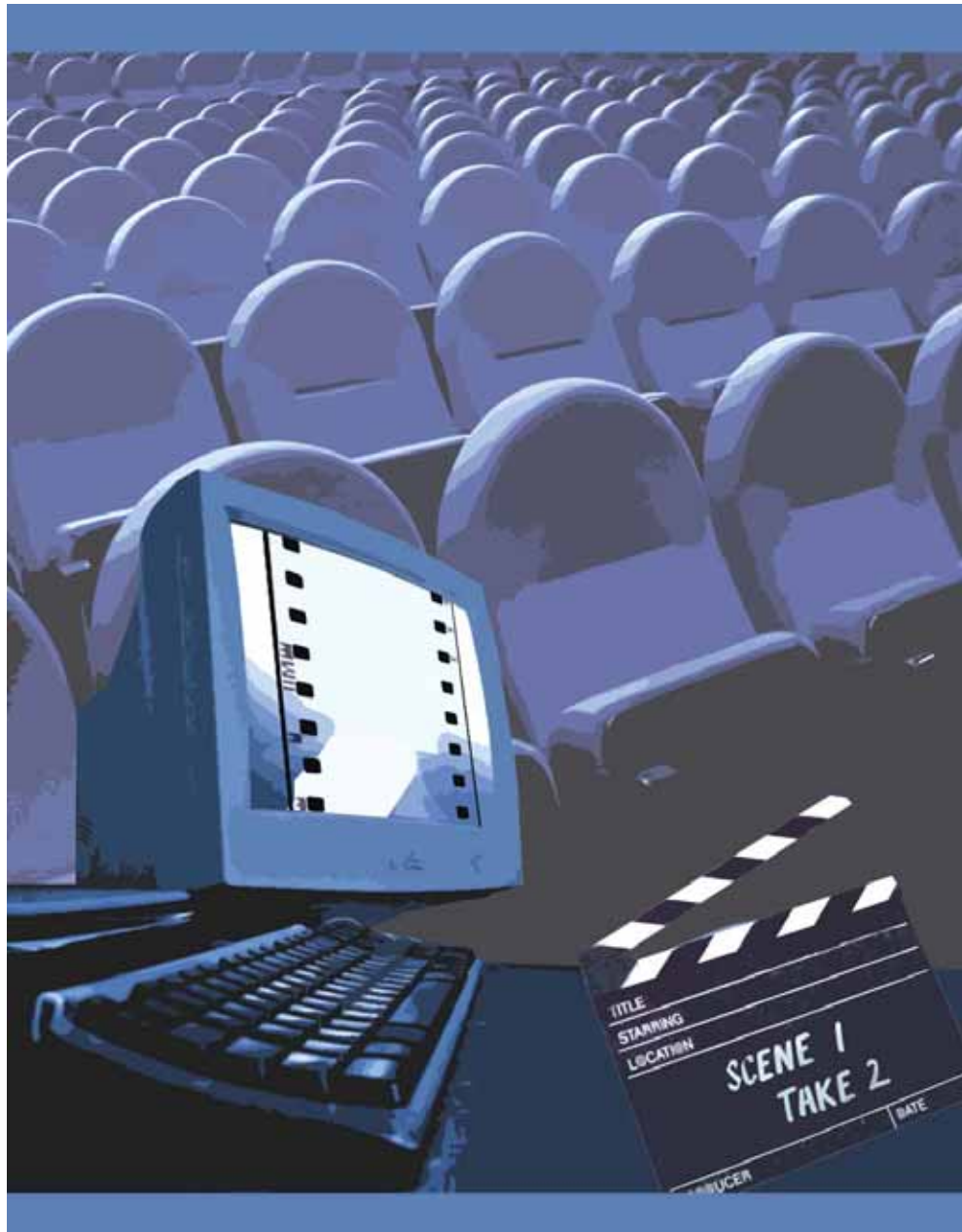


Broadband Digital Movies:

Market assessment and forecasts



screen
digest

Table of contents

Table of contents	3	Bricks and Mortar retailers	43
		Third parties	45
Index of tables and charts	7		
Executive summary	11	European VoD market in figures	49
Technology	12	Big Five	50
Business models	12	Benelux	53
Piracy	13	Scandinavia	54
		Rest of Europe	56
Market overview	15		
Traditional movie market overview	15		
Value chain	16		
The impact of ‘digital’	16		
Video-on-Demand (VoD)	17		
Business models	18		
Pay-Per-View (Digital rental)	18		
Subscription VoD (SVoD)	19		
Digital Retail	20		
Obstacles and Drivers	20		
Obstacles	20		
Opportunities	21		
Online movie service providers	23		
Telcos and ISPs	23		
Incumbent telcos	23		
Pure ISPs and alternative networks	26		
Cable operators	28		
Portals	29		
Pay-TV operators and Broadcasters	31		
Technology companies	36		
Apple	36		
Microsoft	37		
Intel	37		
Sony	38		
Online DVD renters	39		
Etailers and retailers	43		
E-tailers	43		

channels—such as Internet VoD and next generation physical media formats—to bolster revenues in the long term.

