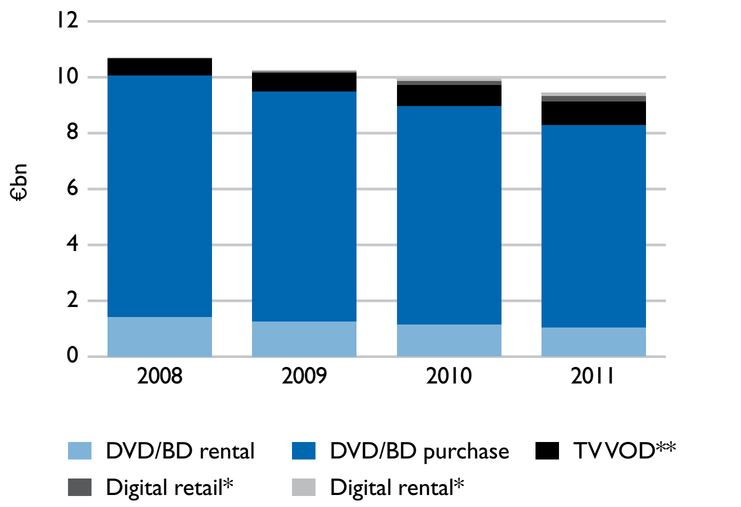
European video: the industry overview

Exchange rates: In order to compare Europe's total figures with those of other territories such as the US and Japan, as well as within Europe, and to provide accurate region-level trending, this analysis uses fixed rate exchange rates to remove local exchange rate differences that may confuse and/or distort the overall picture. Unless stated otherwise, figures in text and charts are therefore based on local currencies converted at a fixed 2011 annual € exchange rate.

In this commentary, the term "digital video" is defined as follows: "Any transaction where video content is provided to a consumer via the open Internet. Transaction can take the form of digital retail, digital rental or a digital subscription service. Digital video transactions may take place via PCs, games consoles or other Internet connected devices".

Europe: Total consumer spending on home entertainment



**Digital delivery over the open internet*
***TV VOD includes TV series and movies only (excludes sports and adult content)*

Source: IHS Screen Digest

European video market: the industry overview 2011

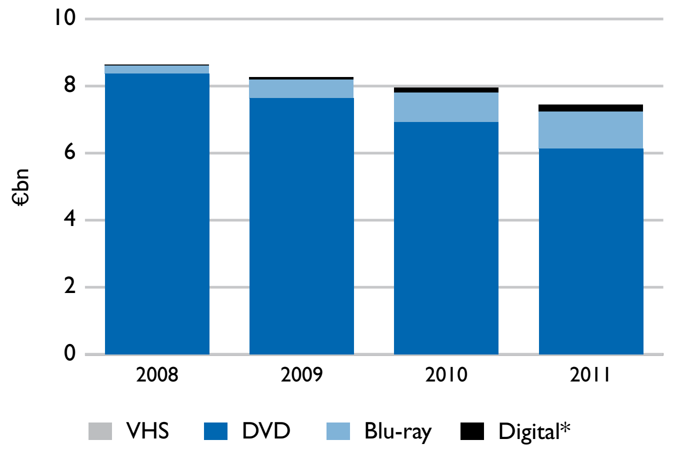
In 2011, the migration of European video consumption from DVD to Blu-ray and online platforms and services continued apace, echoing trends observed in the US and other world markets. Nonetheless, for consumers in Europe and the USA, buying and renting DVDs remained the preferred channel through which to watch audiovisual content.

European consumer market

In 2011, European consumers spent €9.4bn on buying and renting video software on DVD and Blu-ray Disc (BD), and via digital and online platforms and services. Spending on audiovisual content through digital/online platforms and services —which for the purposes of this Yearbook are defined as TV-based video-on-demand (TV VOD) and digital retail, rental and subscription services accessed via computers and Internet connected televisions—rose by 20.1 per cent in 2011, to a total of €1.2bn. Digital retail (also known as EST) is still the fastest growing sector, up 46.6 per cent to €208m, closely followed by digital rental (or Internet VOD) , up 41.7 per cent to €117m. Digital video consumption by subscription is now worth €40m, up 26.5 per cent in 2011. Finally, the largest generator of digital video spending is still TV VOD, worth €848m in 2011 (up 12.5 per cent compared to the previous year).

