Europe's video industry – the state of affairs

Europe's burgeoning digital video and Blu-ray sectors are finally growing fast enough to compensate for falling spending on DVDs, says IHS Screen Digest's TONY GUNNARSSON, but the unusually severe winter weather experienced by much of northern Europe at the tail end of 2010 meant that the promising early growth failed to fully materialise by year-end.

Consumers in the 22 European countries[1] analysed by IHS Screen Digest spent €9.9bn on buying and renting physical and digital video in 2010, a fall of 2.3% over the 2009 figure[2]. Nonetheless, this was a slight improvement on 2009 itself, when spending fell by over 4%.

This was in part due to the rapid growth of new methods of filmed entertainment consumption such as TV-based video-on-demand (TV VOD) and digital retail and rental via computers and internet-connected television sets. Combined spending on these sectors rose 35.8% in 2010 to €784.1m.

The largest sector was TV VOD, spending on which grew 20.2% to €573m in 2010, but digital video retail (also known as electronic sell-through or EST) was the fastest growing – up 132% to €143m. Digital rental – or internet VOD (iVOD) – remains a much smaller part of the video business, but also showed good growth, up 74% to €68.5m.

It was, however, another year of decline for packaged video, spending on which fell 4.6% in 2010, almost exactly the same degree of decline as was recorded in each of the two previous years.

This was despite an increasing trend among European consumers in favour of Blu-ray Disc. In 2010, Europeans spent €906m on buying BDs, up 56.7% on 2009, and the format accounted for 11.2% of packaged video retail spending in Europe – compared to 6.9% in 2009.

The growth in the newer delivery mechanisms was not sufficient to compensate for the continued decline in consumer spending on retail DVD, down by 8.3% to €7.1bn, with the result that total retail spending (across both physical and digital media) was down by 2.8% compared with a 3.9% drop in 2009.

Perhaps counter-intuitively, the rental sector slightly improved the overall picture in 2010, with consumer spending on all forms of rental flat (+0.2%) at €1.77bn. However, although spending on Blu-ray rental (both store-based and online) more than doubled, at €64.7m, it represented just 3.7% of total rental spending—almost exactly the same as VOD (up 74.4% to €68.5m). The real growth came from TV VOD (which is in this context a form of digital rental), spending on which increased 20% to €573.0m.

Bad weather stops play

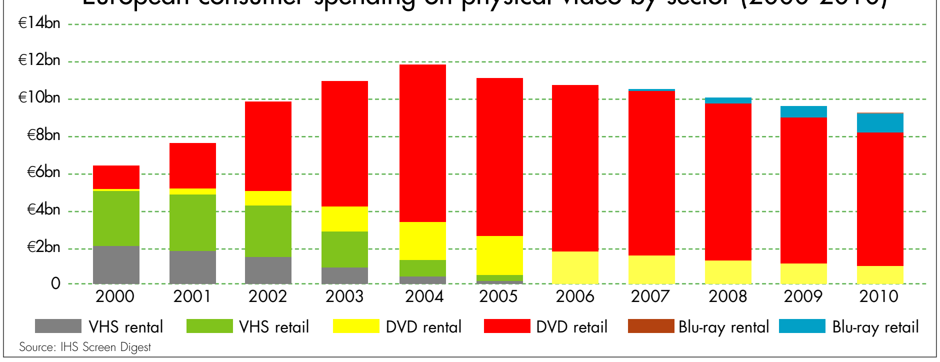
In 2010, both Christmas Day and New Year's Day fell on Saturdays, effectively closing stores to shoppers for two key trading days and compressing Christmas shopping spending into the first two weekends of December.

Unfortunately, for most northern European territories those weeks coincided with the coldest December in 100 years. Deep snow and freezing conditions brought transport chaos across the region and the capitals of London, Paris and Berlin came to a standstill during these vital Christmas shopping weekends. Not only were the important out-of-town shopping centres affected, but the snow also adversely affected delivery times for major internet retailers such as Amazon (which operates in each of the top three markets) and play.com, making many consumers wary of buying videos (or anything else) for Christmas online. As a result, many potential gift sales were lost, and since the UK, Germany and France between them account for two-thirds of European spending on video the impact on total regional spending was significant.