Value chain

Historically, the movie industry has defined a series of established release windows which offer consumers exclusive access to new titles within each window and are designed to maximise potential revenues. This has bred three models of business: theatrical exhibition (cinema); retail and rental of physical copies (home entertainment); and licensing to broadcast platforms (television).

The arrival of a title in each respective model is determined on a country-by-country basis in accordance with local industry regulations. Within the traditional value chain, a film first appears at the cinema (the theatrical window), then on DVD and VHS (the video window), before showing on television—on pay-per-view and subscription television (the pay-TV window), and then on free-to-air television.

The bulk of today’s revenues are generated at the front end of the value chain, in the theatrical and video windows. Increasingly, the major studios are employing cinema as a ‘shop window’ for the lucrative retail video window, releasing titles on video much closer to their theatrical run than ever before. The studios have already done away with one of the traditional windows altogether in most territories, opting to forgo a rental video window, instead making retail copies of titles ‘day-and-date’ with rental to capitalise

on the exposure generated by a title’s cinema release.

The impact of ‘digital’

Major content providers have been reluctant to tamper with a system which has been designed to squeeze the maximum possible value from each individual title. However, the industry is now beginning to experiment with alternative business opportunities presented by the arrival of digital distribution. This new flexibility has been fundamentally driven by two factors:

- the continued threat of piracy
- the desire to bolster plateauing revenues from existing markets

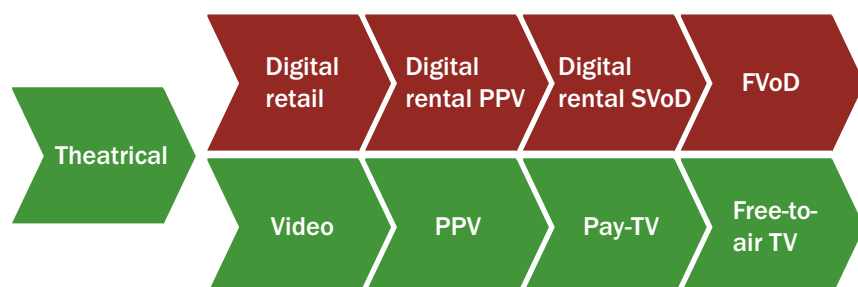
The arrival of digital technology, specifically broadband, has been something of a double-edged sword for content owners. Whilst broadband Internet can be utilised for legitimate digital delivery, it can also be abused for illegal distribution. It is only because of insufficient consumer broadband bandwidth that illegal file-sharing of large movie files has been less widespread than the levels of piracy which brought the music industry to its knees. But it is only a matter of time until increases in bandwidth and advancements in compression enable the average consumer to download feature-length content in less than 10 minutes.

Faced with this and the realization that consumers’ perceived value of DVD has fallen significantly and that spending on retail DVD is unlikely to grow at the rate it once did, the movie business has had to confront the

Traditional value chain



Future value chain



to blur the boundaries between the PC-screen and TV set, and as such, the open gateway model, using a standard consumer broadband connection, promises to be an effective route to market for services delivering movie content to consumer homes.

In this regard, PC-based open gateway services offer greater flexibility than their TV-based equivalents with regard to the number of business models that can be employed. It brings together not only traditional broadcast scenarios, but also retail models usually associated with the physical rental/retail market. As such, VoD can be offered:

- à la carte on a rental or retail basis (the latter known as 'digital retail'),
- on a subscription basis (where subsequent individual downloads are free)
- free (usually on a sponsorship or advertising funded model)

With the total number of broadband lines in operation in Western Europe reaching a ratio of 35 per cent of all households, the potential audience for VoD services over the Internet (whether in the home, in the office or on the move) is vast, and continues to expand rapidly. By 2010, Screen Digest expects the total number of European broadband subscribers to reach 103m, of which over 80 per cent will be residential customers.

