Building the 3D market - conditions for success

The question on everyone's mind is whether home 3D can become a success. Content owners must strive towards using 3D not just to enhance a 2D experience, but to use 3D to create stories which would not be possible in 2D. Only then will we see the real long-term business impact of the 3D revolution, argues DAVID MERCER, Principal Analyst at Strategy Analytics.

The 3DTV debate seems to have been raging for so long now it might seem as though the subject has been around for ever. Even though the latest wave of interest only began two or three years ago, the 3D hot topic continues to burn as brightly as it did then.

Sentiments towards 3D have certainly fluctuated over this time. The wild enthusiasm that generally greets any ground-breaking new consumer technology dissolved rapidly into disillusion when it became clear that the numbers of people currently able to watch 3DTV in the comfort of their own homes was vanishingly small.

Cinema

The good news is that many more consumers have become familiar with 3D over the past couple of years, if mostly from experiencing movies at the cinema. Strategy Analytics' research conducted in the second half of 2010 suggests that more than half of Europeans had seen at least one 3D movie at the cinema, and that number is likely to have risen since this survey was conducted.

There is also good news in consumer reaction to 3D cinema: 69% of Europeans who have seen a 3D movie at the cinema say they were very or somewhat impressed by the experience, with only 15% giving a negative reaction. All the signs are, therefore, that there is a good opportunity to build on this success to develop a new market for home-based 3D experiences.

There is also a word of caution in the 3D cinema business. Data from the MPAA shows that US and Canada revenues from the box office at the cinema remained stagnant in 2010, at $10.6 billion. The revenue from 3D movies actually doubled to $2.2 billion, but the money taken from 2D movies fell in direct proportion. So, the evidence from 2010 at least suggests not that 3D was increasing the size of the market, but that cinema-goers were simply transferring their custom from 2D to 3D movies.

We are continuing to see heavy promotion of 3D at the box office during 2011, and the number of 3D movie productions continues to rise. Strategy Analytics estimates that more than 40 major 3D movies will be released during 2011, compared to 25 in 2010. The number of 3D-enabled digital cinemas continues to expand as well: we estimate that there are now more than 25,000 3D cinema screens worldwide, and the number continues to grow.

Nevertheless there must be some caution in Hollywood about the net impact of 3D on the cinema business. The fact remains that good stories are what make people spend money on movies, whether in 3D or 2D, and the industry must be careful not to take its eye off the ball as it pushes the technology boundaries.

Television

After 3D in the cinema, 3D television has also become a commercial reality during the past year. Broadcasters around the world ran 3DTV trials and one-off broadcasts during 2010, with major sporting events such as the Ryder Cup and the football World Cup featuring at the top of the list. However it was the launch of BSkyB's 3D Channel in October 2010 which confirmed the arrival of 3DTV as a permanent fixture in the living room. The "channel" does not yet offer 24 hour first-run 3D programming; its schedule is heavily populated by repeats of entertainment shows and sports re-runs. But Sky's commitment to 3D content production seems strong: regular live sports broadcasts are now often produced and broadcast in 3D, and the technology is beginning to penetrate other content genres such as the arts and nature. And then there are 3D movies, of course, which, with the growth in cinema production over recent years, provide a ready-made source of 3D content for the television viewer.

Again, however, we should be cautious not to get too excited about 3D television

production. A survey by Strategy Analytics' partners at D. I. S. Consulting in Q3 2010 found that 22% of professional video producers had rented 3D equipment at some stage during the past year, but when asked about their future plans, no more than a third of producers said they definitely expected to purchase 3D production or post-production equipment. For the moment at least 3D seems to be confined to certain niches in the video production industry, and many players are taking a wait-and-see approach before committing to 3D in the longer term.

Apart from Sky, other broadcasters around the world are also exploring 3DTV; the number of platforms and channels offering at least occasional 3D programming is growing all the time. Many digital television operators are able to "switch on" their existing high definition customers to 3D capability because the set-top boxes originally deployed are 3D-ready (in some cases software downloads are required).

