

Cinema and Home Entertainment in China



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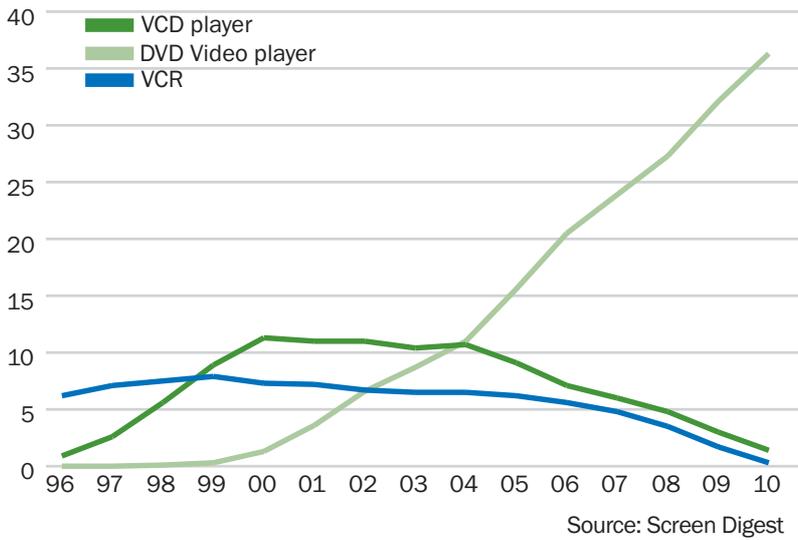
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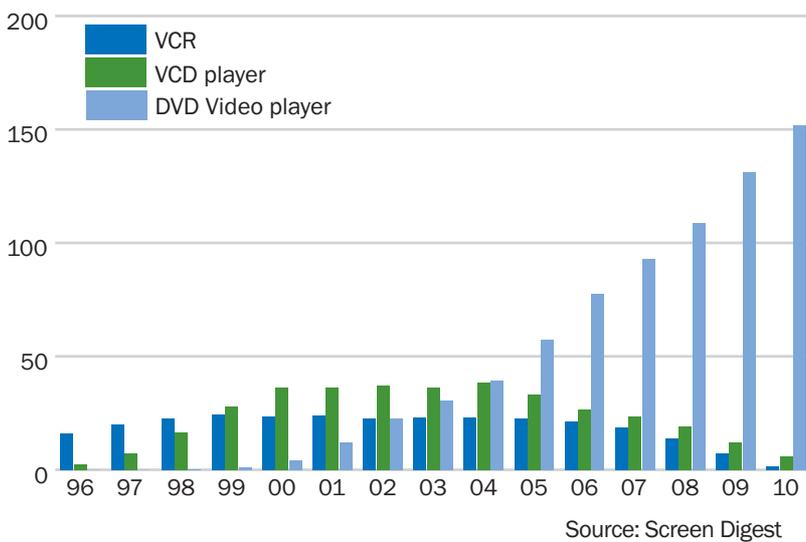
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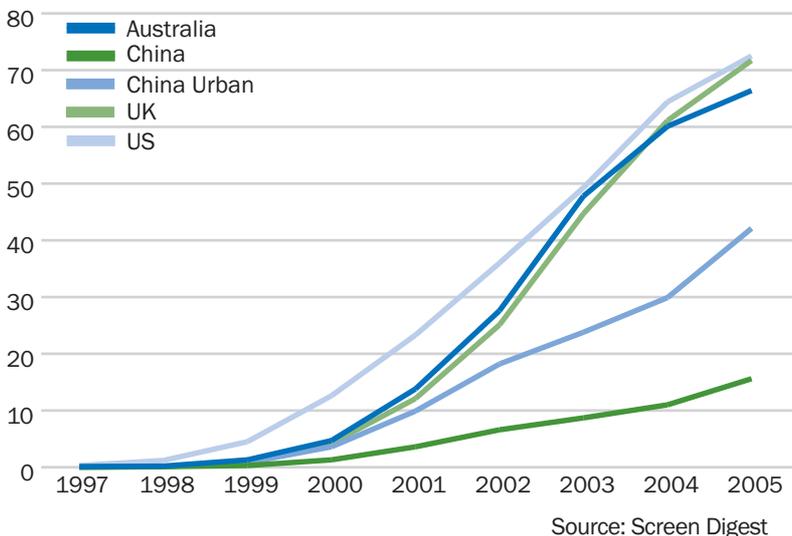
China: Video hardware penetration of TV households (%)



