A Market Report on the UK economy of the Cinema Exhibitionists.

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1 The Market Defined

1.1 Introduction to the market

This report looks at the cinema exhibitor area of the film industry, based the latest information, which is 1998. The 1992 SIC code for the industry is 9211 - Motion picture and video production, although the 1981 code defined it better as Film production, distribution and exhibition. In 1998 there were 759 individual cinemas[1] with a total of 2,564 screens[2] in the UK compared to a total of 10,688 cinemas[3] and 21,657 screens[4] in the whole of the EU; an increase of 10%[5]. According to a report on rural cinemas[6], the growth of the modern cinema going experience started in the mid 1980s with the development of the 'supermarket' model cinema, otherwise known as multiplexes. Multiplex cinemas provide a high level of picture, sound and comfortable seating, with easy parking[7]. The first multiplex opened in Milton Keynes in 1985[8] and the number of cinemas operating has increased by 9% between 1993 and 1997[9]. The report goes on to say that the situation now is that most large populated areas have more than one multiplex, but that areas with less than 50,000 people are left without any modern cinema, and many local areas do not even have any cinema.[10]" On average the UK is has more seats per a screen than most countries in Europe, but less density of screens.

The cinema is the main link between the filmmakers and the audience, and so the main product being sold is feature films. Cinemas make money from the number of customers they get through the doors along with advertising revenue, and refreshment sales. The main factors, which make up the cinema market, are the customer and number of admissions, the box office gross for each film, and the number of sites and screens that an exhibitor has.

1.2 Size (customers share and value etc)

According to Government statistics the economic value, in 1996, of the film industry as a whole, including production and distribution, was worth £1.75 billion in the UK[11], which represented "*0.26% of the total UK gross value added*[12]" and employed around 53,000 people[13]. The UK cinema market for 1997 was worth £702m.

1.2.1 Customers and Cinema Admissions

In 1998 the population of the UK was 59,089,600[14] with 34%[15] of the population visiting the cinema at least once a year and 68% of these visitors aged 15 to 34 year,[16]. Multiplexes accounted for around 60% of these admissions[17]. Figure 2-1 shows how the admissions to cinemas have steady increased since 1983[18]. In 1999 an estimated 140m people visited the cinema, the largest number since the 1970s[19], while Screen International reported that the year 2000 saw 143m visitors.