In the UK, many consumers could still get to local high streets to do their Christmas shopping, but the closure of all bar one of the country's once numerous specialist entertainment chains, combined with the out-of-town location of many supermarkets, meant that many smaller towns no longer boast a single outlet on the high street selling DVDs and BDs.

UK consumers have a strong tradition of buying more video in the final quarter of the year than at any other time, so the chaos in December hit the year-end figures. By the end of November, consumer spending on retail BD was up 74% over 2009 while DVD spending was down 4%, resulting in a flat market overall. However, by the end of December full-year results showed that BD was up only 49%, to €244m, while spending on DVD fell 7.2% to €2.1bn. Overall, UK packaged video retail sales generated €2.4bn in 2010, a decline of 3.5% on 2009. BD accounted for 10% of this figure but, due to its higher average price, less than 6% of volume.

Germany's video sector was comparatively unaffected by the recession – in 2009 spending on physical video in Germany grew 5% to €1.63bn – and a strong performance in the first half of 2010 suggested that German consumers' new enthusiasm for buying video was set to continue.



European consumer spending on physical video by sector (2000-2010)

Source: IHS Screen Digest

[1] Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, United Kingdom.

[2] Unless stated otherwise, figures in text and charts are based on local currencies converted at a fixed 2010 annual Euro exchange rate.

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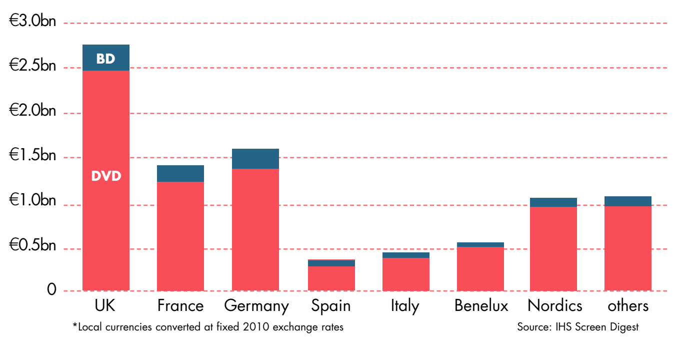
However, the bad weather also hit the German home entertainment industry. Spending on BD – which had been extremely strong in the first nine months with BD unit sales up more than 125% by late September – ended 62.5% up at €192.8m giving the format a 10.4% share of total retail video sales. Retail DVD spending fell 5.5% to €1.1bn, meaning that total German video retail ended the year flat at €1.3bn, with BD generating 13.9% of that amount.

In the past couple of years, Germany has overtaken France to become the second largest video market in Europe, generating almost 18% of total European physical video spending in 2010 compared to France's 15%. The territory is also closing in fast on France in terms of video retail alone – Germany now accounts for 20% of physical retail spending, compared to France's 18%, although the UK maintains a comfortable lead with 34% of European video retail spending.

After reversing a long-standing negative trend in 2009, all eyes were on France in 2010 to see if growth could be sustained without the artificial stimulus of the shorter new release windows which allowed it to benefit from two fourth-quarter slates in 2010 (one in Q1 and one, with the rest of the world, in Q4).

The first half of the year suggested that French consumers were indeed continuing to buy physical video and, in particular, BD, spending on which rose by 99% in the first half. But once again the snow affected December sales and the French market ended the year flat at €1.4bn. DVD spending fell 5% to €1.2bn while spending on buying BDs rose 62% to €173.4m. In line with Germany, BD generated 12.5% of French retail video spending and 10% of unit sales.

Consumer spending by video format by territory – 2010



*Local currencies converted at fixed 2010 exchange rates

Source: IHS Screen Digest

Beyond the Big Three

Outside Europe's 'big three' territories, the story was less encouraging. In the Benelux countries, which accounted for just over 6% of European spending on buying and renting physical video, 2010 was a particular bad year, characterised by an apparent drop-off in consumer interest in packaged video and the resulting closure of retail stores.

