

G.G.A. Note...

Global Growth Advisors - Global Strategic Consultancy Group

Fast, Fledgling and Future-defining...

Chinese moviegoers and their impact on the country's movie industry



Introduction

Dear Readers,

In 2013 alone, China added an astonishing 903 new cinemas 5,077 new cinema screens, and 480,000 new seats, in order to accommodate the ever-growing number of viewers. Along with the surging number comes the soaring box office. Since the milestone set by Avatar, box office skyrocketed in China, from 2010 to 2013, the annual box office sprang from 10 billion to 21.76 billion RMB (1.47 to 3.45 billion USD). Unlike in North America, where box office revenues grew by only 1% last year, ticket sales in China jumped by 27%. China has become the first market aside from North America to exceed 3 billion USD in ticket sales, pushing worldwide ticket revenues up 4% to 35.9 billion USD.

In this edition of GGA Note, **Benjamin Bu (GGA Associate - Beijing - China)** explains although it is still hard to compete with Hollywood, especially blockbusters, future Chinese homegrown movies will turn more local color exploiting their natural closeness to their audience producing their own genre movies to satisfy the more diversifying tastes.

What we are seeing in China might be the biggest story in the history of motion picture. More cinemas, more viewers, and more revenue, behind the figures is this young, consumption-oriented, international-minded moviegoer community still in the growing phase and far from mature. Like many things that are happening in this country, the ultimate potential of these people on the entire movie industry is not entirely fathomed, but one thing is clear, whoever realizes this first and is able to make the best use of it will be the first to reap the benefits.

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In the beginning, the news sounds every bit like a typical Hollywood. A business tycoon announces that he will invest 8 billion USD to build a movie-themed real estate project in the upscale seaside town, and Stars like Nicole Kidman, John Travolta, Leonardo DiCaprio and Kate Beckinsale showed up on Sunday at the ceremony. But this is not Beverly Hill, but Qingdao, a coastal city in China. The tycoon Mr. Wang Jianlin, who made 658.7 million USD from his movie theater empire in 2013, is making this grand project as a sign of China's rise in movie industry.

China was once the last place where the movie industry would prosper, in the 1990s, the domestic movie studios were struggling for survival, the state-owned cinemas were left to rust, and the box office was abysmal. Thanks to the rampant copyright infringement, people were able to watch any movies virtually for free. The situation however, is changed. In 2013, the annual box office reached 21.76 billion RMB (around 3.45 billion USD), making China the second largest box office generator in the world.

How did China come from a desolation of movie cinemas to a global box office engine?

The story of the miraculous development started around 1998, when Chinese real estate property gradually became market-oriented. The booming urbanization leads to a fast growth of modern shopping malls, in order to satisfy ever-more concentrated population; the new cinemas too, were able to grow under umbrella of shopping malls. As Chinese middle class began to emerge, they tended to spend more money not just out of daily necessity, but also out of pleasure and entertainment. When cinemas became part of the mall's great chain of beings, it made people more likely to watch a movie after shopping or dinner.

But the rampant copyright infringement meant any Chinese could have easy access to the latest movies from street DVD vendors, or online downloading. Although the box office was growing nonetheless, the overall situation has not changed. The relatively high ticket pricing also stalled the growth. In 2007, you had to pay 80 RMB (around 11 USD) or more to see the movie Transformer in Beijing when the average annual income of that city was only 39867 RMB(around 5483 USD). As a result, even in 2009, the annual box office was just around 6.2 billion RMB, about 1 billion USD.

But the transformation came that year. In 2009, the Chinese government began to launch a series of crackdown on online pirate movies, and virtually overnight, major online video websites cleaned up all the unlicensed movies. With pirate DVD industry already beaten down by both government-led anti-piracy movements and previously flourishing online free movies, the Chinese audience suddenly found themselves deprived of easy access to free resources. Then came the game-changer, Avatar.

The movie Avatar in 2010 mesmerized the Chinese audience with the latest IMAX and 3D technology and eventually took away 1 billion RMB of box office, more significantly, it convinced them that cinema is the only place to fully enjoy movies, especially 3D movies. The concurrent surge of coupon business made movie-going much cheaper, which in turn, attracted more people to cinema, especially students who have more flexible timetable and smaller budget. In 2010, the box office frog leapt to 10.2 billion RMB(about 1.5 billion USD).

Wildfire Growth

Movie-going in China is not for old people. According to a poll conducted by Entgroup, a movie industry research company, people ranging from 19 to 35 years old account for 75.8% of moviegoers. The average age for moviegoers even drops from 25.7 in 2009 to 21.7 in 2013.

These demographic characteristic has an impact to Chinese movie industry which are not yet fully felt. The young people born since mid 1980s, comprising around 200 million consumers and accounting for 15% of urban consumption, are quick to become the backbone of Chinese movie cinema industry. Unlike their parents whose only film experience is either state-promoted revolutionary movies or old Hollywood movies such as Gone with the Wind, most of these young men grew up watching foreign movies from Hollywood, Japanese, Korean and European. In other words, they love movies and their taste is as international as any other countries. Also, when

the more established elderly people spend money, they are more conservative and family-oriented, while the younger generation's consumption pattern is more individualist and westernized (or, more globalized). Like their western peers, these young men love iphones, shopping malls, travels, and of course, movies.

