



UK Market Statistics

Entertainment retail spend surges beyond £6.3bn with music, video and games categories all posting strong growth.

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Total UK entertainment retail consumer-spend grew for the fourth consecutive year in 2016, up 3% to £6,318m, achieved against a 53-week trading year in 2015.

Music retail enjoyed its highest year-on-year uptick in spend since the turn of the century, up 4.6% versus 2015, while the video and games categories continue to perform solidly, up 2.2% and 2.9% respectively.

The games sector saw spend rise to almost £3bn, securing 47% of the entertainment retail market in 2016, while the £2.3bn spent on video content represented just under 36%. Just over £1.1bn was spent on music last year resulting in its share of the market rising to 18% from 17% in 2015.

After enduring a decade and a half of unprecedented technological disruption, rapidly changing consumption habits and rampant digital piracy that combined to shake the traditional entertainment retail paradigm to its core and send revenues spiralling downwards, the delivery of four consecutive years of consumer-spend growth represents a significant and welcome stabilisation of the market.

It has taken years of radical innovation and hundreds of millions of pounds of investment from entertainment retailers and digital services - often spent in a low, or zero-profit environment - to reach this point of steady, healthy revenue generation.

Continuing to build consistent and reliable growth into each of the major home entertainment categories over the coming years - and doing so profitably - will require more investment in the creation and delivery of new and compelling music, video and games products for a consumer that is increasingly comfortable listening, watching and playing across a myriad of formats, platforms and devices.

It will also need a diverse and agile retailer base, serviced by a responsive and efficient supply chain model, if the innovation required to continue to reach and engage the multi-channel consumer is to be maintained.

ERA Entertainment Monitor - Sales Value (£m)

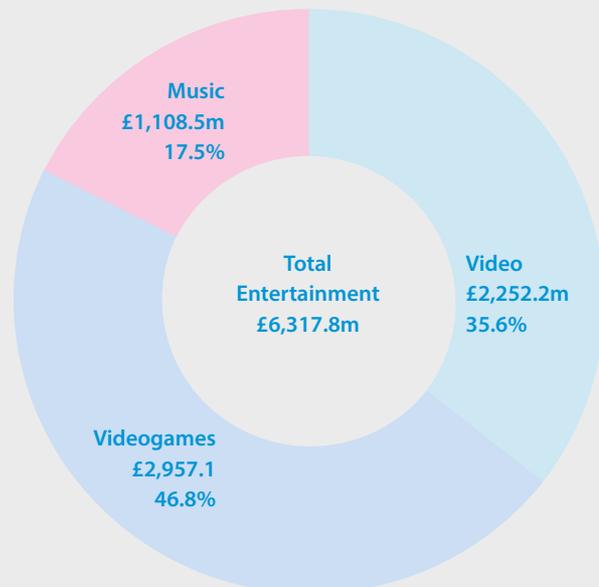
	2014	2015	2016	Calendar year % change
Video	2,184.9	2,203.7	2,252.2	2.2%
Videogames	2,567.9	2,873.0	2,957.1	2.9%
Music	1,023.1	1,059.7	1,108.5	4.6%
Total value	5,775.9	6,136.4	6,317.8	3.0%

Source: Music - Official Charts. Includes ERA subscription streaming consumer spend estimates

Video - Physical data from Official Charts / BASE, Digital estimates from IHS

Videogames - Physical data from GfK. Digital estimates from IHS

ERA Entertainment Monitor 2016 (£m)



DIGITAL AND PHYSICAL FORMAT SPLITS

The digital revolution in home entertainment reached a truly significant landmark in 2016 with each of the three categories now delivering the majority of their annual revenues on digital formats.

Digital now represents £4.1bn and around two-thirds of total market spend, up 15.9% versus 2015.

Video, in particular, experienced explosive growth in 2016. Driven by a rampant SVOD segment, it became the final entertainment category to cross over and derive most of its revenues via digital channels. Spend hit £1.3bn in 2016, up almost 23% year-on-year,

meaning digital now represents over 58% of total video category spend.

Digital growth was more modest in games – up 12.1% to £2.2bn. However, in terms of total revenue, three out of every four pounds generated by videogames in the UK last year came via content that was digitally delivered directly to consoles, PCs, mobiles and tablets, or accessed online.

As in video, sales of traditional disc-based formats in games are in retreat, with spend declining by over 16% year-on-year.

The music retail category is undergoing a second major wave of digital disruption with burgeoning revenues derived from subscription streaming structurally transforming the market once again. Of the £633m spent on digital music in 2016 – up 15.8% year-on-year – 66% came via monthly streaming subscriptions. Just five years ago streaming accounted for 16% of digital spend. Conversely, sales of the once mighty digital download are declining at an unprecedented rate and were worth barely half the value of streaming subscriptions in 2016.

