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FAO: Simon Maxton
Doncaster Council

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Dear Simon,

DONCASTER CCQ SAVOY CINEMA DEVELOPMENT – CINEMA MARKET COMMENTARY

Further to your recent request for a report detailing the current state of the cinema market, we have pleasure in setting out our thoughts as follows.

The last 5 years has seen a very strong cinema industry with 2017 being another excellent year for the UK sector. The cinema-going public again responded to a diverse film offering and the continued investment by cinema operators in all aspects of the big screen experience such that 2017 out-performed 2016 in terms of both box office takings and number of admissions, the former setting a new UK record.

Also key were unprecedented levels of investment in the UK cinema sector, with the improved trading figures provided by digitisation and the continuing emergence of 'high end' business models in particular, including Everyman and Curzon amongst others. This has resulted in a significant number of refurbishments, with boutique cinemas being more and more prevalent with more comfortable, bespoke cinema experiences becoming the norm.

This, and the information below provides evidence of both the health of the UK cinema sector and its ongoing resilience in the face of wider economic and other commercial challenges. Visiting the cinema is still considered to be a relatively cheap night out - certainly versus a meal or going out for drinks and average cinema attendance in the UK approximately 2.5 visits per person per annum.

Cinema Attendance

Overall the 2017 calendar year showed an improvement on 2016, both in terms of box office (£1,277,878,351 - up 2.5 per cent on 2016) and admissions (170,616,775 - up 1.4 per cent on 2016), the former representing another record year for the sector.

The table below shows month by month admissions for 2017 and 2016.

Month	Admissions 2017	Admissions 2016	% Change
January	14,995,364	14,029,310	+6.9
February	16,479,373	15,352,658	+7.3
March	16,153,356	13,388,081	+20.7
April	15,642,269	13,134,753	+19.1
May	11,340,178	12,498,334	-9.3
June	9,583,856	10,707,878	-10.4
July	17,803,869	16,590,400	+7.3
August	14,474,561	18,088,513	-20.0
September	10,783,134	11,664,455	-7.6
October	12,106,187	15,191,619	-20.3
November	14,089,744	12,397,524	+13.6
December	17,164,883	15,216,370	+12.8
Total	170,616,775	168,259,894	+1.4

When considered against the preceding 3 years' cinema admissions, it is clear that the general pattern has been stable / rising attendances over the last 5 years.

- 2015 admissions - 172m
- 2014 admissions - 157m
- 2013 admissions - 166m

These national figures can however be easily skewed and indeed increased by the provision of a new cinema in a specific locality, as will be the case for the proposed Savoy in Doncaster. Cinemas are known to create their own markets, as it becomes a much smaller customer decision if they can walk say 15 minutes to their local cinema, or drive for 5 minutes.

At an individual level, a customer may decide to see a film at a cinema very close to where they live because they “quite fancy it and don’t have anything else on”, whereas someone of the same mindset would not be prepared to get in the car and drive 20 minutes.

2017 Top Film Releases

It is well known that fluctuations in cinema attendances from year to year can be attributed to particularly good or poor film releases, with 2017 being a good year following key film releases - the top 10 for 2017 being:

Ranking	Film Title	Box Office Takings (£m)
1	Star Wars: The Last Jedi	69.36
2	Beauty and the Beast	67.84
3	Dunkirk	53.27
4	Despicable Me 3	44.31
5	Guardians of the Galaxy Vol. 2	38.78
6	Paddington 2	36.55
7	It	29.88
8	Thor: Ragnarok	29.02
9	La La Land	28.58
10	Spider-Man: Homecoming	28.39

Cost of a cinema visit

There are often media pieces covering the supposedly high cost of a cinema visit, including ticket prices and the cost of cinema food and drink. However, cinema ticket prices compare favourably to other out-of-home experiences and the cinema-going public continues to be willing to pay for the immersive big screen experience. This shows no sign of abating.

Challenges facing the Cinema Sector

TV versus Cinema

Some are of the view that the rise of subscription services such as Netflix and Amazon Prime could be a danger for the cinema industry, however the strong box office revenues and cinema admissions figures above would suggest otherwise.

However, there are still some noteworthy figures in relation to Netflix:

- Netflix invested 6 billion dollars in video content in 2017
- Netflix reached 117 million subscribers, split about 50/50 between the US and the rest of the world.
- Netflix grew its revenues by a phenomenal 36% in 2017
- Netflix worldwide revenues of 11 billion in 2017 is approximately the same as the total US Box Office.
- Netflix has announced that it plans to spend 8 billion in 2018, on some 700 series and 80 feature films.

Amazon is catching up to Netflix, investing 4.5 billion in series and films in 2017.

The huge commercial success enjoyed by TV drama in particular, including flagship series like Game of Thrones and Breaking Bad has definitely improved ratings and turnover figures for television companies. The television format, with multiple episodes, is arguably a better medium to tell a longer story than a cinema and this will not change. Television also allows relaxed storytelling whereas films have no choice but to keep their offering short and relatively concise owing to circa 2 hour time constraints in most cases.

