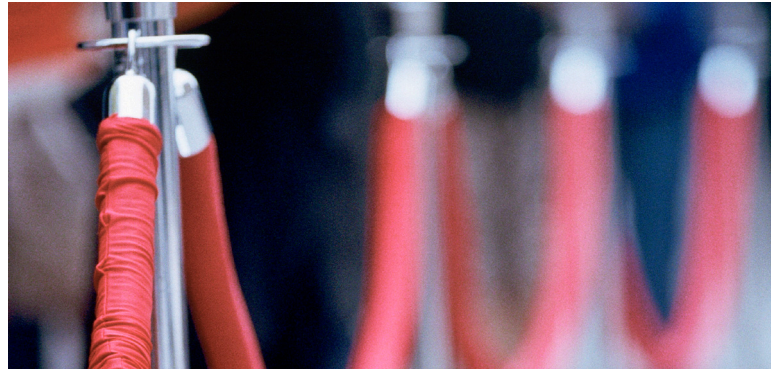


The speed of life

Consumer intelligence series



How consumers are changing the way they watch, rent, and buy movies

Online and consumer discovery sessions held between July and October 2010

Series overview

Through PwC's ongoing consumer research program, we gain directional insights on consumer attitudes and behaviors in the rapidly changing media landscape. This paper summarizes key findings from a survey about movie content and digital media consumption. It addresses consumer preferences related to renting and purchasing behavior, the appeal of timeliness in movie consumption, interest in special features and their impact on motivating consumers to purchase rather than rent. To explore this topic, we conducted a two-phased program. In Phase 1 we explored the broad issues of movie consumption by surveying more than 360 people between the ages of 18 and 59 in July 2010, then held three live focus group sessions to probe underlying motivators for the data collected. In Phase 2 of the research, we surveyed 200 participants to more deeply explore trends revealed in the initial survey. Key findings in the Phase 2 survey confirm key Phase 1 findings, including those related to online preferences, reasons for purchasing discs, and interest in paying a premium to view movies sooner. Combined, these two pieces of research represent a sample of 560 people at the 90%–95% degree of confidence.

Revised—April 15, 2011

Executive summary

Smartphones. iPads. Netflix. Redbox. On Demand. When it comes to viewing movie content, today's digitally connected environment is driving profound changes in the way consumers rent, purchase, and watch films.

While renting continues to be the primary method of obtaining movie content, more consumers are opting to rent movies through low-cost mail subscription services or digitally stream movies to their television, computer, or mobile device.

Owning a physical copy still has some appeal, especially for consumers who want to build their film library, acquire movies with unique content, or watch a particular movie time and again. Content quality that enhances the viewing experience, such as Blu-ray, may also motivate consumers to purchase a disc. But many consumers are not motivated to buy based on incentives such as embedded digital codes. This is likely due to lack of awareness and understanding about digital alternatives and is an opportunity for content producers to educate consumers.

As film companies consider new ways to reach consumers in the digital age, the widespread appeal of renting a physical or digital copy demonstrates that models based on price and convenience may be the most attractive to consumers. Meanwhile, while the majority of consumers say the ability to obtain content sooner is not appealing enough to warrant incremental costs, either as purchases or rentals, about one-third of consumers say they **would** be interested in paying more to access content earlier, such as by paying a premium at the theater to receive a copy of the disc.

Key findings

1. The Phase 1 research showed that consumers across age groups are spending time viewing digital content on their cell phone, computer and mobile device, but also still spending significant time viewing media content on traditional platforms.

- Across digital media types surveyed, the most time is spent digitally viewing TV shows and videos, including content from sites like Hulu and YouTube. The 18-34 age group is the most active of the groups surveyed.
- The least amount of time is spent viewing video on mobile devices across all age groups. This finding is consistent with our Global Entertainment and Media Outlook that forecasts viewing mobile TV video is expected to grow at a 17% CAGR through 2014, but mobile TV is still a very small percentage (1%) of the entire TV subscription market.

- The 18-34 age group spends more time playing video games (adding online and offline time) than any other age group.
- The 35-44 and 45-59 age groups spend the most time watching television, both basic and premium cable.
- The 35-44 age group spends significantly more time relative to the other age groups, watching movies/TV shows that have been DVR'd.
- Consumers report spending nearly 12 hours per week reading content—both digital and non-digital. In fact, among both digital and non-digital activities presented below, and with the exception of watching traditional and digital TV content, consumers across age groups spend the most time reading traditional newspapers, books and magazines.