Music's physical formats enjoyed a reasonably steady year of trading when compared to the other categories, buoyed considerably by the continued growth in vinyl LPs. Combined with CDs, physical sales declined by just 7% versus 2015, down to £475m, meaning that physical formats now represent 42.9% of total category sales – the highest physical share in any entertainment retail category. Few industry analysts would have predicted that when peer-to-peer file sharing so spectacularly tore up the traditional music retail model in the early 2000s.

Digital Formats (£m)				
	2014	2015	2016	Calendar year % change
Video	834.0	1,065.9	1,309.3	22.8%
Videogames	1,619.8	1,945.3	2,181.2	12.1%
Music	505.8	546.9	633.1	15.8%
Total	2,959.6	3,558.1	4,123.6	15.9%

Source: Music - Official Charts and ERA. Video and videogames - IHS estimates

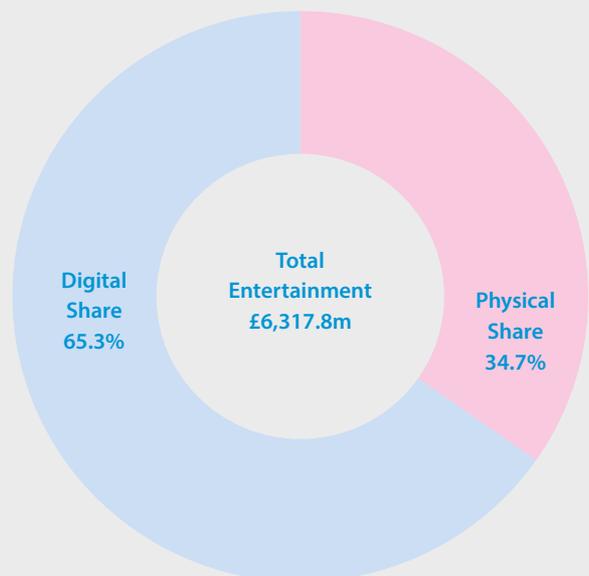
Physical Formats (£m)				
	2014	2015	2016	Calendar year % change
Video	1,350.9	1,137.9	943.0	-17.1%
Videogames	948.1	927.7	775.9	-16.4%
Music	517.3	512.8	475.4	-7.3%
Total	2,816.3	2,578.4	2,194.3	-14.9%

Source: Music - Official Charts. Video - Official Charts / BASE. Games - GfK

Physical Format versus Digital Format Share of Entertainment Market Revenues - 2016				
	2016 Physical Value (£m)	2016 Digital Value (£m)	2016 Physical Share %	2016 Digital Share %
Video	943.0	1,309.3	41.9%	58.1%
Videogames	775.9	2,181.2	26.2%	73.8%
Music	475.4	633.1	42.9%	57.1%
Total	2,194.3	4,123.6	34.7%	65.3%

Source: Official Charts, IHS, ERA Estimates (music streaming subscriptions)

Physical versus Digital Share of the Entertainment Retail Market £m 2016





BRICKS AND MORTAR VERSUS ONLINE

Just how transformative the Internet has been on the entertainment retail industry is brought into sharper relief when you combine the sales dominance of the digital format, as described overleaf, with sales of traditional physical formats via online retailers.

Dominated by e-commerce giant Amazon, online home delivery of physical entertainment products is a booming industry sub-segment, offering levels of convenience and a sheer depth of range that most bricks-and-mortar retailers can only dream of.

Combined digital and physical home delivery spend in 2016 amounted to just over £4.9bn, meaning that 78% of all entertainment retail transactions were conducted online last year, up from 72% in 2015.

And while all three entertainment categories now conduct the vast majority of their business online – both video and music execute almost three-quarters of their transactions over the Internet – it is the games category that has embraced the channel most emphatically. Over 83% of games spend is derived via e-commerce channels, driven by a combination of relentless growth in the micro-transactional world of mobile and tablet gaming, and a pronounced consumer-switch away from boxed software and into direct-to-console digital distribution.

Of course, the online home delivery space is not solely the preserve of Amazon, with many entertainment retailers on the high street and most of the supermarkets operating successfully in the same space.

Moreover, its not just about warehouse size and ubiquitous availability. For independent bricks-and-mortar retailers, where product selection is often niche-driven and balancing inventories a finely-tuned retailing discipline, trading online can extend the pull of that carefully honed curation, develop an untapped customer base and nurture loyalty way beyond the physical confines of the shop itself.

