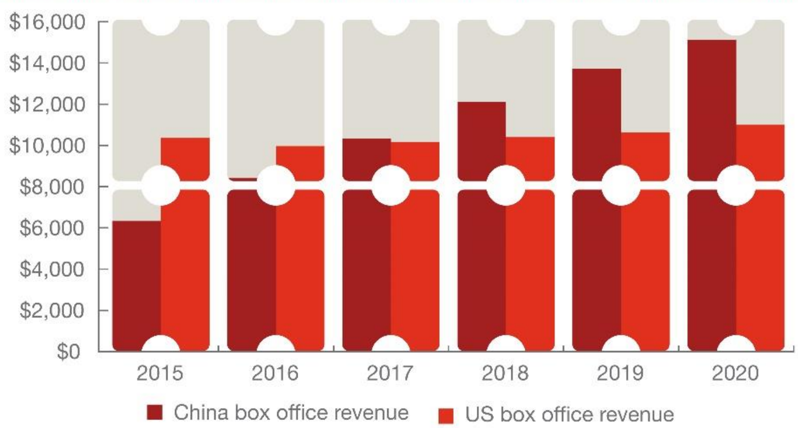
Cinema

China challenges the US for global box office leadership – in a multi-speed global market where globalisation and localisation coexist and interact

An impending shift in the global balance of power…

A momentous shift in the global cinema market's balance of economic power is now looming. According to the projections in PwC's Global Entertainment & Media Outlook 2016-2020, China could overtake the US as the world's biggest box-office market in revenue terms as early as late 2017 (see Figure 1). While this highly symbolic tipping-point may be delayed by China's unexpectedly lacklustre box office performance in the summer of 2016, the direction of travel remains clear. As a result, the next few years are set to see the US lose the dominant position that it has held in global box office revenue since the silent movie era began more than a century ago.

Figure 1: China and US, box office revenue (US$mn), 2015-2020



Source: Global entertainment and media outlook 2016–2020, PwC, Ovum

Also, on current projections, the rise of China as the world's primary box-office market won't end there. In years after it takes top spot, the country's spending at the box office is forecast to continue to accelerate rapidly – to the extent that by the end the forecast period in 2020, China's annual take from cinema admissions is expected to total US$15.24bn, some 28.4% ahead of the US's US$11.87bn. An illustration of the widening gap is that the respective compound annual growth rates in box office revenue in the two markets for 2015-2020 are forecast to be 18.96% for China, and just 1.23% for the US.

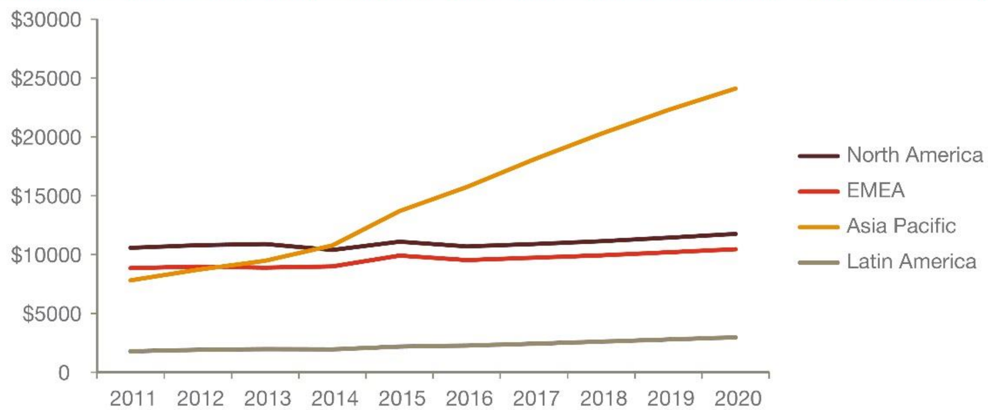
…reflects a dynamic, multi-shifting landscape

Perhaps more than any other segment of E&M, this profound reshaping of the global cinema market underlines the core theme that permeates this year's E&M Outlook: 'A world of differences'. The report paints a picture of a dynamic, diverse E&M industry that has steady and sustainable aggregate growth at a global level – but where this growth is not shared equally by all participants. As a result, drastic slowdowns in some areas and stagnation in others coexist with spectacular expansion in "hot" countries, regions and sectors, creating exciting pockets of growth and opportunity for those smart enough to spot and capitalise on them.