Table 1—Reported hours per week spent viewing/consuming digital content (1) (2)

Age group	Watching TV shows/videos (downloaded; streamed online)	Watching Movies downloaded; streamed; on-demand (pay & free)	Reading newspaper, books, magazines (online, mobile or on e-reader)	Watching video on mobile device	Playing video games online wireless or on mobile device
Total	10.2	2.6	4.4	.3	1.5
18–34	13.6	3.2	4.6	.3	1.8
35–44	8.3	2.7	4.4	.5	1.9
45–59	6.0	1.4	4.0	.1	.5

Table 2—Reported hours per week viewing non-online/non-mobile content (1)

Age group	Watching TV shows/movies on network TV/basic cable	Watching TV shows/movies digitally recorded previously (e.g. Tivo)	Watching premium channel cable shows (e.g. HBO, Showtime, etc)	Watching movies at the theatre (includes 3D)	Watching movies rented from RedBox, Blockbuster, local video store	Playing video games on home console (owned & rented including from online sites)	Reading “paper” newspapers, books & consumer & professional magazines
Total	18.4	6.9	2.8	1.6	1.8	3.2	7.4
18–34	17.3	5.9	2.7	1.9	2.0	4.8	7.3
35–44	19.4	10.7	3.2	1.6	1.9	2.3	7.1
45–59	19.5	5.1	2.5	1.1	1.2	1.1	8.0

(1) Number of hours reflect consumers' voluntary reporting, and do not reflect actual monitored behavior. Columns are not totaled since consumers typically multi-task between activities resulting in consumption overlap.

(2) Does not include reported weekly hours spent engaging in online activities (e.g. email, social networking, info search, video chatting, business networking, shopping/buying, etc. or listening to/buying/downloading music).

2. Phase 2 of the research confirmed that renting is the primary method of viewing video/movie content, primarily because consumers see it as a better value.

- Whether it's online, via mail subscription (such as Netflix), or at a physical site (such as Blockbuster or a RedBox physical rental), more people are likely to rent their movies than purchase a copy or download a permanent copy from a website. See Chart 2.
- Consumers feel they are getting a better price or saving money by not buying. See Chart 1.
- Of all available methods, more consumers (43%) are more likely to rent a physical copy via mail subscription service once per month or more.
- 32% rent via online subscription services once per month or more.
- 31% obtain video/movie content by streaming (free) once per month or more, from a non-subscription-based Internet website, legally and/or illegally.
- Purchase/fee-based options fell into the bottom relative to behavior and frequency.

“The times have changed. Having a physical copy of something, that’s almost gone. People are downloading and you have your file on your computer.”
 — Respondent, age 35–44