The chief concern for content providers is how they will implement digital propositions alongside a very lucrative physical business. DVD enabled the studios to achieve unprecedented margins on content using the retail DVD business model. As such the studios are, understandably, very

protective of this line of business. The sale of a new release DVD generates over six times the gross revenues of any other form of movie distribution, including VoD. And even once the cost of manufacturing and distribution is taken into account, retail DVD is generally three times more profitable than other distribution channels. The arrival of European VoD platforms has been slow as a consequence, as much delayed for many years by restrictions and prohibitive minimum guarantees in studio rights deals as by the limits of broadband and Internet delivery technology.

Business models

Internet VoD business models are defined not only by the terms of the content deal but by their respective release windows. Unlike the historically strict release windows in the traditional value chain – theatrical, video, Pay-TV, free TV – VoD windows vary on a title-by-title basis. VoD services are keen to experiment with release windows to find a successful formula and rights holders are becoming increasingly flexible in this respect as they look to digital distribution as the next source of revenue growth.

Pay-Per-View/VoD (Digital rental)

The concept of digital rental on a Pay-Per-View (PPV) basis is not new. As such, for new releases, PPV VoD in Europe generally falls within the same window as its namesake in the TV sector, from two to six months after video release, depending on the territory concerned.

Hollywood Majors' broadband digital movies activity (as of Aug 2006)

	Warner Bros	Fox	Universal	Sony	Disney	Paramount
UK	PPV/VoD	SVoD	VoD, D/R	VoD, SVoD	SVoD	
France	PPV/VoD	VoD	VoD, D/R	VoD	VoD	VoD
Germany	PPV/VoD, D/R	VoD	VoD	VoD		VoD
Italy	PPV/VoD, SVoD					
Spain	D/R					
Benelux	VoD, D/R				VoD	VoD
Nordics	VoD	VoD	D/R		VoD	VoD

Notes:

Fox, Disney and Sony's SVoD deals in the UK are within Sky Movies Broadband free-to-subscribers platform

PPV/VoD - Video-on-Demand (also known as Digital Rental)

SVoD - Subscription Video-on-Demand

D/R - Digital Retail

Source: Screen Digest

Norway

		2004	2005	2006	2007	2008	2009	2010
À la carte downloads/streams since launch	000s	15.1	517.8	1,329.7	2,485.5	4,105.0	6,095.1	8,406.0
À la carte downloads/streams per year	000s	0.2	502.7	811.9	1,155.8	1,619.5	1,990.1	2,310.9
Buy rate ¹			0.6	0.6	0.8	1.0	1.2	1.3
Total digital rental download revenue	€m	0.0	1.3	2.3	2.8	3.5	3.2	2.6
Total digital retail download revenue	€m		0.0	0.2	3.1	7.5	12.5	16.8
Total à la carte ² revenue per year	€m	0.0	1.3	2.5	5.9	11.0	15.7	19.4
Total subscription revenue	€m	0.0	0.0	0.0	0.1	0.3	0.7	1.2
Total online movie revenues per year	€m	0.0	1.3	2.5	6.0	11.2	16.4	20.6
Box office revenues	€m	70.9	75.4	84.9	90.5	96.2	101.8	107.5
Video/DVD revenues	€m	166.1	198.2	197.1	192.6	199.4	206.1	212.5

¹ buy rate is average number of downloads per broadband household during the year

² Total à la carte revenue is the sum of sell through revenues and digital rental revenues

Source: Screen Digest

Sweden

		2004	2005	2006	2007	2008	2009	2010
À la carte downloads/streams since launch	000s	238.8	1,088.2	2,460.8	4,350.8	6,845.2	9,932.1	13,592.6
À la carte downloads/streams per year	000s	228.4	849.4	1,372.6	1,890.0	2,494.4	3,086.9	3,660.5
Buy rate ¹		0.2	0.6	0.7	0.8	1.0	1.1	1.3
Total digital rental download revenue	€m	0.6	2.1	3.4	4.5	4.7	4.6	4.4
Total digital retail download revenue	€m	0.0	0.0	0.4	2.3	8.1	15.7	22.2
Total à la carte ² revenue per year	€m	0.6	2.1	3.8	6.8	12.9	20.2	26.6
Total subscription revenue	€m	0.0	0.0	0.1	0.3	0.9	1.9	3.2
Total online movie revenues per year	€m	0.6	2.1	3.9	7.1	13.7	22.2	29.8
Box office revenues	€m	104.5	90.6	95.3	102.1	109.3	115.2	121.9
Video/DVD revenues	€m	188.4	197.3	194.0	187.7	190.9	193.8	196.3

¹ buy rate is average number of downloads per broadband household during the year

² Total à la carte revenue is the sum of sell through revenues and digital rental revenues

Source: Screen Digest