

Moving towards a legal digital film market

Bite Sized Thought Piece

2009



Failure to control digital piracy has set the market back

BitTorrent, a peer-to-peer file sharing system, was launched back in 2001, leading to a surge in illegal film downloading. Eight years later and Internet Service Providers (ISPs) are reporting that torrents make up as much as 80% of their data traffic and the film industry seems no closer to solving the problems created by digital piracy. This failure to change consumer behaviour threatens to undermine business models across the film industry. Based on research from Ipsos MediaCT conducted on behalf of the film industry, jointly the UK film and TV industry lost an estimated £500m in revenue, from all forms of piracy in 2007 – both digital and physical (UK PiracyStudy 2007).

This combined with a decline in physical DVD sales, which have fallen 9.5% in the first half of 2009 (BVA), means that the industry needs to act now to reverse the rise of the pirates and monetise online film. This thought piece considers the twin challenges faced by the film industry in needing to cut off illegal file sharing sites, whilst developing compelling official digital models to act as credible alternatives to pirate sites.



Digital Britain goes some of the way to address piracy

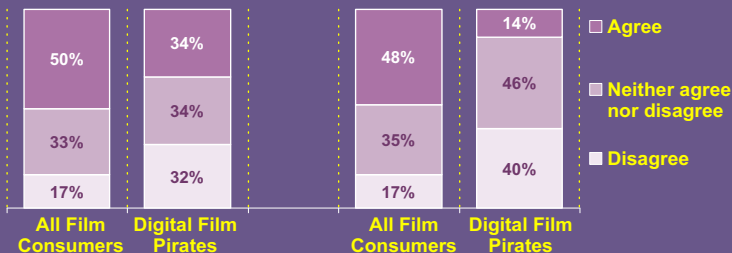
Content owners argue that by monitoring their traffic, ISPs could spot breaches of copyright and throw persistent pirates off their networks. The UK's Digital Britain report published in June 2009 stopped short of proposing anything so drastic. Instead it endorsed setting up a Rights Agency, to pass on lawbreaking customers' details from ISPs to the content owners, leaving it with them to individually take legal action against frequent file sharers who ignore warning letters from their broadband providers.

It is unlikely that content providers will want to mount a large-scale assault on digital pirates through the courts, given the negative PR, time and effort needed. Working with ISPs to restrict the bandwidth of frequent pirates could be a more likely scenario. Research from Ipsos MediaCT shows that for the majority of film consumers it is not unacceptable for persistent digital film pirates to have their broadband speed slowed - even 1 in 3 digital film pirates agree this action is acceptable. Tellingly, for digital film pirates this balance of acceptability shifts to just 14% when this is upped to a suspension of service.

Consumer acceptability of ISP intervention

"It is acceptable for an ISP to **restrict** the internet access of someone who continually downloads illegal copies of films"

"It is acceptable for an ISP to **suspend** the internet access of someone who continually downloads illegal copies of films"



Base: 406 Film Consumers 12-18 May 2009, Source: Ipsos MORI

Lack of official alternatives

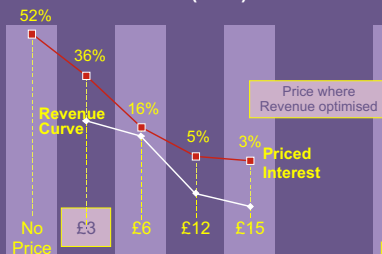
The size of the unofficial digital film market shows that a ready-made market exists, and presents both a threat and an opportunity for the legal film market. Most people downloading unofficial copies of a film do so because it's the easiest way to access them and, in many cases, it's free. For now, without any wide-ranging ISP enforcement reform, following the Digital Britain report, the industry is being left to get on and create a "framework" to encourage legal downloads. If it can do this, it will have the dual benefit of attracting pirates to use legal sources and boosting film consumption overall. The film industry has begun to experiment with digital content but this is still very much in its infancy.

The industry must act, but which model to adopt?

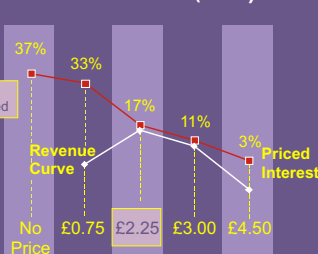
The two main models being pushed by the industry are download to own (DTO) and on demand. Based on research from Ipsos MediaCT, official DTO services have a broad appeal with 52% of film consumers with internet access interested in paying to download a new release film (at time of DVD release) from an official service. Interest rises to 65% amongst digital film pirates - supporting the idea that within many pirates there is a paying customer waiting to emerge. Revenue, however, for those interested in new release DTO is optimised at just £3 - with few willing to pay current DTO prices (£12 Blinkbox / £9 iTunes), and even fewer (just 3%) willing to pay retail boxed DVD prices (£14.99).

Interest in paying for new release film (time of DVD) from official online sources

Download to Own (DTO)



Video on Demand (VoD)



Clearly with this gap between the perceived value of DTO new release films and current pricing, there is a significant disincentive for the industry to pursue this strategy until this gap can be narrowed. This gap may only be addressed when it is possible to easily download files direct to TV sets.

In the medium term a more attractive digital strategy is likely to be online Video on Demand (VoD). The latest research from Ipsos MediaCT shows that although overall interest amongst film consumers is lower at 37%, revenue is maximised at £2.25 - nearly the same level as DTO. For the film industry it raises the question - Why give away your content to own if consumers will pay nearly the same to rent it online? It seems that online VoD film has an advantage over film DTO in that it has a well understood rental market, which translates easily to the internet. Certainly the online VoD film market has seen a raft of new entrants over the past 18 months or so, led by BT Vision, and more recently Blinkbox, iTunes, and in particular Xbox 360, which offers VoD film through the console to the TV.

Preparing for film's online future

Although online VoD might be best for the industry in terms of both maximising revenues and maintaining control of content, this should not be the only model considered. The film studios need to look at the music industry, which through experimenting with various models (such as ad funded, subscription, bundled with hardware) is beginning to stem the levels of online music piracy.





It is not a 'one size fits all' market - for some, streaming films over DTO will be preferred, for others a 'Spotify' type ad funded approach might be preferred - the industry should look to open up as many legal channels as possible. After all, 'pirates' are willing consumers and the film industry needs to tap into what drives them to download their content illegally.

There is now a window of opportunity to win back these pirates and turn the tide on digital film piracy. If the industry gets it right it will be able to ride the surge in demand that will likely come when internet enabled TV becomes commonplace in the market and accessing films on the web via the TV is a wireless one button event.

At Ipsos MediaCT, we are ideally placed to work with clients to help shape future digital strategy.

For more information, please contact:

Ian Bramley
Tel.: +44(0)20 8861 8000
Email: ian.bramley@ipsos.com
www.ipsos-mori.com



Peter Duffin
Tel.: +44(0)20 8861 8000
Email: peter.duffin@ipsos.com
www.ipsos-mori.com