China: Video hardware installed base by format (m)



International: DVD Video player/recorder penetration of TV households by country 1997-2005 (%)



the number of DVD homes was 5.5m in Australia, 18.5m in the UK and 81m in the US over the same period. The number of urban households equipped with a DVD Video player in China is expected to continue rising to just over 143m in 2010, at which point Screen Digest expects the country to account for over a quarter of the world's DVD homes.

Pricing

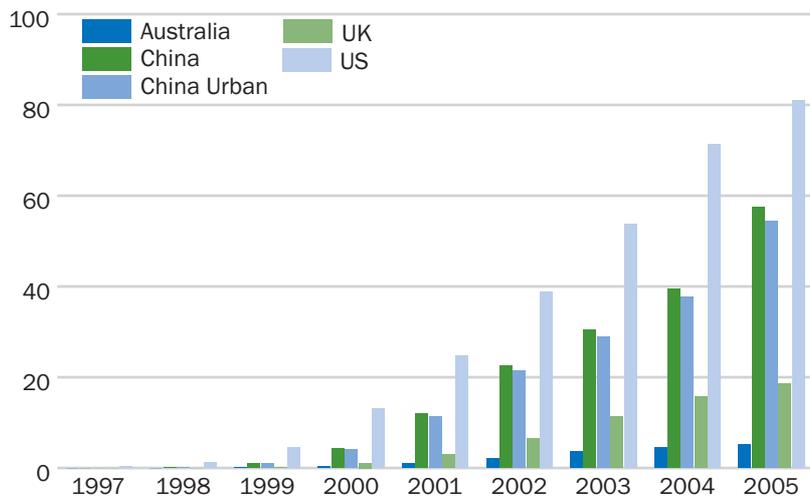
Hardware pricing

The Chinese video hardware market has long experienced intense pricing competition between local electronics manufacturers. In early 1998, concerns were raised about the potential over-supply of VCD players. The production of domestically manufactured players was believed to be up to four and a half times higher than demand. Manufacturers, desperate to increase market share, slashed prices, implemented aggressive marketing strategies and increased production. As a result, they reduced their own margins to almost nothing, triggered a price war and further increased the over-supply of VCD players to the market. To end the price war and curb the supply of VCD players an official minimum price 'floor' on VCD players was introduced. By early 2006, few VCD players were being sold in China's major cities. However, cheap VCD players were still being sold in the country's rural markets for around 200-300 yuan (\$25-\$38).

China's DVD Video player pricing has suffered a similar fate to its VCD counterpart. The first DVD Video players went on sale in December 1996 at a cost to consumers of between 6,000-7,000 yuan (\$749-\$875), approximately four times the price of a VCD player at the time. Initial high prices coupled with the success of the VCD format resulted in a slower than expected take-up of DVD. During 2002, an aggressive price war reduced Chinese DVD hardware prices to around 900 yuan (\$109). As a result of the intense price pressure along with blind investments, over-production, the increased cost of raw materials and a crackdown on intellectual property piracy, numerous DVD hardware manufacturers went out of business.