Chart 1

Reason for renting

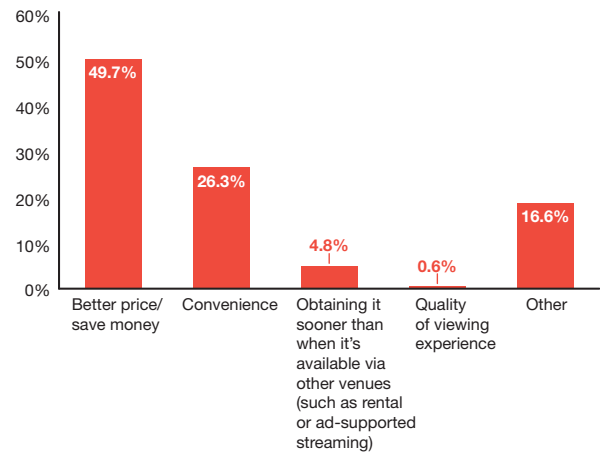
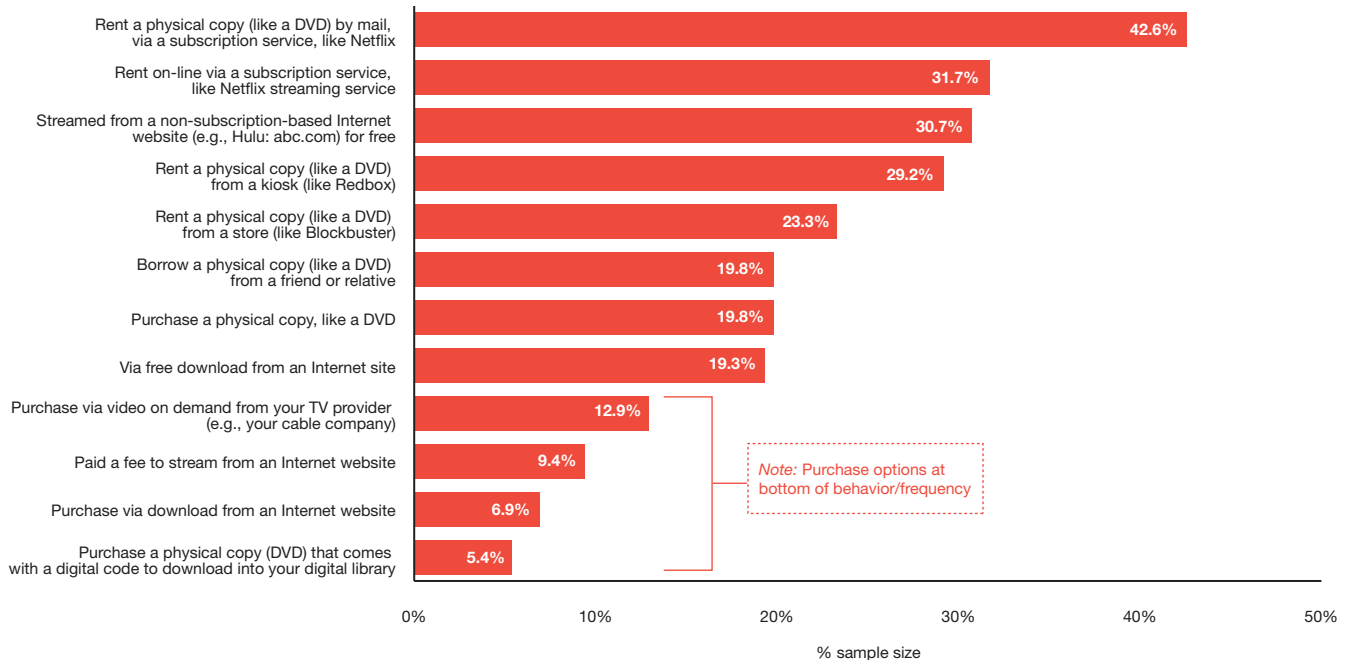


Chart 2

Ways of obtaining movie content



3. Digital has become the preferred way to view movie content, as evidenced by the decline in disc purchases/rentals as well as the number of hours spent viewing digital content (Phase 1 research).

See Table 1.

- Confirmed in Phase 2 of the research, consumers spend about half as much time (almost three hours per week) watching movies rented from traditional “brick and mortar” sites, as digitally rented movies.

4. Disc purchases are highly discretionary, and are primarily purchased as gifts or to obtain content that is personally meaningful to the consumer— For instance, a film that contains unique content (such as *Titanic*), enhances the viewing experience, or is something the consumer wants to watch more than once (such as a classic or to build a viewing library). See Chart 3.

- The single-highest driver to purchase (rather than rent) video content (66%) is if it’s “something I want to watch more than once”—such as a “classic.”
- Gifts account for the second-highest driver to purchase discs (almost 50%).
- The promise of a high-quality viewing experience was also a factor to buy rather than rent, boding well for Blu-ray purchases.

5. Digital upgrade options available with disc purchases aren’t resonating. There is low awareness and potential confusion for this feature.

- Only 6% of respondents said they acquire movie/video content (once per month or more) via a digital code that comes with the physical disc. See Chart 4.