By contrast, European spending on DVD/BD fell for the seventh consecutive year in 2011, ending the year at €8.3bn, down 7.7 per cent on 2010. This was partly due to continued pressure on consumer prices. The average DVD price across Europe fell by 2.0 per cent to €10.00 in 2011 and the average price for BD contracted by 5.6 per cent to €17.51. The decline in spending also reflected a fall in consumer demand for physical carriers (DVD/BD). Retail and rental transactions of DVD and BD fell 7.1 per cent to

Europe: Consumer spending on retail home entertainment



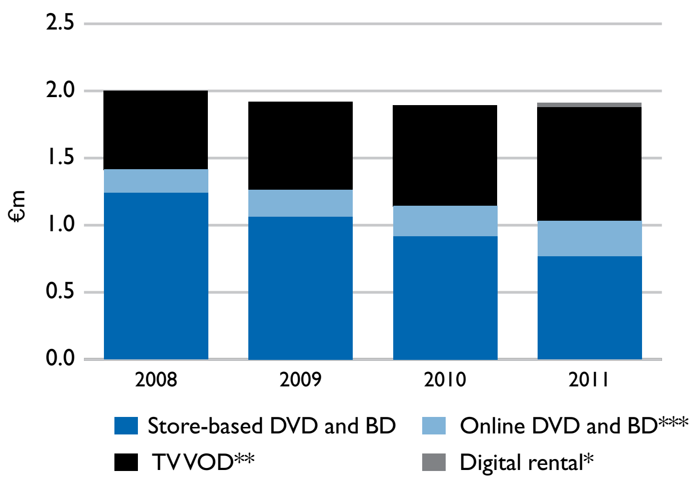
**Digital delivery over the open internet (retail/EST business model)*

1.0bn. Buying DVD and BDs accounted for 87.5 per cent of the DVD/BD market, or €7.2bn (down 7.4 per cent), while spending on DVD and BD rental generated €1.0bn at the consumer level in 2011, down 9.7 per cent.

The general economic crisis shakes European video markets

In the first quarter of 2011, some markets recorded year-on-year increases in sales as consumers shifted their 'Christmas' spending into the New Year. However, the biggest factor influencing European video spending in 2011 was the persistent unstable economical climate, which caused consumers across Europe to become more cautious in their spending patterns, even on affordable items such as home video.

Europe: Consumer spending on rental home entertainment



**Digital delivery over the open internet (rental/VOD business model)*

***TV VOD includes TV series, movies and and adult content only (excludes sport), provided by pay TV services on VOD basis via a walled garden (excludes subscription VOD)*

****Rental of physical product via online interface, eg. Lovefilm*

Source: IHS Screen Digest

However, Germany—now firmly established as the second largest home entertainment market in Europe—proved the exception to this rule. German consumer spending on total DVD and BD was stable year-on-year at €1.6bn (at 0.03 per cent). DVD retail spending declined by 5.0 per cent to €1.1bn but spending on BD compensated for this decline. German retail consumer spending on BD rose to €267.2m (up 38.6 per cent year-on-year). The overall economic outlook for Germany is among the strongest in Europe, which has a stabilising effect on the baseline expendable income of German households. For example, in 2011, BDs generated an impressive 19.1 per cent of retail spending and 14.4 per cent of unit sales in Germany.

The situation was less positive in the UK, the largest of Europe's home entertainment markets, where economic stagnation, government cuts and rising unemployment (up to 8.4 per cent) resulted in lower overall consumer confidence. While UK video sales in December 2011 were much more positive than they had been in the same month in 2010, overall the market failed to match the performance in 2010. At year-end, the DVD/BD retail market was down 7.2 per cent in volume and 4.9 per cent in value.