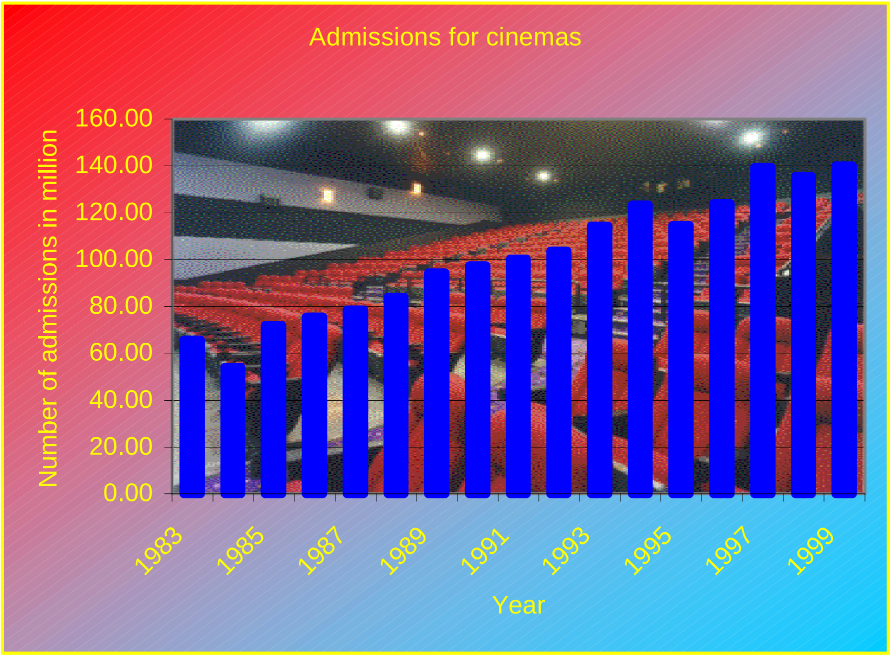

Figure 1-1 - Admissions to cinemas between 1983 - 1999

Mintel report provides a large in-depth analysis of the consumer. A total of 99% of the socio-economic group's ABC1[20] go to the cinema compared to 79% of the socio-economic groups C2DE[21], with 82% of Males and 84% of females attending the cinema[22]. According to the Mintel report the average number of visits to a cinema each year by residents aged five years and over is around 2.5 times in the UK compared to 4.7 in the US[23]. In 1996 the total household expenditure was £464.1 billion in the UK[24], with £49.7 billion being spent on recreation, entertainment and education[25].

Factors such as the football World Cup and the films, will affect admissions[26]. Traditionally the busiest times for cinemas, are schools holidays and the quietest times in May and June[27]. According to the Mintel report the revenue from consumers going to the cinema has increased by 53% between 1993 and 1997[28]. However, one of the reasons the revenue has increased is as a result of the increase in ticket prices[29]. The report also says 'renting videos to watch at home does not necessarily deter consumers from visiting the cinema[30] and suggests that it is not only the film product which is making a difference, but the cinema itself[31].

1.2.2 Box Office Revenue

The box office revenue is a way to see how the cinema exhibition sector is doing generally. The box office gross in 1998 was £514.73m[32], with a 72% increase in box office revenue between 1993 and 1997[33]. However much of the revenue from the box office goes to the film distributor[34].

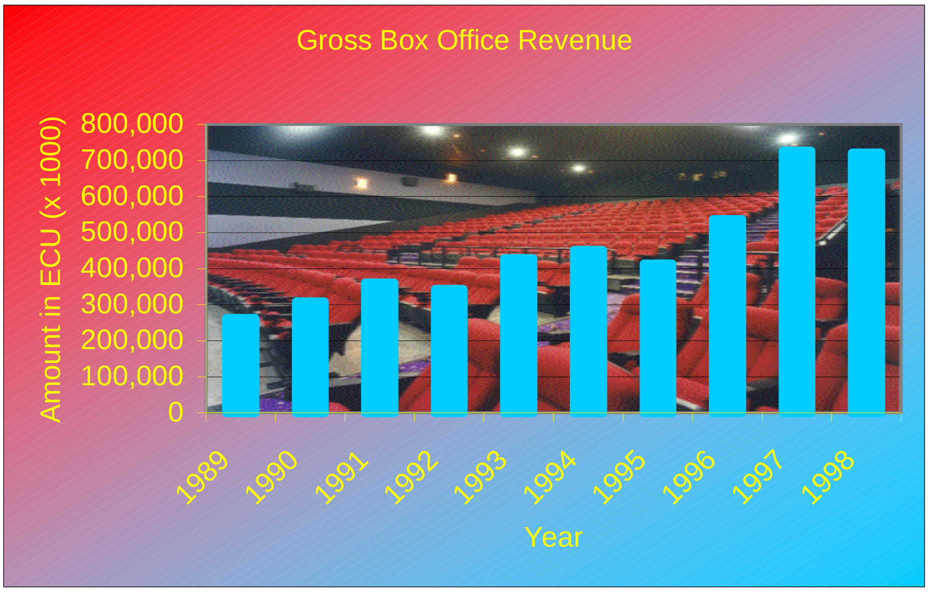

Figure 1-2 - The Gross Box Office Revenue between 1989 and 1998 in ECU

1.2.3 Revenue from Advertising

Revenue earned from cinema advertising has risen from £18m in 1985 to £97m in 1998[35]. The amount of income from non-admissions or on-screen advertising has risen from £109m in 1993 to an estimated £232m in 1998[36]. Screen International reported on 15th January that cinema advertising had dropped by 7.8% in 2000 as many large advertising reduced the amount of advertising.