Chart 4

Frequency of accessing digital code

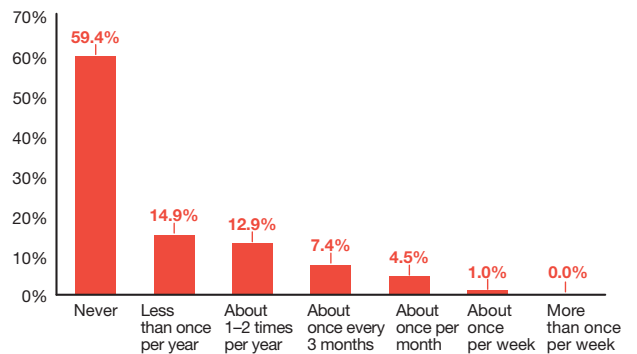
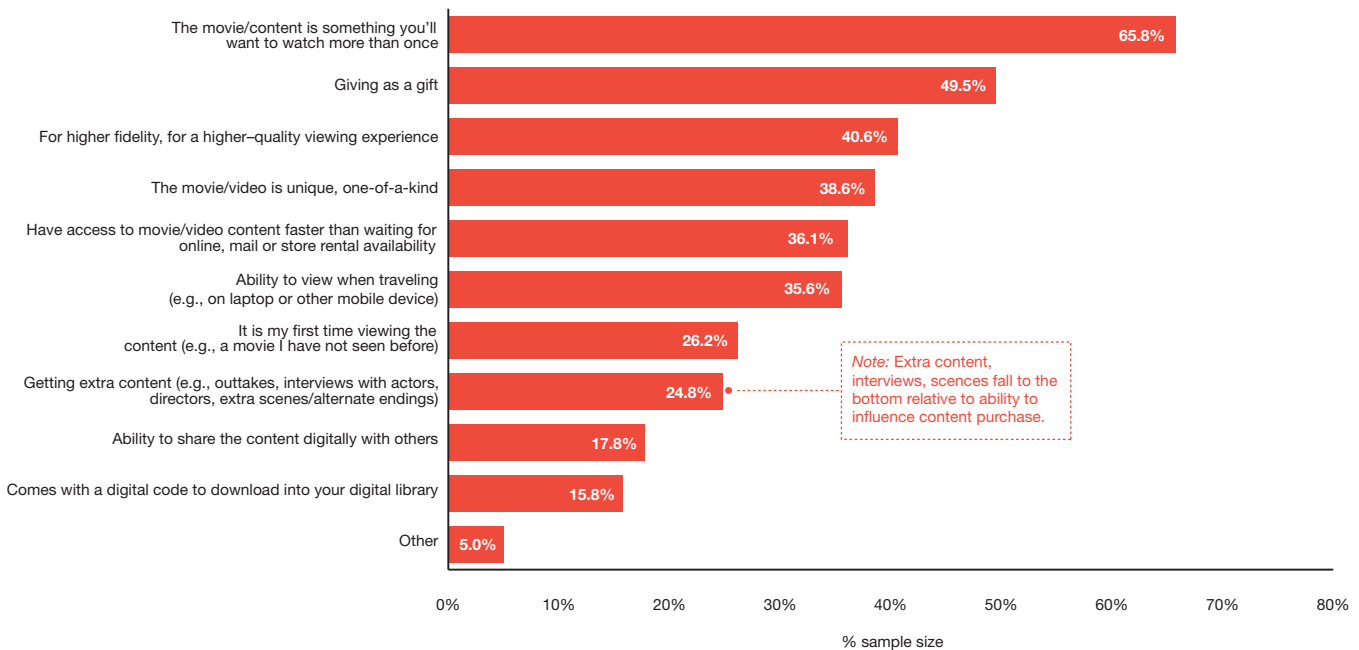


Chart 3

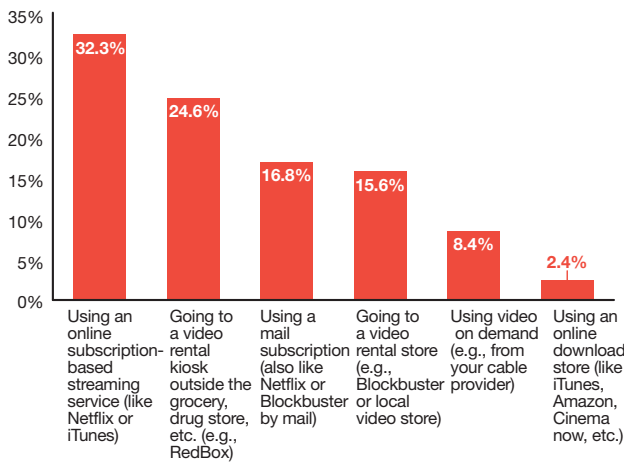
Reasons for purchasing video/movie content



6. Digital streaming is highly appealing because of its flexibility. Consumers also found the ability to download to their computer screen or connect through their game player highly appealing (Phase 1 research). See Chart 5.