Meanwhile, the DVD has proven resilient in the face of the emerging newer and competing video content delivery platforms and services in the UK. Due to its relative ease of use, familiarity, as well as the format's ubiquity in terms of both hardware and retail penetration, the DVD is by far the preferred way of accessing audiovisual content in the UK.

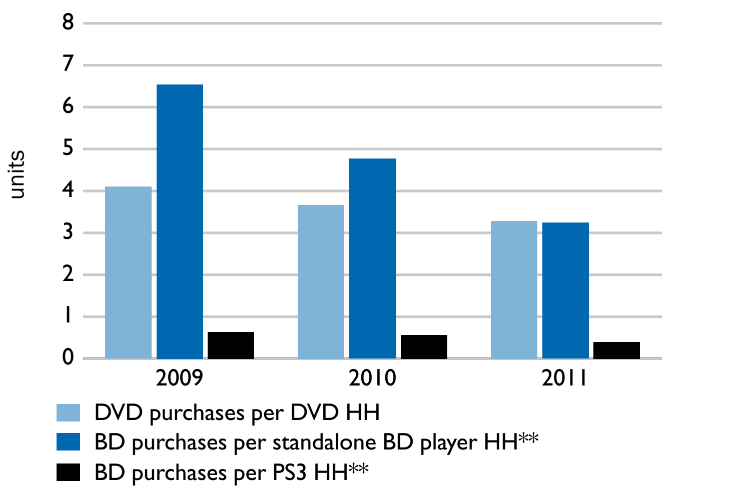
In France, the market tipped back into a decline after two years of relative stability. France has suffered similar economic problems as the UK and other European countries, with rising unemployment (10.2 per cent) and general economic uncertainty, a result of, among other, the Euro currency crisis.

French consumer demand for physical carriers is declining, with combined DVD/BD unit sales dropping 9.5 per cent (to 85.9m). French DVD retail spending fell 13.5 per cent to €1.04bn and although spending on BD retail was up 20.6 per cent to €209.1m, spending on buying DVD and BD ended the year down at €1.25bn (-9.2 per cent). While constituting a relatively small market at this stage, BD generated 16.6 per cent of retail spending and 11.5 per cent of unit sales. In contrast to Germany, the TV VOD infrastructure in France is the most advanced in Europe, making the platform a strong competitor to other home entertainment offers. In 2011, French consumers spent €215m on TV VOD, compared with €187.0m in the UK and just €42.3m in Germany. Adding online video consumer spending, total digital video spending in France came to €330.2m, up from €265.1m last year (24.5 per cent).

Beyond the Big Three

Outside the top three European markets, 2011 was again characterised by declines for the DVD/BD sector. Benelux, which generated 6.3 per cent of European spending on video in 2011, showed signs that the market was starting to recover from the impact of retail store

Europe: Average video buy rates* DVD/BD 2009-2011



*Average number of DVDs or BDs purchased per equipped household per year

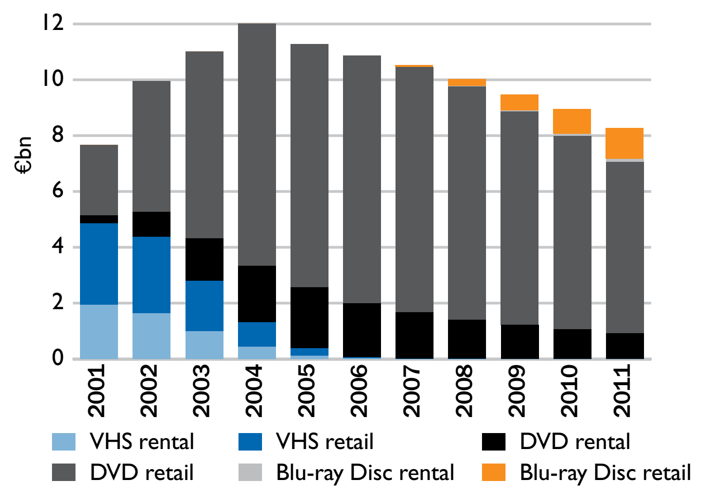
**BD buy rates are IHS Screen Digest estimates modelled from available data