The cinema business fully reflects these dynamics. It's resilient and has a global reach – with box office revenue set to rise in every region of the world though 2020, despite competition from other forms of entertainment and the ease of consuming visual content digitally. Against this seemingly adverse background, the global box office market has shown sustained steady growth, and is projected to rise at a CAGR of 6.0% over the next five years to reach US$49.32bn in 2020.

However, as the comparison between China and the US shows, this growth isn't evenly spread. The whole of Asia Pacific – not just China – is galvanising the sector, with the Asia Pacific region forecast to experience box office revenue growth at a 12.0% CAGR, reaching US$24.11bn by 2020 (see Figure 2). That's almost half of total forecast global box office. Meanwhile, box office growth in Latin American will also outpace the global average, rising at a 6.4% CAGR to US$2.98bn in 2020. Yet while the mature Western European and North American cinema markets may lag behind in terms of growth, they are expected to continue to expand. And average cinema admissions prices will rise in every region during the five years to 2020. So despite rapid global increases in electronic home video revenue, the cinema will likely retain its place as a key leisure activity in every market.

Figure 2: Box office revenue by region (US$mn), 2011-2020



Source: Global entertainment and media outlook 2016–2020, PwC, Ovum

Diverse factors are at play in different territories…

In combination with the enduring global appeal of the cinema experience, the factors driving growth in different markets include a diverse array of cultural, political and economic forces. In the case of China, a predominantly local cinema market – partly because of China's official quota system, which is designed to encourage indigenous content – has undergone a concerted effort to improve facilities. Also, as urbanisation continues, with shopping malls, skyscrapers and airports being built at a prodigious rate, cinema multiplexes are continuing to spring up alongside them.

Together, these factors are seeing an estimated 15 new cinema screens open every day in China – meaning the country's 29,000 screens in September 2015 are set to expand to 50,000 within five years[1]. In contrast, the US has 40,000 screens, a number that has remained steady over the past five years[2]. So while the US box office market is effectively relying on rises in ticket prices to generate growth, China can also draw on a continuing rapid increase in the volume of admissions.

While developing markets like China are focusing expanding cinema capacity, the emphasis in mature markets is more on enhancing the cinema-going experience by equipping venues with better seating, bigger screens and enhanced sound and projection systems. With the post-Avatar backlash among audiences against 3D films having ended in 2015

[1] Source: PwC Global Entertainment and Media Outlook: 2016-2020, www.pwc.com/outlook, http://www.chinadaily.com.cn/culture/2015-09/01/content_21770672.htm
[2] Source: http://www.natoonline.org/data/us-movie-screens/

with the success of Star Wars: The Force Awakens in 3D, and the number of state-of-the-art 4D screens rising, there are positive signs that cinemagoers are still prepared to pay a premium for a fully immersive big-screen experience.

…as local tastes remains strong in many markets…

While the factors supporting revenue growth vary between mature and developing cinema markets, a uniting characteristic in many of them is a strong taste for local content, often supported by government measures. Every country wants its own film industry, with local-language films widely seen as acting as a counterweight to the Hollywood's cultural dominance – so China is far from alone in being protective of its own market. Countries from Colombia to the Netherlands have established their own schemes to attract foreign producers, thus creating employment, generating inward investment and putting their nation's culture and goods in the international shop window.

Another market with distinct local characteristics is South Africa – which is set apart both by the low market share accounted for by local films, and also the high proportion of advertising in total cinema revenues. While the country's box office revenue is projected to rise at 1.8% CAGR to reach US$77mn in 2020, it will likely be far outpaced by cinema advertising, which will expand at a CAGR of 6.4% to US$72mn. Two of the biggest Hollywood tentpoles of 2015 – *The Avengers: Age Of Ultron* and *Mad Max: Fury Road* – were shot partly in South Africa, and it is continuing to strike alliances with foreign partners to boost co-production and inward investment. Even so, according to the National Film and Video Foundation, local films in mid-2015 had only a 5% market share[3].

