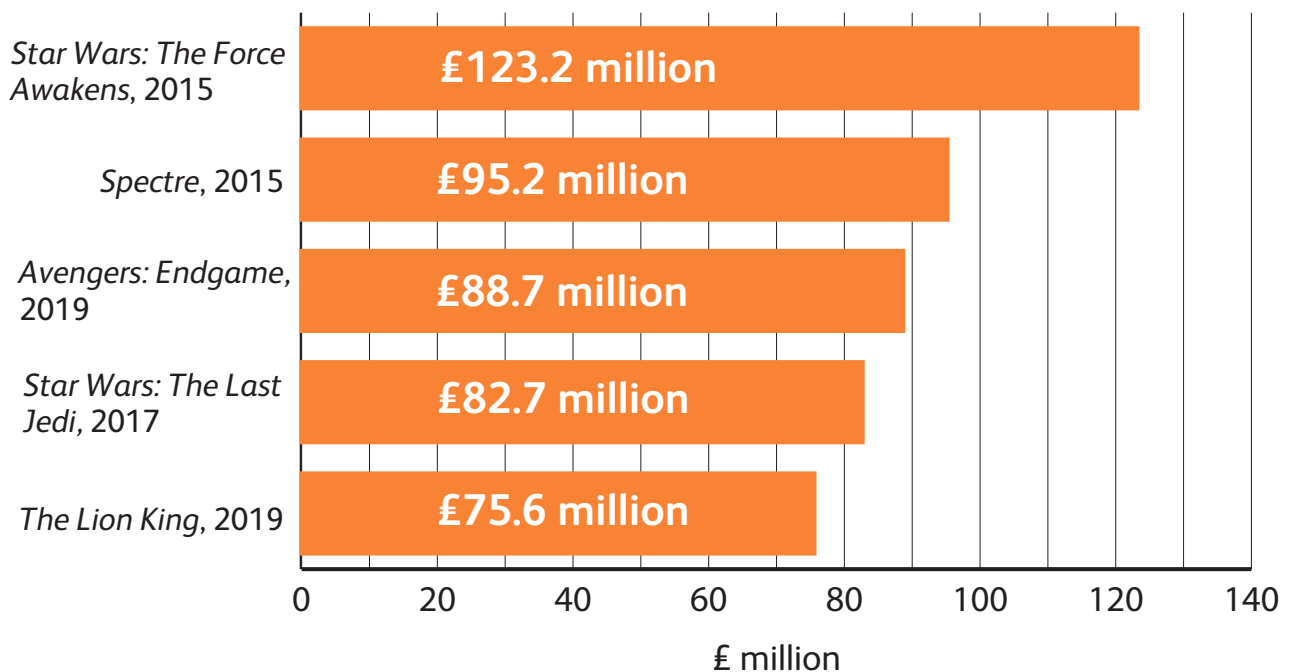
A key selling point for cinemas is the graphics that they offer in comparison to home entertainment alternatives. Spectacular graphics make the cinema experience unique for consumers, one that cannot be replicated at home. Graphic services offered by cinemas include 3D screenings, 4DX screenings that offer multi-sensory experience with special effects, and cutting-edge ScreenX technology that offers a 270° viewing experience. Cinemas also boast a premium audio experience, allowing for full concentration on the big screen. Very high grossing films that have used advanced graphics include *Avengers: Endgame* and *Star Wars: The Last Jedi*, with many viewers opting to go to the cinema due to the unmatched visual and audio quality rather than waiting for these films to be released on DVD or streaming platforms.

Conclusion

The high level of external competition faced by cinemas has forced them to improve service offerings and invest in technology, to the benefit of consumers.

A report titled ‘The Relationship Between Movie Theater Attendance and Streaming Behavior’ by EY, which was published in 2018, showed that individuals who attended cinemas more frequently also tended to consume streaming content more frequently, indicating that streaming services tend to be used alongside attending the cinema rather than in place of it. High supply of content means that both cinemas and SVOD services benefit. Cinemas mostly concentrate on projecting films, while streaming services also offer TV shows and other content. Moreover, cinemas are protected by the theatrical window, which is a set period of time in which new films are only available at cinemas until being released on DVD. However, recent talk of a shorter theatrical window is a threat to cinemas. Continued investment in adding value to the consumer experience means that competition has had a limited effect on the industry, with its revenue continuing to grow. Cinemas remain a unique experience for watching film and other content.

Top five grossing films in the United Kingdom since 2014



SOURCE: BRITISH FILM INSTITUTE

IBISWorld Industry reports used in this special report:

159.140 Cinemas in the UK

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