Chart 5

Preferred method to rent a movie/video



7. Both Phase 1 and Phase 2 of the research found that streaming video content is perceived to be more convenient because consumers do not have to go out to buy or rent a movie, and because it gives them more options—they can view what they want, where they want, whenever they want. See Table 3.

Table 3—Primary reasons for using an online subscription-based streaming service

	Percentage
Convenience (Total)	73%
Convenient (non-specific)	33%
Easy	19%
Do not have to leave home	11%

8. While the majority of consumers said the timeliness of viewing movie/video content was not a priority (71%) and they would not be interested in paying an incremental price increase to see the movie sooner (Chart 6), a significant percentage (29%) said they would pay more to access content sooner under certain circumstances.

- The majority finding also corroborates learning from PwC’s recent survey on online piracy, which indicated that faster access to content did not significantly impact consumers’ willingness to stop pirating behavior. See PwC consumer research, “Discovering behaviors and attitudes related to pirating content.”
- Additionally, this recent study on online piracy also found that consumers who admit to pirating content would be willing to pay only a nominal amount to view content sooner—no more than \$3 to download a movie and less than \$1 for a TV program—and it must be within a 30-day window.
- Many consumers said if they really wanted to see the movie, they would have seen it at the theater.
- In terms of mobile availability, 80% of respondents would NOT pay a premium to stream movie content sooner to their phone.
- More than 70% are willing to wait three months or more for rental availability rather than pay a premium to see the movie sooner (Chart 7). Reasons ranged from not being in a hurry, to not having the capability, to convenience.
- While the majority of consumers are willing to wait to view a movie, almost 30% would pay to access the content sooner.

Chart 6

Question: “I don’t care if I can get a DVD copy any sooner than I can now.”

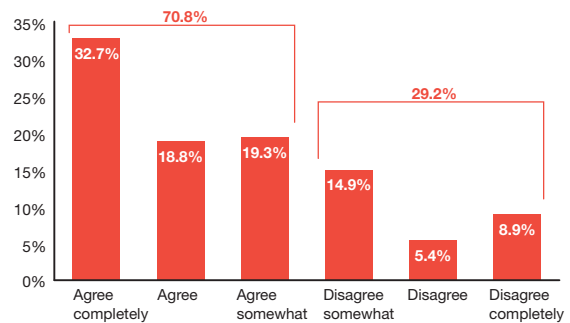
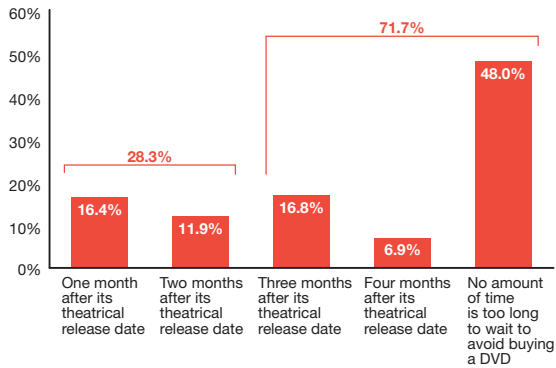


Chart 7

Time willing to wait for rental



9. In terms of purchasing a disc in order to view a movie sooner than traditionally available, a portion of the market is willing to pay a premium for this content.

- The largest percentage of consumers willing to pay a premium to purchase a disc range from purchasing directly from the theater immediately after seeing the movie (36%) to purchasing two weeks after theatrical release (38%).
- After the two-week window, the willingness to pay a premium drops off (26% willing to pay after one month).

Chart 8

Question: "I would pay more than I currently do for a DVD to purchase directly from the theater."