The dichotomy of global and local content may be seen most clearly in markets that combine well-developed digital distribution infrastructure with strong local content industries. The preference for local content over "global" (often US-produced) content is evident even in a mature, developed, country such as Australia. Cinemagoers in Nigeria are keen on local content, where Nollywood produces about 1,000 films a year – exceeding US studios' total output. Local tastes are also prevalent in India, which is the world's most prolific producer of movies, and will also retain top spot in terms of admissions, rising at a CAGR of 6.6% to reach 2.80bn in 2020. This is despite the fact that infrastructure remains the biggest challenge for the industry in India, with the country still significantly under-screened compared to most markets.

However, local content is losing some of its sheen in India, largely due to a lacklustre slate of Bollywood content in recent years. Instead, Indian audiences are finding Hollywood content genres of action-oriented, hero-led films with strong special effects increasingly appealing. With franchisee movies as a genre doing well in India, Hollywood franchisee content is also delivering well in the country – with cases in point including the success of films such as *Furious 7*, *Jurassic World* and *The Avengers*.

…but Hollywood content gains ground in markets such as India

Given the strength of box office admissions and revenues in both China and India (see Figure 3), it's easy to see why the US studios are eager to get their movies into Chinese and Indian cinemas. With dubbing in at least four Indian languages, subtitling, and local marketing and promotions, Hollywood films are now doing stronger business in India than ever before. In addition, wider distribution reach has significantly boosted the box office collections of Hollywood films in India. Recent instances where Hollywood films have been distributed beyond the 1,500 DCI screens in India include Furious 7, the first Hollywood film to be released at around 2,800 screens across India.

Such successes have seen the annual roster of Hollywood films released in India each year rise from a historical norm of 25 to 30 films to over 60. Indeed, more than 20% of the revenues of multiplexes in India are now coming from Hollywood content. However, Hollywood studios' attempts to produce local films in India are showing mixed results. With local content becoming polarised in India between big hits and big flops, all studios in India – both Indian and Hollywood – are looking for fresh scripts, new talent, and a lesser reliance on 'A-league' actors. Against this

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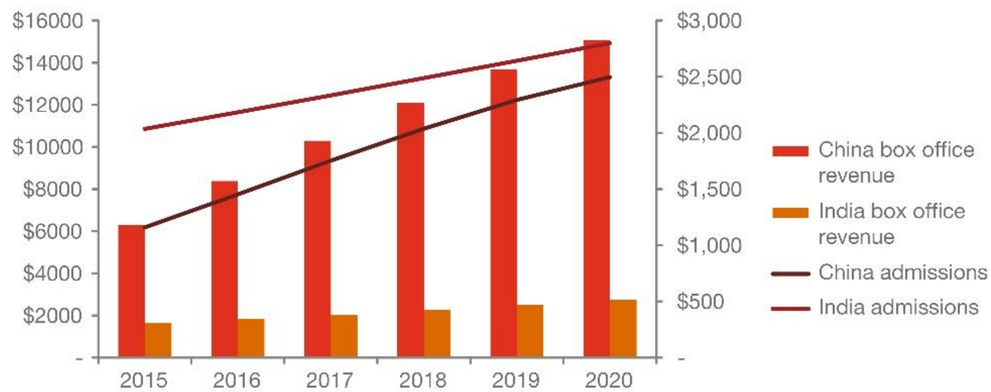
[3] Source: http://www.filmcontact.com/news/south-africa/distribution/nfvf-releases-mid-year-box-office-report-2015

background, a number of Hollywood studios have scaled back their management teams in India and/or switched to focusing on producing more regional films.

Figure 3: China and India, box office revenue (US$mn) and admissions (mn), 2015-2020