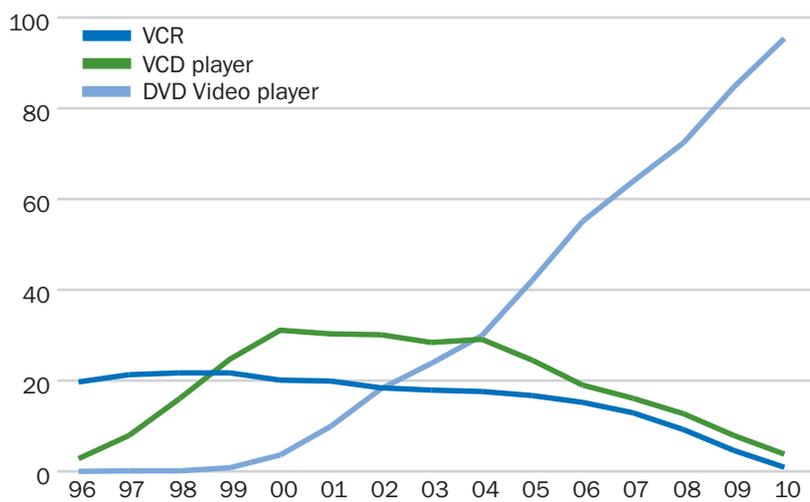
Average DVD Video player prices have continue to decline and profit margins on low-end models are minimal. By early 2006 DVD Video players were available for between 200-300 yuan (\$25-\$38) in large retail chains such as Carrefour and Wal-Mart. At the same time,

International: DVD Video player/recorder installed base by country 1997-2005 (m)



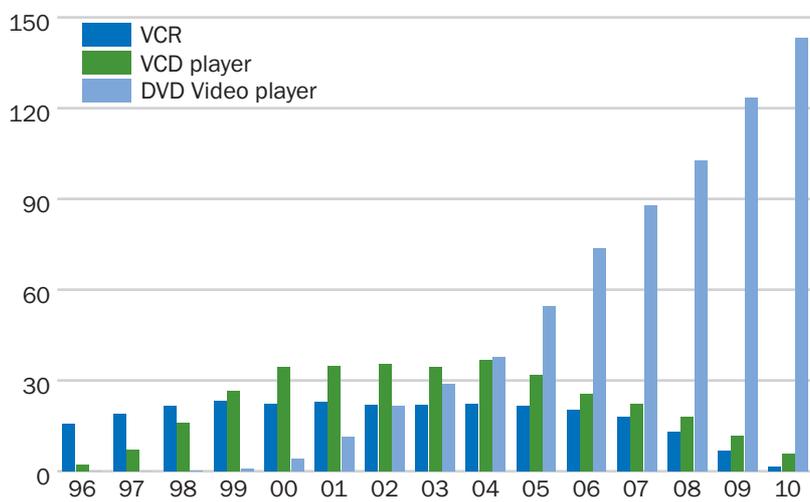
Source: Screen Digest

China urban: Video hardware penetration of TV households (%)



Source: Screen Digest

China urban: Video hardware installed base by format (m)



Source: Screen Digest

there was little difference between the price of locally-branded DVD hardware and foreign-branded players from manufacturers such as Panasonic, Philips and Sony.

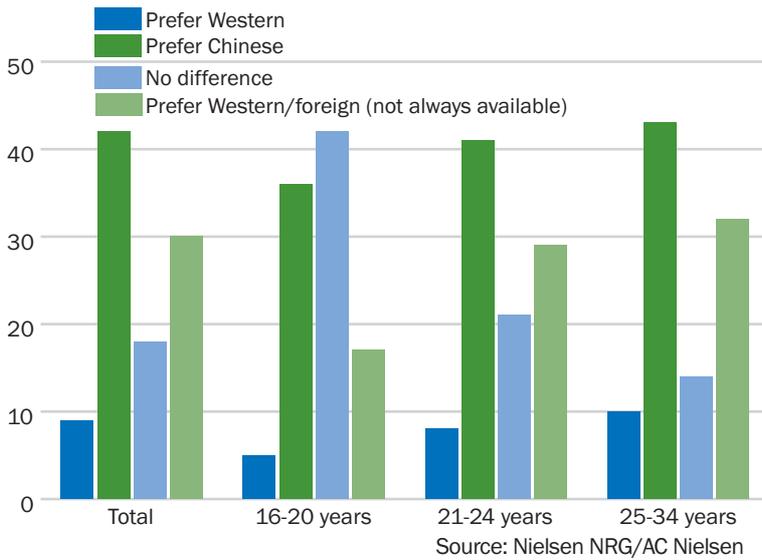
Software pricing

Cheap pirated discs have forced distributors to reduce legitimate prices in order to compete in the Chinese market. The average dealer price for a legitimate retail DVD fell almost 13 per cent to 10.50 yuan (\$1.27) in 2005. At consumer level, Chinese consumers paid 14.50 yuan (\$1.75), on average, to buy a legitimate retail DVD in 2005—just over 19 per cent less than they did in 2004. However, the consumer price of a legitimate retail DVD differs according to its country of origin. ‘Official’ retail DVDs from mainland China or neighbouring Hong Kong and Taiwan average between 7.00–10.00 Yuan (\$0.85-\$1.25) whilst prices for US Hollywood titles range from 22-36 Yuan (\$2.75-\$4.50).

