



## Hard Times 2009

### How will the recession affect Europe's media markets?

**London 17th December 2008:** Media analyst firm Screen Digest ([www.screendigest.com](http://www.screendigest.com)) today releases its forecasts for key media markets in 2009. The company's specialists in the TV, Video, Games, Mobile and Cinema teams forecast how the current hard economic times will impact their markets next year and in particular if it is myth or reality that in a recession 'staying in' really does become the new 'going out'.

#### **UK pay TV better placed than rest of Europe**

Sky TV's pay television business in the UK is well placed to weather a recession and Guy Bisson, Head of TV Team believes the company will maintain its customer growth, control churn and maintain ARPU. Other pay TV operators in Europe will not be so fortunate: Spain is already showing the effects of the recession in its pay TV and cable business and France, Italy and Germany will soon follow suit.

Free-to-air digital terrestrial TV will be least effected by the recession as its growth prospects are closely tied to analogue switch-off schedules not the economy. The highly competitive Eastern European pay TV markets will see consolidation in their crowded markets as the recession bites and the aggressive price strategies employed by many become untenable.

#### **Staying in – DVD and Blu-ray Disc**

At \$50bn worldwide, the market for home video - whether purchased or rented - is huge and history has shown that consumer demand for this value-for-money entertainment option tends to remain strong in a recession. However margins on DVD product are lower than ever before and with credit agreements becoming tighter the video supply chain itself is coming under pressure. The most extreme case so far is that of the UK, where high street chain Woolworths, which accounted for almost 9 per cent of DVDs sold in 2007, and its sister

company EUK, the country's largest DVD wholesaler, have both gone into administration and will close at the peak of the Christmas trading season. Although not unexpected, the collapse of the two companies significantly alters the retail landscape for DVD in 2009 and heightened attention to stock management issues will alter surviving retailers' DVD sales strategies. As a result, industry supply rather than consumer demand is likely to dictate market conditions in the coming year.

Nonetheless, and despite the emergence of new ways to view content digitally, Screen Digest believes that the current credit crunch will ensure the ongoing popularity of DVDs, as outlined in a recent press release [26 November 2008]. The DVD market is mature; in Western Europe spending peaked in 2005 at €11.4bn. In 2008 European consumers will spend €10.2bn on buying DVD discs. While this figure will have almost halved to €5.6bn by 2012, as consumers gradually upgrade to BD, the hi-def format will generate sales of €4.3bn that year, with the rental of both types of disc accounting for a further €1.5bn.

The recession will however slow take-up of BD, primarily in Europe. The current downturn has hit just as the industry is trying to persuade people to upgrade their home entertainment systems to include the new, high-definition format. As a result, Helen Davis Jayalath, Head of Video anticipates that "Many European consumers who might have upgraded their home entertainment system will now defer their decision so the shift to Blu-ray will take longer than previously anticipated. They will, however continue to buy DVDs, safe in the knowledge that BD's backward compatibility means that they won't become obsolete. But the delay in BD adoption and the availability in the short term of high numbers of surplus EUK and Woolworths DVD stock mean it will take longer for consumer spending to return to growth."

### **Hard-core console gamers stand firm, but is it *Game Over* for recent converts?**

The traditional console gamer – 18-35 years old and male – has few financial responsibilities, a higher disposable income and views games as an entertainment necessity. These gamers are relatively resilient to an economic downturn, but can the same be said of the new breed of console gamer that has been introduced to the market more recently, most noticeably through the Nintendo DS and Wii? Piers Harding-Rolls, Senior Analyst says "These new, non-enthusiast and more mainstream console gamers view many Wii and DS games as experimental and discretionary luxuries. As the recession bites, Wii and DS games are likely to fall from the shopping lists of some of these consumers. From a hardware perspective,

Sony's PS3 console is relatively exposed on price, which may prompt price-sensitive traditional gamers to delay adoption of the platform until we see a substantial price drop."

A further impact of the recession on the games industry will be felt in the medium term: in the current climate of heavy cost cutting and more risk-averse business practices, new and original IP projects are likely to be shelved. Gamers may have fewer innovative games to choose from in the next few years, which could threaten consumer adoption during this cycle of consoles.

### **Entertain us on our mobiles – but for free**

As consumers start to reduce their mobile phone bills, premium content such as TV and VoD will be the first to go. With their planned launches of entertainment on hold, operators and handset manufacturers will offer more 'free' bundled subscriptions, using music content as a value-add to attract and retain customers and aggressively pushing mobile broadband as a viable alternative to fixed line internet.

Ronan de Renesse, Head of Mobile says: "Content providers will be looking at application stores such as Apple's App Store and Google's Android Market to compensate for the loss they will make on mobile operators portals. The economic downturn will push operators to release their grasp on the mobile content industry and open-up mobile Internet. So against all odds, 2009 will turn out to become the most successful year for mobile content so far."

### **3D driving digital cinema installations but the rest on hold**

Cinema remains the primary place to watch a movie and that will continue in 2009 - as long as that movie is good. Analysis of previous recessions suggests that cinema does not suffer unduly, and anecdotal evidence also indicates that audiences may reduce the overall budget for their night out, cutting down on travel options or concessions expenditure, rather than eliminating the cinema ticket altogether.

Box office in the UK is predicted to rise by over five per cent in 2008, which highlights the recession-resistant nature of the medium and the importance of good films.

The current challenge confronting the film industry is moving from 35mm to digital distribution and projection without suffering cinema closures. David Hancock, Head of Film and Cinema at Screen Digest says “Digital is not just a replacement technology - it is a refreshment technology for cinema. It will breathe new life into the cinema offer (such as 3D and opera) and attendance, vital in the recession. But the financial climate is making the conversion challenging, with the funds needed to convert 110,000 modern screens worldwide (approx \$8bn) harder and more expensive to come by.”

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**Note to editors**

The research in this press release is a summary. For further analysis of the impact of the recession on media markets in 2009, please view <http://hardtimes09.greenfieldscommunications.com>

**About this research**

The data and analysts in this press release are taken from five of Screen Digest's services – TV, Video, Games, Mobile and Cinema. Research data and analysis is collected on a continuous basis.

**About Screen Digest**

Screen Digest is the pre-eminent firm of industry analysts covering global media markets. Headquartered in London, with offices in New York and Monterey, California, we employ a team of 40 specialist analysts covering film, television, broadband, mobile, cinema, home entertainment and gaming. Our online services and reports provide the information and analysis that hundreds of media companies worldwide base their decisions on. Most recently we have launched Global Media Intelligence (GMI), a new service which provides research and analysis specifically for media-focused institutional investors. [www.screendigest.com](http://www.screendigest.com). To find out more, please contact Screen Digest sales [sales@screendigest.com](mailto:sales@screendigest.com) Tel: +44 (0) 20 7424 2820