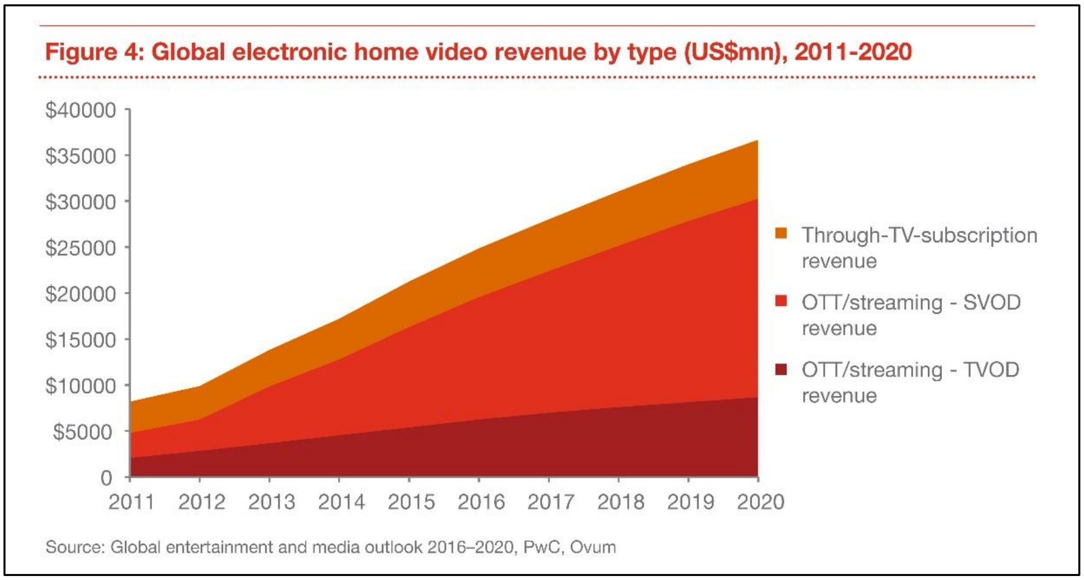
Source: Global entertainment and media outlook 2016–2020, PwC, Ovum

Significantly, the cross-border flow of content from the US has become multi-directional in the past few years, as part of a wider and increasing degree of interaction between developing and maturing movie markets. China is investing heavily in film exhibition and production in Hollywood, and India has also bought into the Hollywood studio system.

Release windows face ongoing disruption, as new models emerge…

Ongoing changes in distribution and consumption models are also impacting the industry. With the dramatic rise in digital distribution in recent years set to continue (see Figure 4), the rise of Internet streaming companies like Netflix and Amazon Prime is intensifying the pressure on the "theatrical window" – the 16- to 17-week period of exclusivity that cinemas have traditionally demanded before films filter through to ancillary platforms. The new entrants are acquiring multi-territory rights for feature films, and want to make them available to their online customers as quickly as possible. Partly as a result, new release models are gaining ground, ranging from global release on a single "day-and-date" to pre-theatrical release based on word-of-mouth. A further twist was added in October 2016, when Netflix began debuting some of its original movies with a same-day theatre release in the US, under an agreement with the 15-cinema, 113-screen chain iPic Entertainment[4]. The partnership launched with war thriller *The Siege of Jadotville*.

[4] Source: https://media.netflix.com/en/press-releases/ipic-entertainment-and-netflix-partner-on-upcoming-release-of-select-original-films



The shifting landscape of release windows is one reason why the Hollywood studios have been focusing recently on "tentpole" movies – huge-budget, big-screen offerings like *Star Wars* or *Jurassic World* that demand to be seen in cinemas, thus justifying premium ticket prices while also defying piracy. Nonetheless, viewing patterns are changing, with many smaller movies being given only token cinema outings before migrating to the online platforms through which they will find their most significant audience. Also, the recent disappointing box office performance by some major blockbusters – including sequels – may prompt a rethink, and encourage studios to manage their biggest movie franchises as long-term brands rather than a series of releases.

…but VOD (video on demand) and box office revenue can rise in tandem

The good news for the movie theatre industry is that rising global VOD revenues are not incompatible with rising global box office – a fact that reflects the differing experience that each channel presents to audiences. As we noted earlier, the vast majority of markets and all regions will see cinema box office revenue rise during the forecast period, with all markets helped by increases in ticket prices, and Asia Pacific gaining an additional boost from soaring attendances. In the same period, total electronic home video revenue will also rise briskly at a CAGR of 11.5%.

The significant factor here is that box office and video on demand are both prospering. The potential for both to succeed at the same time is underlined by the trends seen in the US in 2015, when total electronic home video revenue exceeded box office revenue for the first time, but both sectors saw strong year-on-year growth of 16.0% and 6.9% respectively. The message is clear: even in the digital era, the lure of the cinema theatre experience remains irresistible – pointing to bright future for cinema, as a digital disruption continues across the E&M industry.

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Global entertainment and media outlook

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