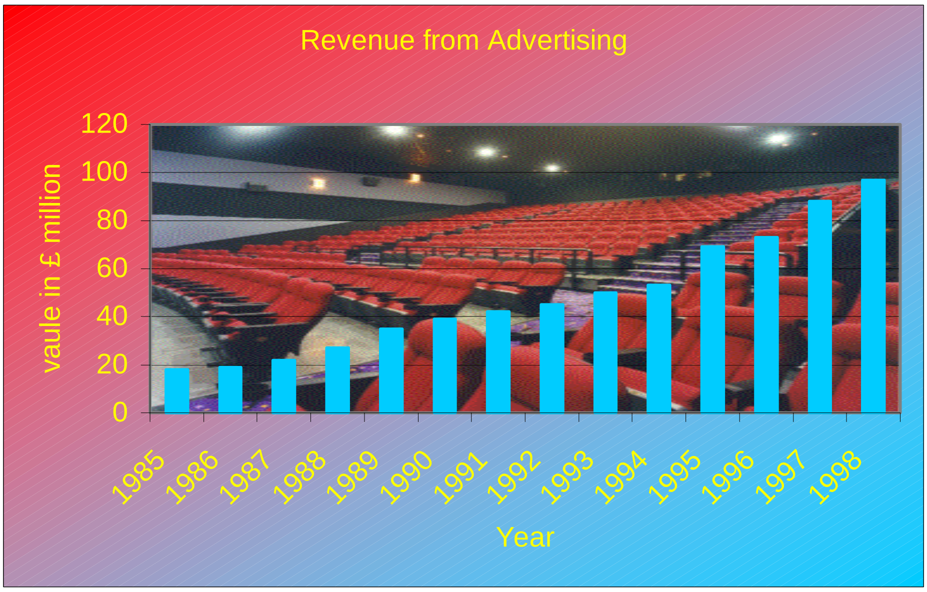

Figure 1-3 - The revenue cinemas get from advertising between 1985 and 1998

1.2.4 Average Ticket Prices etc

The average ticket price in 1998 was £3.83[37], which is the equivalent to the price of 2.01 Big Macs[38]. The graph (figure 2-4) below shows how this compares to the rest of Western Europe.

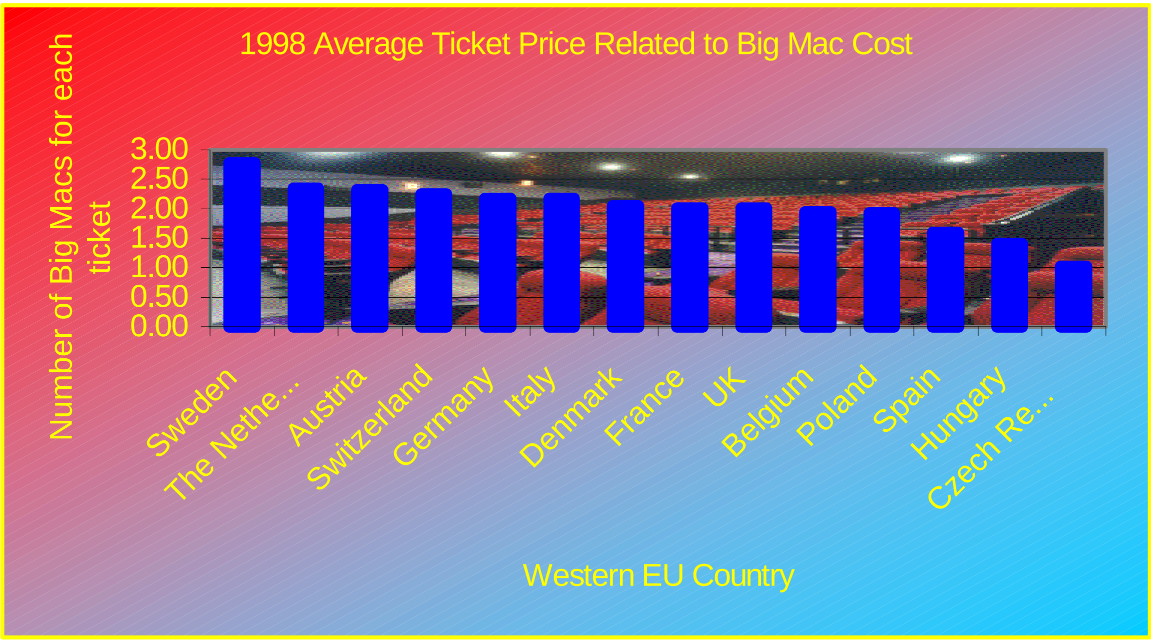

Figure 1-4 - The 1998 average ticket price in relation to the cost of a Big Mac in different countries in Western Europe