Once again the bad weather in December exaggerated the negative trend, as consumer spending on video in Benelux dropped to €564m, down 10%. Unit sales fell further, down almost 12% across Benelux reflecting a drop of 14% in DVD volumes. On the bright side, however, BD sales rose 73% to 2.3m units. As a result of the decline in Benelux, the combined Nordic market (Sweden, Norway, Denmark and Finland) increased in importance in Europe, despite the fact that Nordic spending on physical video also slipped—down 1.9% year-on-year to €1.0bn or 11% of the total European market.

The Italian video retail market has declined by almost one quarter in value since 2007, but last year it performed a little bit better, falling just 2.5% to €335m. This in part reflect growth of 72% spend on buying Blu-ray Discs.

By contrast, the Spanish video market, which is also characterised by rampant online piracy, continued its freefall in 2010. Spending on physical video was down by 14% to €339m.

Rentals continue to decline

Although Europe's video rental sector continued on the downward trajectory that has characterised it since 2003, it should be noted that the 7.6% fall in rental spending to €1.1bn was the lowest annual rate of decline since 2004 when it fell 1.2%.

DVD rental is in freefall, with annual transactions across Europe having fallen by double digits ever since 2006; in 2010 our research indicates that just 351m DVD rental transactions were made in Europe, less than half the number of transactions we recorded for 2005.

Furthermore, Blu-ray has so far made less of an impact as a rental format than on the retail business. In terms of transactions, the hi-def format accounted for 5.6% of the European total last year, but, with most rental stores apparently operating price parity between the two formats (unlike at retail of course), it contributed 5.7% of spending on video rental in Europe.

Despite its consumers' historic mistrust of video rental, Germany is now the largest video rental market in Europe, generating €243m in spending in 2010, fractionally more than the amount spent in the UK and almost twice as much as the next biggest market, Sweden.

Europe on the world stage

European consumers spent €9.2bn on buying and renting physical video software (all formats) in 2010, maintaining the region's 30% share of worldwide video spending, according to IHS Screen Digest analysis.

By comparison, total US consumer spending on physical video fell by 6.5% to $16.2bn. This reflected declines in both rental and retail spending (down 4.5% and 7.8% respectively). Unlike Europe, in the US BD retail sales did compensate for decline in DVD: US consumers spent $1.7bn buying BDs in 2010, more than the $1.5bn gap in spending on DVD retail generated by the 16% downturn in that sector. In 2010, the US accounted for 40% of total video spending worldwide.

In Japan, video spending declined by just 1.7% to $6.4bn. Although rental remains particularly important for the Japanese market, generating 52.8% of total spending on physical video in 2010, it is now starting to decline in Japan (as in most other territories) and spending fell for the second consecutive year in 2010. Nonetheless, the 3% dip recorded last year was an improvement on the 12% decline in 2009.

Adoption of Bluray has been swifter in both the US and Japan than in Europe as a result of earlier hardware launches in the two largest markets and preferential hardware supply in 2008. Penetration of BD-enabled machines (both standalone players and PS3 games consoles) exceeded 24% and 30% of HDTV households in the US and Japan respectively in 2010 compared with less than 8% in Europe.

Outlook for 2011

We believe that the European video results in 2010 would have been more positive had it not been for the uncharacteristically severe weather in the very last month of the year. Before December 2010, home entertainment in the key markets was tracking well on 2009 results and so 2010's results should not be seen simply as a stalling of consumer interest in packaged video, but rather as the unfortunate outcome of extreme weather. IHS Screen Digest analysis of the UK, the largest market in Europe, indicates that the difference could have been as much as three to four per cent in video retail unit sales – amply illustrating the importance of the weeks running up to Christmas to retailers.

Baring a repeat of last year's extreme winter weather in the key 2011 Christmas shopping weeks – and despite the '*Avatar* effect' that has made comparisons in the first half of the year particularly difficult, we expect to see the Blu-ray format continue to expand steadily across the continent, establishing itself as a higher-end alternative to DVD in an increasing number of households.

BIOGRAPHY

TONY GUNNARSSON is an Analyst in IHS Screen Digest's Video team, where he oversees territory-by-territory Blu-ray and DVD forecasts for the Video Intelligence service. Prior to joining Screen Digest in 2008, Tony was an editor at media services firm Precise Media and a journalist with publisher IT Europa. Contact: Tony.Gunnarsson@screendigest.com

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