When Strategy Analytics asked consumers about their interest in 3DTV, we found not surprisingly that movies featured strongly. When asked, "if you would watch 3DTV on your own TV at home, which types of show would you be interested in," more than two thirds of respondents across the four major European markets identified movies as of most interest. Interestingly the next most popular genre proved to be television series, with nearly a half of respondents saying 3D would be of interest. Only a third of people said they would be interested in seeing live sports in 3D, which might simply reflect the fact that interest in sports generally is not as strong as television series.

Games

Apart from digital television itself, there is another trojan horse ready to bring 3D to the living room: the games console. While it hasn't been widely publicised so far, certainly outside of the core gaming community, both the Xbox 360 and PS3 consoles are in fact 3D-ready. We estimate that there are close to 100 million of these devices installed worldwide by mid 2011.

However, neither Microsoft nor Sony has put a great deal of focus on 3D gaming until now. Strategy Analytics research shows that barely a quarter of these console owners have ever tried 3D games on a TV console, and only a few per cent claim to engage in 3D gaming on a regular basis. Games publishers have also been slow to take up the

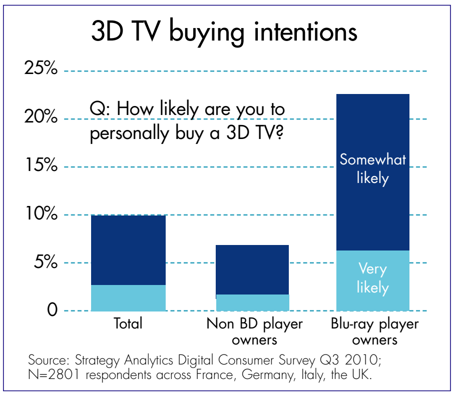
3D initiative, and although we estimate some 40-50 3D-ready games titles across both platforms are available.

This could all begin to change, however, because at the recent E3 games convention in Los Angeles Sony began to put a lot more emphasis on 3D as a driver of PS3 demand and usage. In fact, Sony also launched a PlayStation-branded 3DTV display which is designed specifically for PS3 console owners and supports special features such as dual-image support (allowing two players to see different 3D images on the screen at the same time). It's this type of initiative which will continue to keep 3D in the public's mind as the technology landscape evolves.

Home video

The home video market has of course been having a tough time in recent years. Strategy Analytics estimates that European home video revenues have fallen by 12% over the last three years, and that includes traditional disc-based models as well as 'new' channels such as television video-on-demand and internet-based delivery. Within this overall declining trend, the revenue share of traditional store retail and rental models is expected to fall from 95% in 2006 to 73% by 2013.

Blu-ray has been one of the few positive signs in the market, although revenues from both sell-through and rental have been insufficient to make up for the rapid decline in the DVD business. One of the often-made assump-tions about disc-based models is that they have no future in a world where vast choice in video is available online to an ever-growing variety of connected devices. In particular it is assumed that the younger audience in particular has moved away from 'old-fashioned' media and that this will set the pattern for years to come.



Source: Strategy Analytics Digital Consumer Survey Q3 2010; N=2801 respondents across France, Germany, Italy, the UK.

However, closer analysis of the data suggests that things are not quite as simple as they seem. There is no question that younger people are more likely to go online than to buy or rent discs: according to Strategy Analytics' research 53% of 15-24 year olds in Europe go to the internet at least once a month to watch streamed television pro-grammes or movies, and more than a third actually admit to getting TV and movies from unauthorised sources. But these emerging consumers have not abandoned discs altogether far from it: more than a quarter of the same age group say they buy or rent DVDs at least every month, and nearly 20% are now buying or renting Blu-ray discs on a monthly basis. These disc usage rates are significantly higher than other age segments: stop the average 45-or-over European in the street and you will not find more than one in ten which has bought or rented a DVD or Blu-ray Disc in the last month. So, contrary to popular opinion, video discs are still very much part of the younger people's lives, as they have been for many years, even though today's generation clearly have many more choices available to them.