Bricks and mortar versus online 2016			
	2015 Value (£m)	2016 Value (£m)	2016 Share of Market %
Video			
Bricks & mortar	£742.8	£605.2	26.9%
Online	£1,461.0	£1,647.1	73.1%
Videogames			
Bricks & mortar	£627.0	£497.1	16.8%
Online	£2,246.0	£2,460.1	83.2%
Music			
Bricks & mortar	£339.1	£306.4	27.6%
Online	£720.6	£802.1	72.4%
Total Entertainment			
Bricks & mortar	£1,708.9	£1,408.6	22.3%
Online	£4,427.6	£4,909.3	77.7%

Source: Official Charts, GfK

ACCESS VERSUS OWNERSHIP

The UK consumer's growing acceptance of the concept of paying to access entertainment, rather than paying to own it outright, is perhaps the most striking corollary of the digital revolution.

A major shift in attitude has taken place. Five years ago, the idea of paying for the temporary right to enjoy music, watch a film, or play a game was not a widely embraced one.

In 2012, just over a billion pounds was spent on accessing content, mostly comprised of LoveFilm's DVD monthly rental subscriptions and gamers subscribing to Internet-based MMOGs. In 2016, £3.2bn was spent on accessing entertainment content in the UK, up 20% versus 2015. With all three categories continuing to experience significant growth across their respective rental models, 2016 became the first year where access outstripped ownership, 51% versus 49%.

Video – interestingly, the last of the entertainment categories to embrace the ownership model with the advent of the affordable DVD in 1998 – became the latest to derive more revenue from access models than ownership, with the £1,149.3m (+23%) spent in 2016 accounting for 51% of total category spend. Stellar growth in subscriptions to video-on-demand services like Netflix, Amazon Prime Instant Video and Sky's NowTV is responsible for the majority of the swing, although spend on one-off digital rental transactions via online operators like iTunes, or the major cable, satellite and IPTV broadband services like BT, Virgin and Sky, are also in the ascendancy.

In the games category, where access has a long-established tradition, revenues generated via on mobile in-app content and online subscriptions continued to build, up 10% year-on-year, with spend topping the £1.6bn mark in 2016, representing 57% of the category total.

While music remains the only category to derive most of its revenues via its ownership formats, growth in access models is never the less exploding with the uptake of subscriptions to all-you-can-eat music streaming services like Spotify, Apple, Amazon and Deezer ballooning in popularity. Spend on music subscriptions hit £418.5m last year, making it by far the fastest growing segment in entertainment retail, up 65% year-on-year.

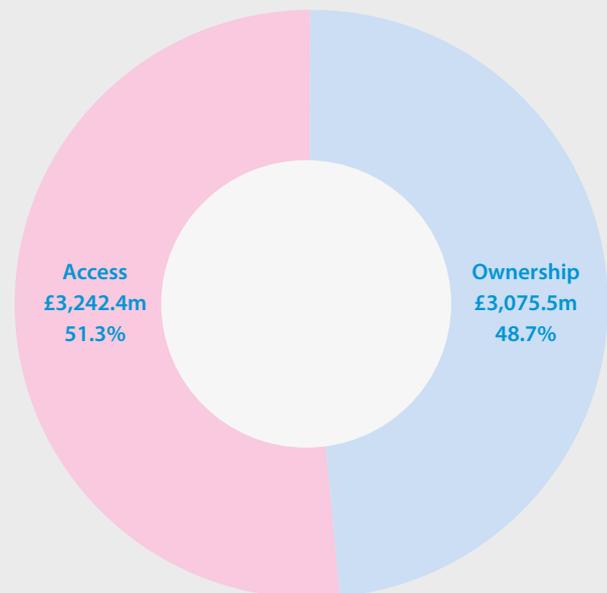
What music illustrates most definitively is that 'Access versus Ownership' is in fact a rather reductive, binary view of the market reality; a market reality in which neither mode of consumption – access or ownership - is mutually exclusive. A recent consumer study by Audiencenet* into the consumption of music in the UK showed that, while there is some cannibalisation of buy-to-own formats amongst those paying to access music via monthly subscriptions, around 80% of them continue to purchase music to own on CD, vinyl and MP3.

* Audiencenet / BPI / ERA Research, ERA Yearbook 2015

Access versus Ownership			
OWNERSHIP	2015 (£m)	2016 (£m)	2016 Share of Market %
Video	1,263.8	1,103.0	49.0%
Videogames	1,362.2	1,282.5	43.4%
Music	806.1	690.0	62.2%
Ownership Total (£m)	3,432.2	3,075.5	48.7%
ACCESS	2015 (£m)	2016 (£m)	2016 Share of Market %
Video	940.0	1,149.3	51.0%
Games	1,510.8	1,674.6	56.6%
Music	253.5	418.5	37.8%
Access Total (£m)	2,704.2	3,242.4	51.3%

Source: Official Charts, GfK, IHS

Access Revenues versus Ownership Revenues 2016



Digital Games: Microtransactions are counted within access spend

All online console transactions are counted within ownership spend including full game downloads and paid for downloadable content.