Source: IHS Screen Digest

closures in 2010. DVD retail unit sales declined by 7.1 per cent compared to 14.2 per cent the previous year, but the decline in consumer spending on DVD retail was in line with 2010 (down 12.4 per cent compared to 13 per cent in 2010). Meanwhile, a collapse in the value of the DVD/BD rental market (down 36.4 per cent year-on-year) compounded the overall market decline causing total spending on physical carriers in Benelux drop by 11.2 per cent to €501.1m. However, BD continues to show strong growth—unit sales were up 53.0 per cent to 3.6m—although its overall share remains relatively moderate (12.3 per cent of value, 8.4 per cent of volume).

The combined Nordic markets—Sweden, Norway, Denmark and Finland—generated 10.9 per cent of total European video spending in 2011, in line with 2010. The region's DVD/BD business continues to contract, down 11.8 per cent year-on-year in value, and causing DVD/BD spending in the region to drop below €1m (€906m) for the first time since 2002.

Europe: Consumer spending on physical video by sector 2000-2010



Source: IHS Screen Digest

The situation was most critical in Italy and Spain. Italian consumer spending on DVD retail fell by 21.4 per cent (to €232.1m), while spending on BD purchase rose by a similar percentage to €48.9m. The decision by Blockbuster's new parent company, DISH Networks, to close all its Italian rental stores in June, sent the Italian video rental sector into freefall and resulted in a decline of 17.6 per cent in rental spending in 2011 (from €90m to €74m). When combined with retail, this meant that Italian DVD/BD spending was down by 16.5 per cent year-on-year to €355m.

Meanwhile the severe economic conditions in Spain continue to have a devastating effect on the Spanish home entertainment market. Retail spending on DVD/BD dropped by 22 per cent, to €184.8m while rental spending fell by 25.8 per cent to €74.4m. Overall, Spanish DVD/BD spending fell by 23.1 per cent to € 259.2m.

Rental downturn exacerbates physical video decline

With the exception of the UK and Germany, where strong online rental sectors, combined with the existing store-based rental infrastructures, give the rental markets some resilience, declines in DVD/BD rental have compounded the decrease in spending on DVD/BD across Europe. In 2011, overall consumer spending on DVD/BD rental in Europe dropped by 9.7 per cent to €1.0bn.

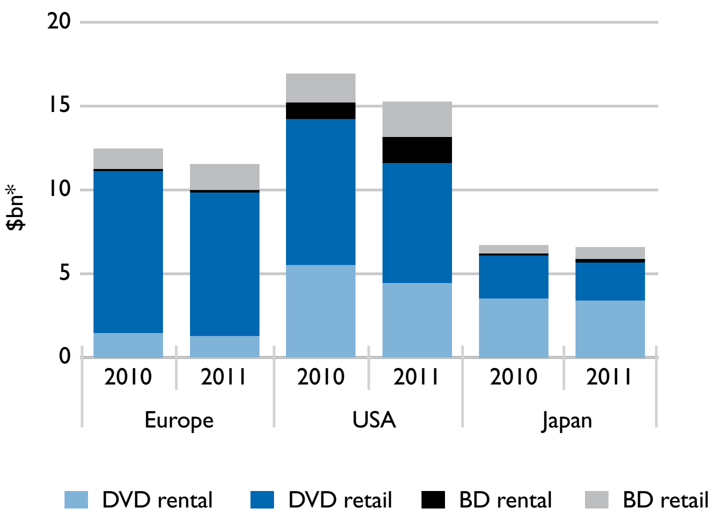
However, BD is now starting to come into its own as a rental product. At the total European level, the format accounted for 11 per cent of rental transactions compared with 9.3 per cent of retail sales. However, since most rental operators are operating price parity between DVD and BD, the format does not generate the same sort of uplift on consumer rental spending as it does at retail (BD generated 15.3 per cent of retail spending in 2011 but only 11.3 per cent of rental spending).