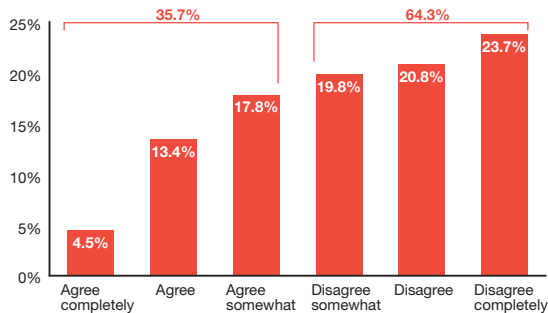
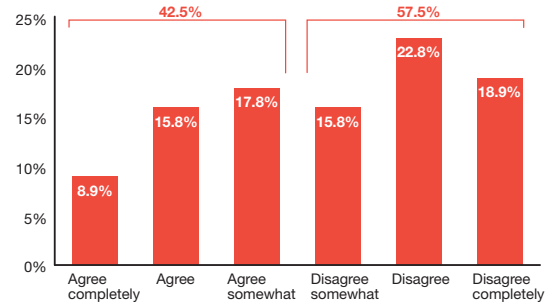


Chart 9

Question: "I would pay more to purchase a DVD if it was available one week after being released in the theater."

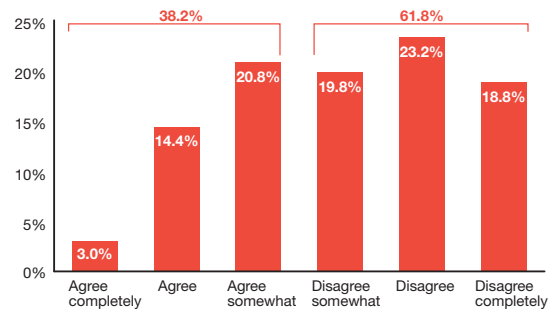


Note: 57% would not pay more to buy a DVD if it was available ONE WEEK after theater release.

However, 43% would be at least somewhat willing to pay more.

Chart 10

Question: "I would pay more to purchase a DVD if it was available two weeks after being released in the theater."

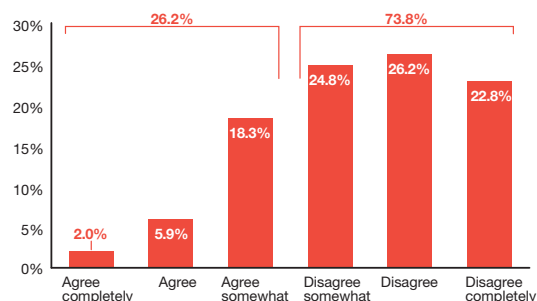


Note: 62% would not pay more to buy a DVD if it was available TWO WEEKS after theater release.

However, 38% would be at least somewhat willing to pay more.

Chart 11

Question: "I would pay more to purchase a DVD if it was available one month after being released in the theater."



Note: 74% would not pay more to buy a DVD if it was available ONE MONTH after theater release. However, 26% would be at least somewhat willing to pay more.

"And I would wait, I think, just because, if I really want to see a movie, I can go to the show and see it or I can grab it at Blockbuster."

— Respondent, age 18–34

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Implications to your business

- 1. Renting continues to be the preferred method of video/movie content consumption, with low-cost subscription models (such as kiosks and mail subscriptions) representing the primary methods for renting.** Given that price is the primary motivator for renting versus purchasing, movie distributors may want to consider shifting revenue exploration to focus on more consumer-efficient models driven by price rather than speed of access.
- 2. Content quality as it relates to an enhanced viewing experience is important and can have a persuasive impact on a consumer's decision to purchase rather than rent.** This has implications for increased emphasis on Blu-ray technology, relative to marketing messages (such as gift giving or library building) and media focus.
- 3. A notable portion of consumers are willing to pay more to access content, although the amount they are likely willing to pay may not justify shifting business models.** While the majority in these surveys were clear that they would not be interested in paying more to access content sooner, a percentage of consumers expressed willingness to pay a surcharge under certain circumstances (such as being able to access content within one to two weeks of the movie's theatrical release). Some consumers were also interested in paying more for immediate access to a movie after viewing it in the theater, which may present an opportunity for businesses to capitalize on impulse purchase decisions, such as the "in the moment" buzz found in the world of live performances, where CDs, discs, and T-shirts are sold immediately after the show. Content producers should continue to experiment with these release windows and price points to find the most advantageous mix.
- 4. There is a general lack of awareness of the digital code that can accompany a physical disc.** Content producers have an opportunity to educate consumers on the benefits of using a digital distribution model.