2 Market Place

2.1 Market Players

It is very difficult to get statistics on cinema exhibitors because 'The office for National Statistics does not maintain registers of all site where film exhibition takes place'[39]. According to the Cinema Exhibitors Association it has 156 members, including the big 6, and estimates that there are around 130-150 independent cinemas who are not members[40]. This gives a total of around 300 exhibitors in the UK. The following section provides summary information about the largest players in the market. However, since this report was ordinarily written a number of ABC cinemas have been re-branded to Odeon or have been closed altogether.

Name	Owned By	Sites	Screens	Other Information
ABC	Cinven	80	234	After a 10-year absent the ABC name was resurrected by the former head of the MGM chain in 1995, when Virgin sold 90 of its 114 sites, totalling two-thirds of its estate.
Odeon	ABC	79	470	The largest chain in the UK The company was established in 1931 and was sold by The Rank group in 2000 for £280m to the ABC chain. ABC will branded with the Odeon branding creating a company with 132 cinemas and 638 screens, making Odeon 60% larger than its next competitor.
Showcase	National Amusements UK	15	199	An American Chain which also owns Paramount Pictures, MTV, Ciacom and Blockbuster Video. The company intends to start building 'superplexes' in the future.
Universal Cinema International (UCI)	UK subsidiary of the Paramount/ Universal US chain	15	199	UCI is very strong in its branding and direct marketing policy. Has recently signed a contract with IMAX to build complexes with 3D cinemas. It is also one of the leading players in terms of the number of multiplex sites the company owns. (LeisureWeek, p 7 June 03, 1999 Dialog)
UGI (Formally Virgin)	UGI	36		Before MGM was sold to Virgin it had the largest market share. Virgin acquired 114 cinemas from the MGM chain in July 1995 for nearly £200m. The chain was rebranded and 90 of the traditional cinemas sold to ABC. The company created Premier Screens. The company was sold to UGI in October 1999 for £130m. UGI is a large French cinema operator with 400 screens in France and was looking for an entrance into the UK market. The company will spend £5m in rebranding the 36 cinema sites. The company has announced that it wants to build 20 sites in the UK at a cost of $80m, resulting in 310 new screens.
Warner Village	Part of Time Warner Entertainment group	20	220	Joined forces with Village Roadshow International Pty Ltd, an Australian entertainment group in November 1998. The company also operates multiplexes in Germany and Italy. There are plans to build another 17 cinemas totalling 159 screens in England.
Apollo Cinemas	Apollo Leisure Group plc	14	57	The company has many high street cinema locations and owns 25 theatres in the UK.
Cine UK	Cineworld	5		Launched in February 1996 as a group of investors who tried to buy the MGM. The company planned to have 20 multiplexes running by 2000.
Independent & Small Chains	N/A	489	733	These companies account for 14% of the market and are steadily dropping as the number of multiplexes increase. Often old buildings found in towns or urban areas, sometimes-single screens.
Other Players	N/A	N/A	N/A	There are a number of foreign operators beginning to appear in the UK and will continue to over the next few years[41].

Figure 2-1 - A summary of the larger Market Players

2.2 Market Share

Much of the market share in the cinema industry is related to the number of sites and screens that a company has. The more screens you have the chance people are going to have of going to your cinema. 59.4% of screen admissions[42] and 73.5% of the box-office results in 1995[43] of the market were shared for by the six cinema operators (ABC, Odeon, Showcase, UCI, UGI, and Warner Village). Multiplexes as a whole account for 52% of the country's screens[44]. The ABC/Odeon merger has created a 26.5% market share[45], making the chain 60% bigger[46] than second place UCI. Figure 3-2 shows the market shares for cinemas in 1997[47].