Based on the latest data available, UK consumers spent €316.1m on renting DVD/BD in 2011. This was down just 1.2 per cent year-on-year, thanks to aggressive marketing by the two strong players Blockbuster and Lovefilm. Germany is the second largest DVD/BD rental market in Europe, generating €229m in spending in 2011 (down 5.8 per cent), followed by the combined Nordic markets at €169.2m (down 6.2 per cent).

Europe on the world stage

Europeans spent €8.2bn ($11.5bn) buying and renting DVD and BD in 2011. Europe thus generated 29.8 per cent of worldwide physical video spending according to IHS Screen Digest analysis.

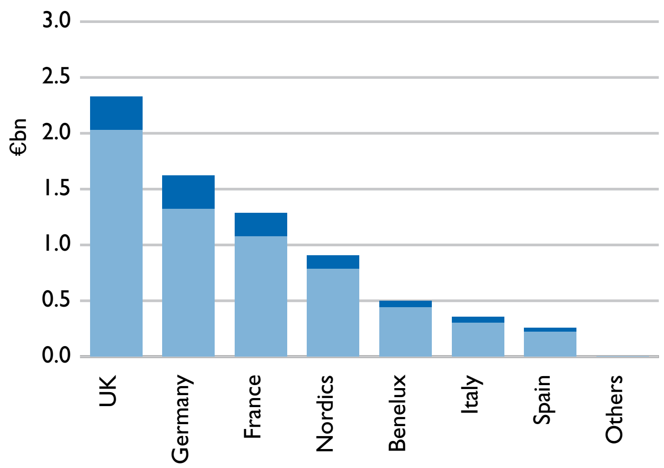
International spending on DVD/BD 2010-2011



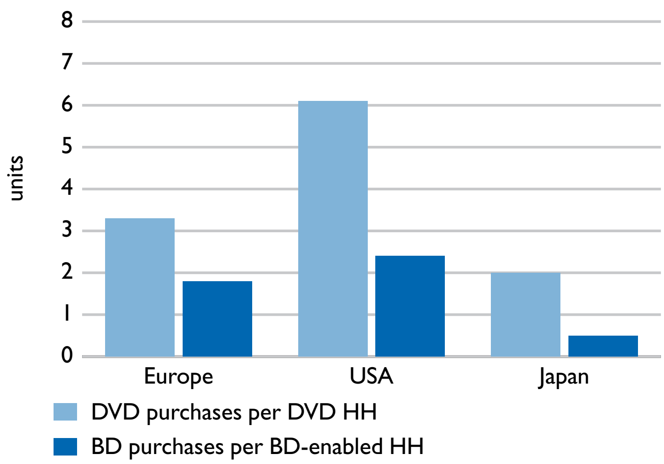
**Local currencies converted at fixed 2011 exchange rates*

Source: IHS Screen Digest

Europe: Consumer spending on DVD/BD by territory 2011



Average video buy rates* DVD/BD in 2011



**Average number of DVDs or BDs purchased per equipped household per year*

Source: IHS Screen

As in Europe, the figures show a downturn in demand for physical carriers. US domestic DVD/BD spending fell 9.9 per cent (to $15.2bn) in 2011. This reflects declines in both retail (down 11.5 per cent to $9.2m) and rental (down 7.3 per cent to $5.9m). US consumers spent $2.1bn buying BDs in 2011 (up 21.2 per cent), while spending on DVD retail was $7.1m (down 18 per cent year-on-year). US BD adoption continues to outpace that of Europe. BD generated 19.9 per cent of total US DVD/BD spending in 2011, while the US accounted for 39.5 per cent of total video spending worldwide (compared to 40.3 per cent in 2010).