Films need immediate success, without which they fail. Television does not necessarily depend upon the numbers of viewers the first time an episode is aired. Breaking Bad for example was only moderately popular during its first two seasons.

Also, to make a more basic point, teenagers will always want to leave their parents at home and go out with their friends. Similarly, parents will want to watch films away from the home, without children.

All this leads to the argument that there is a place for both television and film in the longer term.

Business Rates

In the first few months of 2017, the UK Cinema Association was made aware of a number of members facing potentially significant increases in business rates for the period 2017/2018.

While this was in part caused by changes in local economic conditions since the last revaluation, it was also strongly felt by many that the framework being used by the VOA to assess the rateable value of cinemas was now markedly out of step with modern business models in the sector.

This may be something Doncaster Council wishes to bear in mind when assessing the new Savoy cinema, so as not to overburden it with undue occupational costs and to ensure its longevity.

The Challenge and Opportunity of Technology in Cinemas

Technology in the cinema industry is developing at a pace and older cinemas are having to invest heavily in order to retain their market share. The conversion to digital cinema technology, which took place almost ten years ago, has proved to be transformational for the sector, bringing with it the ability to be much more flexible in terms of programming as well as opening up new revenue streams from event cinema to digital 3D.

4K+

Due in part to Netflix, 4K is becoming the feature production and postproduction standard, and will be the upcoming feature projection standard.

Netflix has declared that it will not produce any content shot with lower resolution than UHD (3840 pixels / 4K) and cinema will need to compete. 4K is clearly emerging as the current production standard, and the upcoming projection standard for feature films.

A brand-new Savoy cinema in the CCQ should of course be absolutely up to date in terms of technology and of course the overall design. It will therefore be well placed to compete with the only other cinema within a 30 minute drive ie. the VUE at Lakeside

As a smaller operator with 4 cinemas currently, it should also be easier for Savoy to adapt to changes in technology in the cinema industry. Whilst they will no doubt expand over the years to come, Savoy is run by a very hands-on management team who monitor all their venues extremely closely and do whatever needs to be done to keep them current and up to date.

Innovation for the Future

There are innovations on the horizon that are likely to change cinema still further over the next few years:

4D

4D cinemas have been around for a long time but, they've mostly been reserved for tourist attractions like Madame Tussauds and Universal Studios. However, they are slowly starting to become more commonplace outside tourist attractions.

Specially fitted cinemas with rumbling seats, scent dispersal units, lightning flashes, wind and air blasts and more, make you feel the same things that the characters are feeling from your seat. That said, the technology isn't fully there just yet, but it's still pretty cool.

The only trouble is that it would cost cinemas a lot to upgrade to 4D. They'd essentially have to rip out every seat and buy newer, more expensive ones with all the technology inside. That's the reason there are so few 4D cinemas around the world.

Virtual Reality (VR)

Virtual reality has also been represented in some form at most of the major film festivals but VR is likely to be further into the future in terms of its mainstream availability. The first ever VR-only cinema opened in Amsterdam in 2016, with further openings planned for the future. People are given headsets to view films through and sit on swivelling chairs allowing them to look around unencumbered.

VR is still extremely expensive. In addition, VR technology isn't exactly great for traditional, narrative film-making. There is also the issue is one of storytelling - if viewers can be looking around at all times, they could potentially miss important shots or scenes because they were literally looking the wrong way!

Glasses-Free-3D

Glasses-Free-3D is the holy grail of cinema innovations. The technology is progressing and it does not require anything of the audience. Essentially, there is a filter that sits over a screen and splits the images on the screen into two, one for each eye.

This gives a 3D effect without the need to wear glasses. The technology has been implemented on some televisions and some Nintendo gaming consoles.

Laser Projection

Digital film projectors are already extremely sophisticated but further improvements to the experience will come when cinemas start to adopt laser projection, which shows black much better than traditional film projectors. This means better colour definition and image quality in general.

This technology is already being used in IMAX theatres around the world. It is just a question of how long it will take for the rest of the industry to catch up. It could make sense for traditional cinemas as lasers do not burn out, so in the long run this technology should save cinemas money.

Conclusion

The continued popularity of cinema shows no sign of abating and additional cinemas being built create new audiences within their locality. Savoy will be creating a technologically advanced facility at the Cultural and Civic Quarter in Doncaster, which will be well placed to compete with other offerings in the entertainment marketplace.

Therefore, as a long-term amenity for Doncaster generally and the Cultural and Civic Quarter specifically, the cinema should be confident of being a commercial success, in addition to complementing the other public access facilities in the immediate area.

We trust that this report provides the comfort you require in this respect and of course, should you require anything further then please let me know.

Kind regards

Richard Shuttleworth BSc (Hons) MRICS
DIRECTOR

cc. Tom Hodgson, Pudney Shuttleworth
Adrian Banks, Doncaster Council