The surge in the number of moviegoers catalyzes more cinema building. In 2013 alone, China added an astonishing 903 new cinemas 5,077 new cinema screens, and 480,000 new seats, in order to accommodate the ever-growing number of viewers. Along with the surging number comes the soaring box office. Since the milestone set by Avatar, box office skyrocketed in China, from 2010 to 2013, the annual box office sprang from 10 billion to 21.76 billion RMB (1.47 to 3.45 billion USD). Unlike in North America, where box office revenues grew by only 1% last year, ticket sales in China jumped by 27%, according to new data from the Motion Picture Association of America. China has become the first market aside from North America to exceed 3 billion USD in ticket sales, pushing worldwide ticket revenues up 4% to 35.9 billion USD.

Yet the signs for almost relentless growth seem nonstop, as The Hobbit: The Desolation of Smaug racked up 33.04 million USD in its first three days in China. With box office passing 3 billion RMB (490 million USD) for the first time ever in a single month, the total gross for a single month in China is now almost as high as in the full year in 2007. Box office revenues were higher in February than in all of 2006.

The Second Wave

Does this record-breaking speed herald the burst of Chinese cinema bubble? Still, the force of Chinese moviegoers is far from released. Even as China takes over Japan as the second biggest movie market, the impressive growth is still overshadowed by the low movie penetration. The annual box office per capita is only 2.67 USD, compared with 48 USD from Australia, and 30.88 USD from North America.

The most of moviegoers are heavily concentrated in big cities and coastal regions, and accounts up to 61.1% of entire audience population, making the cinema-building lopsided on the national level. The development of cinema is heavily dependent upon the urbanization. However, as the cinema market in first tier cities gradually becomes saturated, the competition is likely to grow fiercer before leading to a great reshuffle of competitors. It is increasingly imperative for cinema companies to start mapping out their plans in inland. Taking initiative in second and third tier cities would allow cinema companies, especially those relatively new or smaller players in the market, to take larger slice before the pie is cut. Of course, pursuing cinema business in second and third tier cities has both opportunities and risks, the first being the absence of a stable flow of customers compared to first tier cities. But as urbanization continues to take root in other provinces, it is not surprising as to where the next wave of movie goers will come from.

Aim for the Future

Even at its nascent stage, the Chinese moviegoers not only redefine the movie cinemas in China, they are also reshaping the future of the core of movie industry, the movies making themselves.

Hollywood blockbusters are still moviegoers' favorite with their stunning visual effects which can only be fully enjoyed in big cinemas. And we are expected to see Hollywood is increasingly relying on China market to secure success of their products, even (or should we say especially) for movies such as Pacific Rim and Need for Speed that do not fare well in homeland market. As the destiny of more movies will be determined in China, American movie industry will have to find a way to win over their target audience. Two trends for the Hollywood are now visible, the first is the continuation of bombardment of blockbusters as the Chinese do not get tired of them easily, the second is making movies that aim at the Chinese market. In fact, since Looper in 2010, Hollywood is trying to produce more "sino-centric" version of movies featuring Chinese scenes or movies stars to be more appealing, but this is far from enough. The Kong Fu Panda series so far is the premium example, combing best animation technology with Chinese kongfu, architecture, even philosophy, but such examples are still too few, Hollywood should move faster to adapt and assimilate to make movie more resonating with Chinese audience, since moviegoers grow more sophisticated, or visual effect loses its charm.

A new force of Chinese homegrown movies also begin to take shape, as 2013 saw six Chinese homegrown movies were made into the top 10 movie list, beating the American by two. The 2013 box office champion is a Chinese movie called Journey to the West: Conquering the Demons, and it received a total box office of 205 million USD, overtaking Iron Man 3's 124.06 million USD. It might be premature to say that Hollywood's day has past, since the annual quota of foreign movies allows only 34 foreign movies to be shown in China; yet it is a clear sign that Chinese viewers are not only looking for American robots and monsters, they are shifting their attention towards their own movies about their own heroes or their own lives, for they are naturally closer to their own culture and life.

And Chinese movie making is quick to catch the train. Young Detective Dee: Rise of the Sea Dragon, a 3D fantasy-action-mystery movie about a legendary Detective in Tang Dynasty manage to bring the audience back to the golden age of Chinese history. American Dreams in China, a comedy drama based on true story, taps into the zeitgeist of the Chinese pursuit of the American dream, while the movie Finding Mr. Right, a chick flick with a unique Chinese trait of gold digging and birth-tourism(giving birth in the US to get US citizenship for the children).

Though it is still hard to compete with Hollywood, especially blockbusters, future Chinese homegrown movies will turn more local color exploiting their natural closeness to their audience producing their own genre movies to satisfy the more diversifying tastes.

What we are seeing in China might be the biggest story in the history of motion picture. More cinemas, more viewers, and more revenue, behind the figures is this young, consumption-oriented, international-minded moviegoer community still in the growing phase and far from mature. Like many thing that is happening in this country, the ultimate potential of these people on the entire movie industry is not entirely fathomed, but one thing is clear, whoever realize this first and are able to make the best use of it will be the first to reap the benefits.

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About G.G.A.

G.G.A. is a strategic consulting firm and the leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 2010, G.G.A. is a private company with locations in more than 20 countries. We seek to be agents of change—for our clients, our people, and society overall.