In Japan, DVD/BD spending held up better in 2011 than in most other world markets, declining by just 1.9 per cent (to $6.5bn). Unlike Europe, where rental represents only a small portion of the market, DVD/BD rental remains the key driver for video spending in Japan, accounting for 55 per cent of total spending on physical software in 2011. Last year, Japanese DVD/BD retail declined by 3.3 per cent, while rental spending was stable, dropping less than 1 per cent. Overall, Japan generated 17 per cent of global DVD/BD spending in 2011.

Outlook for 2012

For the foreseeable future, we expect the European video sector to be characterised by continuing growth in digital/online forms of delivery, but also further declines in spending on DVD/BD as consumers increasingly experiment with new methods of watching audiovisual content. Nonetheless, for the vast majority of mainstream consumers, the DVD continues to be the principal video format, even in many homes which have upgraded to high definition TVs and BD players. The challenge now facing Europe's video industry is how to manage the transition to digital delivery whilst also maximising revenues from the physical carriers which remain many European consumers' preferred means of accessing audiovisual content.

Retail DVD units sold

	2011 (m)	2010 (m)	% change
Belgium	13.8	15.5	-11.1
Denmark	11.7	13.8	-15.5
France	76.0	86.8	-12.4
Germany	101.1	103.2	-2.0
Ireland	9.5	10.9	-13.0
Italy	20.7	25.2	-17.8
Netherlands	24.9	26.2	-4.8
Norway	16.5	17.6	-6.5
Portugal	5.3	6.3	-15.0
Spain	12.8	16.0	-20.1
Sweden	17.8	21.4	-17.2
Switzerland	10.9	12.8	-14.4
UK	191.8	210.1	-8.7
All Western Europe	**536.9**	**590.8**	**-9.1**
Croatia	0.6	0.6	2.8
Hungary	5.7	6.1	-6.4
Poland	6.9	7.7	-10.7
All Europe	**614.3**	**676.8**	**-9.2**

Average annual DVD sales per DVD HH

	2011	2010	% change
Belgium	3.8	4.3	-11.7
Denmark	5.0	5.9	-14.9
France	3.9	4.5	-12.8
Germany	3.6	3.6	-0.3
Ireland	6.5	7.7	-14.5
Italy	0.9	1.1	-17.8
Netherlands	4.0	4.2	-5.4
Norway	8.1	9.0	-9.7
Portugal	1.7	1.9	-14.6
Spain	1.0	1.3	-20.9
Sweden	4.3	5.2	-18.0
Switzerland	3.6	4.2	-14.8
UK	7.9	8.7	-8.8
All Western Europe	**3.9**	**4.3**	**-9.1**
Croatia	0.6	0.6	-4.0
Hungary	2.3	2.5	-6.8
Poland	1.0	1.2	-13.9
All Europe	**3.6**	**3.3**	**8.7**

Average consumer price of retail DVD disc

	2011 (€)	2010 (€)	% change
Belgium	12.0	12.2	-1.4
Denmark	11.3	11.1	1.5
France	13.8	14.0	-1.2
Germany	11.2	11.5	-3.1
Ireland	10.3	10.4	-0.9
Italy	11.2	11.7	-4.3
Netherlands	9.9	10.7	-8.1
Norway	12.7	13.9	-8.8
Portugal	9.6	9.7	-0.6
Spain	11.8	12.8	-8.2
Sweden	11.1	11.0	1.2
Switzerland	16.1	15.3	5.4
UK	9.2	9.1	0.9
All Western Europe	**10.9**	**11.1**	**-1.9**
Croatia	4.3	5.5	-21.6
Hungary	5.2	5.4	-3.0
Poland	6.7	7.0	-3.9
All Europe	**10.0**	**10.2**	**-2.0**