These are some of the reasons for our long-held assumption that Blu-ray Disc has a viable future in an age of online video. It may never reach the heights of DVD, but our analysis shows that a third of European households will own at least one BD player by 2014, and this excludes the additional homes who will have access to Blu-ray by virtue of owning Blu-ray-capable home computers or games consoles.

Building the 3D future

Having examined the discrete trends of 3D from the broadcast side and the state of the home video market, the question on everyone's mind is whether home 3D can become a success. Strategy Analytics' research suggests that there is still some way to go at least in terms of consumer education. There is considerable uncertainty and confusion about various issues relating to 3D in the home environment. In general, less than half of European consumers have a correct understanding of questions concerning product availability (whether 3D TVs and Blu-ray players are actually available), the need for 3D glasses, and whether watching 3D is likely to cause any health problems.

The uncertainty surrounding the possibility of damage to the eyes was identified in our survey as one of the most challenging issues for the industry to address. Less than a third of Europeans identified the fact that watching 3D TV will not cause damage to the eyes: more than two thirds were either uncertain or believed that it would indeed cause damage. Whether or not 3D does actually cause damage is, of course, a controversial issue, but whatever the medical realities, the industry must clearly work harder to reassure its future customers.

The good news from our survey is that existing Blu-ray Disc owners are three times more likely to buy a 3D-ready TV than non-owners. In fact, more than a fifth of European BD owners said they were somewhat or very likely to buy a 3DTV during the next 12 months, and this proportion is likely to have risen since the survey was fielded in Q3 2010.

Home 3D marketing is really only begin-ning to ramp up during 2011 so, it will be some time before we see the effects of this on consumer familiarity and buying intentions. Nevertheless we can be reasonably confident that 3D will become a widely adopted feature of TVs, Blu-ray players and other devices, largely because manu-facturers will be promoting the technology, driving it to lower price points and competing with each other to win the confidence of the future-proof buyer. We can expect consumer 3D technologies to continue to mature over the coming years, not least in the thorny issue of display battles around stereo/auto-stereoscopy and active/passive glasses. But in our view these 'standards wars' are unlikely to prevent the inclusion of 3D as a regular, and eventually standard, feature in many consumer devices.

The challenge for the industry will then be to persuade people to put the glasses on. Whether content is originated in 3D and delivered over disc, broadcast or online, or whether consumers choose to use the increasingly sophisticated real-time 2D-3D convertors built into their devices, the question will remain: after all is said and done, will 3D have added value, and if so, for which industries?

Content owners must continue to strive towards using 3D not just to enhance a 2D experience, but to use 3D to create stories which would not be possible in 2D. Only then will we see the real long-term business impact of the 3D revolution.

BIOGRAPHY

DAVID MERCER is Vice President, Principal Analyst of the Digital Consumer Practice at Strategy Analytics. He has 20 years experience in analysing and consulting within the digital consumer broadband and media industries. He has worked with major global players across the value chain. Contact: www.strategyanalytics.com.

OPTICAL DISC SOLUTIONS

Your most important East-European business partner

Our certifications stand for our reliability, trust and professionalism

Industrial replication

-CD/DVD/mini CD/ mini DVD
Regardless of the quantity, we produce your discs at the best quality and in the shortest time possible.

Special Projects on CD/DVD

Trade marketing and covermount projects made by joining a consumer goods product/ magazine with a suitable CD/DVD content.

KEEP IT

ON DISC

CD/DVD packaging solutions

We offer any kind of package adequate for a disc,
from envelopes to complex and elegant packaging solutions (www.ods-bs.ro).

Fulfillment/Packaging Adhesives

Special fulfillment/packaging department.
Industrial adhesives for the printing and publishing industry.
Logistics and distributions.

Piata Presei Libere 1,
Corp A2, Etaj 3, sector 1,
013701 Bucharest Romania .
Phone:+ 40 21 317.90.80
Fax:+ 40 21 317.90.77
Fax:+ 40 21 317.90.77
E-mail: office@ods-bs.ro
sales@ods-bs.ro

www.ods-bs.ro