	Market value £m	%
UCI	147	21
Odeon	133	19
Virgin	119	17
Warner	77	11
National Amusements (Showcase Cinemas)	63	9
ABC	56	8
Cine UK	28	4
Other	79	11
TOTAL	**702**	**100**

Figure 2-2 Market Share for UK cinemas in 1997

3 Trends

A Key Note report forecasts that the box office revenue of cinemas will grow by 11% per year from £490m (1997) to £700m in 2001[48]. Mintel is predicting a similar rise[49]. The number of cinemas in the UK are set to rise considerably in the future years[50] and it is predicted that by 2002 there will be over 2000 screens in multiplex cinemas[51]. The graph below shows how the numbers of screens and sites have been rising over the last few years[52].

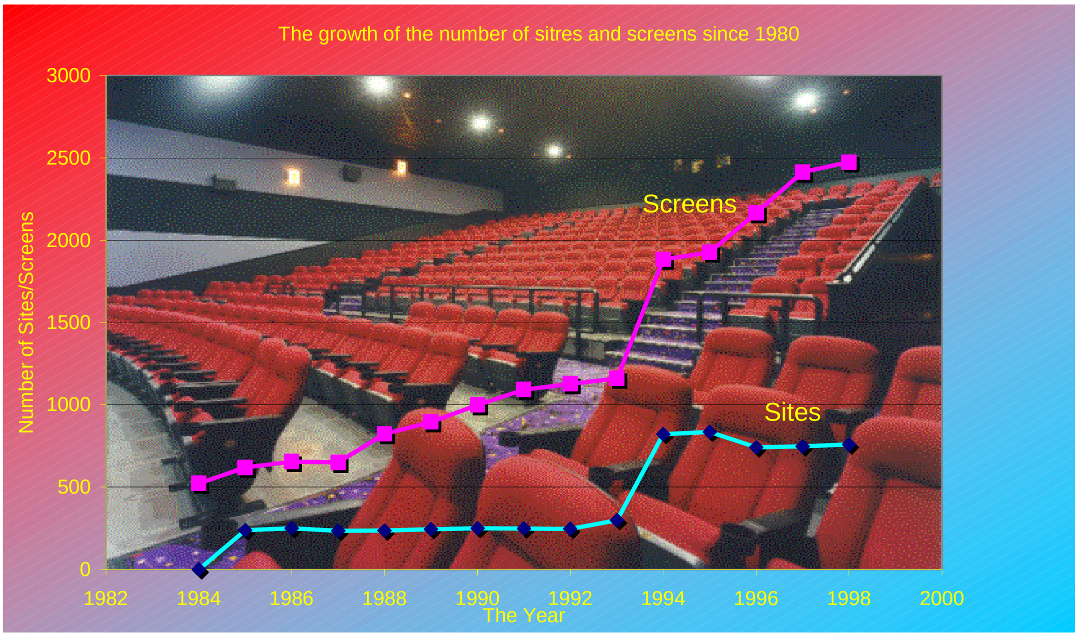

Figure 3-1 - The growth of sites and screens in the UK since 1982

4 The future

According to the White Book of the European Exhibition Industry[53] the UK has the 'most concentrated exhibition sector of any major European market' and 'virtually no public intervention in exhibition'[54]. With the sale of two major cinema chains in the last six months and a large number of new cinema chains expanding into the UK, there are likely to be a lot of changes in the cinema industry in the next year[55]. There is going to be a fight for the best locations in the country along with over saturation in certain areas and not enough coverage in others. Competition in the UK is going to become very high and profit margins for all exhibitors will also become squeezed far more[56].

Few statistics are available about the film industry and in conjunction with the Cinema Exhibitors Association the Government has published a report entitled "Better Film Statistics: Report of Feasibility Study"[57] which discusses the creation of a film industry database. Developments in Digital cinema (DLP cinema) will also effect the industry in a number of ways, but which are too early too fully know. More details can be found at http://www.madcornishprojectionist.co.uk.

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[19] **Screen Savers**, ref 15.

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[21] **Dyja, Eddie,** ref. 1, p31.

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