Retail Blu-ray disc units sold

	2011 (m)	2010 (m)	% change
Belgium	1.2	0.8	50.7
Denmark	0.9	0.7	28.8
France	9.9	8.1	21.6
Germany	17.0	12.0	41.4
Ireland	0.3	0.3	5.5
Italy	2.6	2.0	26.1
Netherlands	2.3	1.5	54.3
Norway	1.9	1.4	33.9
Portugal	0.3	0.3	20.0
Spain	2.0	1.6	27.7
Sweden	1.4	1.2	18.3
Switzerland	1.9	1.3	46.0
UK	15.3	13.0	18.4
All Western Europe	**60.2**	**46.0**	**30.9**
Croatia	0.0	0.0	87.5
Hungary	0.3	0.1	90.3
Poland	0.3	0.2	26.8
All Europe	**63.1**	**48.0**	**31.6**

Average annual BD sales per BD HH

	2011	2010	% change
Belgium	1.5	1.7	-10.9
Denmark	1.6	1.9	-13.5
France	1.8	2.4	-22.8
Germany	3.0	3.5	-16.3
Ireland	0.8	0.9	-18.7
Italy	0.9	1.3	-32.3
Netherlands	1.8	1.8	0.2
Norway	2.3	2.6	-13.8
Portugal	0.7	0.9	-20.1
Spain	0.8	0.9	-9.0
Sweden	1.5	2.0	-25.1
Switzerland	2.4	2.9	-17.3
UK	2.1	2.4	-13.0
All Western Europe	**1.9**	**2.3**	**-16.0**
Croatia	0.2	0.2	12.8
Hungary	1.7	2.1	-17.7
Poland	0.4	0.7	-48.0
All Europe	**1.8**	**2.2**	**-18.2**

Average consumer price of retail BD disc

	2011 (€)	2010 (€)	% change
Belgium	18.0	20.1	-10.1
Denmark	20.1	21.5	-6.6
France	21.1	21.3	-0.9
Germany	15.7	16.0	-1.9
Ireland	20.0	22.2	-9.7
Italy	19.1	19.8	-3.5
Netherlands	15.4	18.9	-18.2
Norway	20.5	21.3	-3.7
Portugal	17.7	21.0	-15.7
Spain	17.4	20.6	-15.7
Sweden	17.0	17.1	-0.7
Switzerland	21.5	21.1	2.0
UK	16.7	17.9	-6.6
All Western Europe	**17.6**	**18.6**	**-5.0**
Croatia	17.4	21.2	-17.8
Hungary	20.0	23.7	-15.9
Poland	22.5	28.0	-19.6
All Europe	**17.5**	**18.5**	**-5.6**

DVD rental transactions

	2011 (m)	2010 (m)	% change
Belgium	3.6	6.0	-39.5
Denmark	6.5	8.2	-20.7
France	10.8	14.7	-26.7
Germany	79.6	92.0	-13.5
Ireland	10.9	11.4	-4.9
Italy	28.9	31.9	-9.5
Netherlands	5.5	8.4	-35.0
Norway	7.3	7.6	-4.3
Portugal	6.8	8.1	-15.5
Spain	34.7	44.3	-21.7
Sweden	20.7	22.5	-8.3
Switzerland	1.3	1.4	-3.6
UK	83.0	83.2	-0.2
All Western Europe	**314.3**	**356.5**	**-11.9**
Croatia	1.0	1.6	-34.6
Hungary	0.8	0.9	-18.9
Poland	1.3	1.8	-27.9
All Europe	**318.3**	**361.9**	**-12.1**