Meanwhile, pirate DVD prices vary from market to market. Pirated discs are cheapest in the southern regions, in cities such as Guangzhou, and become progressively more expensive as one travels north to cities such as Beijing and Shanghai. The consumer price of a pirate DVD in China also varies by its storage capacity. A DVD5 disc—single sided, single layer disc—can store 4.7GBs of data whilst a DVD9 disc—single sided, double layer disc—holds 8.5GBs. The consumer price of a pirated DVD5 disc in the south of China was between 4.00-5.00 Yuan (\$0.50-\$0.60) in early 2006 whilst the same disc in the north was priced at around 7.00 Yuan (\$0.85). Meanwhile, a counterfeit DVD9 disc was available to consumers in the south for around 8.00 Yuan (\$1) and in the north for between 10-12 Yuan (\$1.25-\$1.50).

Warner reduced the price of its legitimate VCD and DVD discs in China in February 2005 in an attempt to compete with the country’s rampant video piracy activity. Over 125 movies were released at discount prices in accordance with its two-tier product distribution and pricing strategy. DVDs were distributed as either ‘silver’ or ‘gold’ releases with only the later containing enhanced extras such as additional language selections and director’s commentary. Silver releases were made available shortly after the film’s US theatrical release, whilst gold releases followed close to the film’s US DVD release date. Silver and gold releases were sold to consumers for 22 Yuan (\$2.65) and 28 Yuan

Chinese vs. western films (%)



Chinese vs. western films

Q: "In general do you usually prefer to see..."

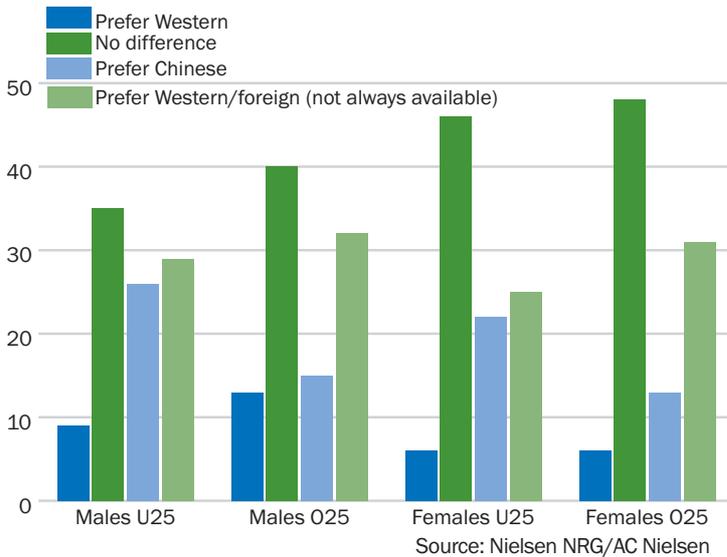
Preferences show significant variation across age groups with 16 to 20 year olds significantly more likely to prefer Chinese to Western films (42% as opposed to 17%). Furthermore, relative preferences differ between, for instance, males under the age 25 (26% of whom prefer Chinese movies) and males over 25 (only 15% of whom prefer Chinese films. This pattern is reflected in similar levels for Western films which are 'not always available' amongst older males.

Chinese vs. western films

Q: "In general do you prefer to see..."

The most commonly cited reasons for preferring Western films are that they have better production values, better special effects and are more creative. Just under half of those who prefer Western films also agree that Western films are more entertaining, have better stories and better casts. In particular it should be noted that Chinese women in this group are more likely to believe that Western movies have better stories (53% of women agree as opposed to 41% of men) and this sentiment, along with the belief that Western movies are more creative and entertaining is particularly strong amongst women under the age of 25.