Average annual DVD rentals per DVD HH

	2011	2010	% change
Belgium	1.0	1.7	-39.9
Denmark	2.8	3.5	-20.2
France	0.6	0.8	-27.0
Germany	2.8	3.2	-12.0
Ireland	7.5	8.0	-6.5
Italy	1.3	1.4	-9.4
Netherlands	0.9	1.4	-35.4
Norway	3.6	3.9	-7.5
Portugal	2.1	2.5	-15.1
Spain	2.8	3.6	-22.5
Sweden	5.0	5.5	-9.1
Switzerland	0.4	0.5	-4.1
UK	3.4	3.4	-0.3
All Western Europe	**2.3**	**2.6**	**-11.9**
Croatia	1.1	1.8	-39.0
Hungary	0.3	0.4	-19.2
Poland	0.2	0.3	-30.5
All Europe	**1.7**	**2.0**	**-13.3**

Average consumer DVD rental price

	2011 (€)	2010 (€)	% change
Belgium	3.1	3.1	1.2
Denmark	4.3	4.4	-3.1
France	2.7	2.7	1.6
Germany	2.4	2.4	1.3
Ireland	4.7	4.7	
Italy	2.4	2.7	-10.0
Netherlands	3.3	3.3	-1.7
Norway	4.4	4.3	1.1
Portugal	2.7	2.7	
Spain	2.1	2.2	-5.8
Sweden	3.3	3.2	1.9
Switzerland	5.2	4.6	11.6
UK	3.3	3.5	-5.4
All Western Europe	**2.9**	**2.9**	**-1.5**
Croatia	1.4	1.6	-10.5
Hungary	1.6	1.6	-3.4
Poland	1.3	1.3	-3.0
All Europe	**2.9**	**2.9**	**-1.4**

BD rental transactions

	2011 (m)	2010 (m)	% change
Belgium	0.3	0.3	-20.0
Denmark	1.5	1.0	48.8
France	0.5	0.4	9.3
Germany	15.9	9.7	63.9
Ireland	0.5	0.2	126.3
Italy	1.3	1.3	1.5
Netherlands	0.3	0.4	-20.5
Norway	0.4	0.2	93.1
Portugal	0.4	0.2	126.8
Spain	0.5	0.4	18.3
Sweden	2.0	1.6	29.8
Switzerland	0.3	0.2	67.9
UK	13.2	9.8	34.1
All Western Europe	**39.3**	**27.0**	**45.2**
Croatia			
Hungary			
Poland		0.0	-100.0
All Europe	**39.3**	**27.0**	**45.2**

Average annual BD rentals per BD HH

	2011	2010	% change
Belgium	0.3	0.7	-52.7
Denmark	2.6	2.6	0.0
France	0.1	0.1	-30.7
Germany	2.8	2.8	-2.9
Ireland	1.3	0.7	74.5
Italy	0.5	0.9	-45.6
Netherlands	0.3	0.5	-48.4
Norway	0.5	0.4	24.3
Portugal	0.8	0.5	51.0
Spain	0.2	0.3	-15.6
Sweden	2.2	2.6	-17.8
Switzerland	0.4	0.4	-4.9
UK	1.8	1.9	-1.4
All Western Europe	**1.2**	**1.3**	**-6.8**
Croatia			
Hungary			
Poland		0.0	-100.0
All Europe	**1.1**	**1.3**	**-9.7**

Average consumer BD rental price

	2011 (€)	2010 (€)	% change
Belgium	3.1	3.1	1.2
Denmark	4.3	4.4	-3.1
France	2.7	2.7	1.9
Germany	2.3	2.5	-5.9
Ireland	4.7	4.7	
Italy	3.6	3.7	-1.1
Netherlands	3.3	3.3	-1.4
Norway	5.1	5.0	2.8
Portugal	2.7	2.7	
Spain	2.3	2.3	
Sweden	3.9	3.7	5.8
Switzerland	5.2	4.6	11.6
UK	3.3	3.5	-5.9
All Western Europe	**3.0**	**3.1**	**-5.1**
Croatia			
Hungary			
Poland		1.3	-100.0
All Europe	**3.0**	**3.1**	**-5.1**

Source: IHS Screen Digest/IVF
Note: Excluding Ireland and Switzerland the countries listed above are IVF members. Regional totals include some countries not listed.