Chinese vs. western films (%)

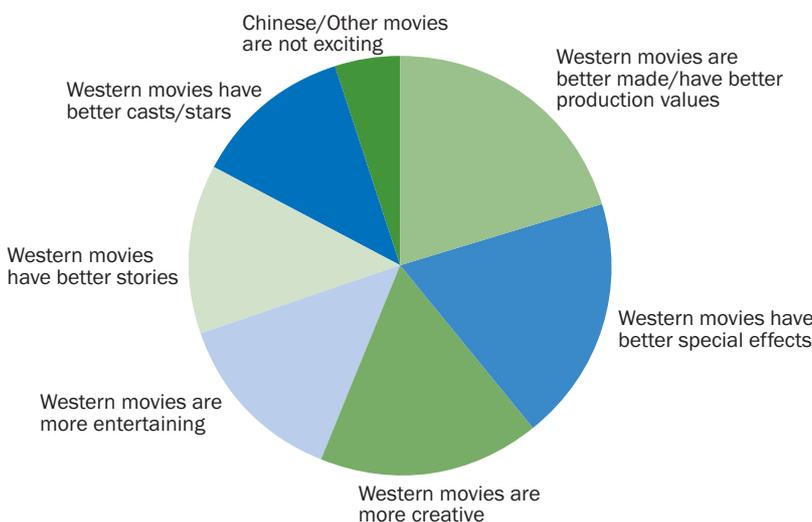


Reasons for Preferring Western Movies

Q: "Why do you say you typically prefer Western movies?"

Amongst those who prefer Chinese movies, the primary reason is that they feel they can better relate to these films (62% agreement), followed by the belief that Chinese films have better plots/ stories (48%) – a particularly strong factor amongst younger men in this group – and the belief that Chinese films are funnier (43%).

Reasons for preferring western movies (%)



Reasons for Preferring non-Western Movies

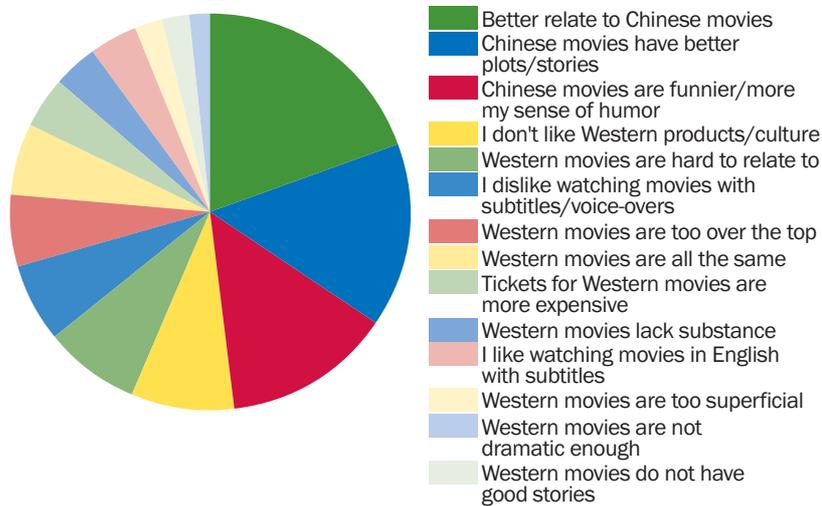
Q: "Why do you say you typically prefer non-Western Movies?"

Reasons for preferring non-western movies (%)

	Total	Male U25	Male O25	Female U25	Female O25
Can better relate to Chinese movies	62	57	62	63	68
Chinese movies have better plots/stories	48	61	33	49	56
Chinese movies are funnier	43	45	39	51	39
Don't like Western products in general	26	27	18	44	20
Western movies are hard to relate to	25	29	16	32	24
Dislike watching with subtitles/VO	20	25	16	15	24
Western movies are too over the top	19	18	11	27	22
Western movies are all the same	18	18	13	24	20
Tickets for Western movies too expensive	13	14	8	7	27

Source: Nielsen NRG/AC Nielsen

Reasons for preferring non-western movies (%)



Source: Nielsen NRG/AC Nielsen