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FICCI-KPMG
Indian Media and Entertainment
Industry Report 2015

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We would like to thank all those who have contributed and shared their valuable domain insights in helping us put this report together.

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9X Media Pvt.Ltd.	Phoebus Media
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Adlabs Imagica	Redchillies VFX
Anibrain	Reliance Mediaworks Ltd.
Baweja Movies	Shemaroo
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Foreword

Making India the global entertainment superpower

2014 has been a turning point for the media and entertainment industry in India in many ways. With the current government's optimistic outlook, business sentiment has been positive and strengthened by a number of growth promoting policy initiatives taken in the recent months. A benign global economic environment and a stable central government likely prompted the Economic Survey to suggest that India has reached a sweet spot and could finally be launched on a double-digit medium-term growth trajectory. Top global institutes also seem to have an upbeat view on India. Rating agency S&P⁰¹ called India the Asia-Pacific region's bright spot while the International Monetary Fund⁰² revised India's growth forecast, expecting its growth rate to surpass China's in 2016.

In the media sector, digital media continued its rapid penetration, as indicated by the stupendous 44.5 per cent growth⁰³ in digital advertising in 2014 over 2013. One of the major highlights in 2014 was the announcement of 'Digital India: A programme to transform India into a digitally empowered society and knowledge economy' by the government. India topped as the world's fastest growing smartphone market⁰⁴. By the end of 2014, India had around 116 million internet enabled smartphones and the number is expected to reach 435 million by the year 2019⁰⁵. This growth presents a good opportunity for digital content aggregators, advertisers, app developers and online streaming companies to engage users through relevant mobile-led strategies.

The absolute number of internet connections was at a record high in 2014. With almost 9 per cent penetration of social media⁰⁶, India's potential for social networking on the internet seems to be on a rise. 41 per cent of India's total mobile users are active on social media⁰⁶. The digital music industry witnessed a good deal of buyouts, sell-outs and new entries jockeying for a position. The revenue from distribution of music through digital channels already accounts for over 50 per cent of the overall size of the music industry in India.

In television, advertising saw strong growth, driven by the positive shift in the macroeconomic environment, the general election spends, and the emergence of e-commerce as a significant new advertising spender. At the same time, despite rollout of digital set top boxes (STBs) as a part of the ongoing DAS, the anticipated improvement in addressability, increase in subscription revenues and more equitable sharing of subscription revenues continues to evade the industry. A key challenge remains, i.e. lag in implementation. MSOs seem to be taking time to build internal processes to reflect the change in business models from B2B to B2C. This, coupled with continuing resistance from LCOs, has resulted in delays in implementation of gross billing and rollout of channel packages in Phase I and II cities. The Ministry of Information and Broadcasting (MIB) has now extended the deadlines for Phases III and IV of DAS implementation to 31 December 2015 and 31 December 2016, respectively.

The print sector continues to remain a highly fragmented space, at the national and regional level. In 2014, the print industry witnessed a rise in circulation revenues on the back of rising cover prices and subscriptions, aided by low media penetration, population growth and rising income and literacy levels. This growth largely came from tier II and tier III cities with regional language editions outperforming the national editions and English

01. S&P revised up India's FY16 growth forecast to 7.9% from the previous estimate of 6.2%

02. IMF forecasts 7.5% growth rate in FY16 compared with 6.4% projected earlier

03. KPMG in India analysis, IDC and eMarketer estimates, 2014

04. eMarketer newsletter, 30 December 2014

05. We are social: Digital, Social and Mobile in 2015 report

06. blog.digitalinsights.in, 17 August 2014, 10 Important statistics about Digital and Social Media in India



dailies. While the sector has not seen cannibalisation in revenues from digital media, on the lines of the global trend, it is clear that the time has come for players to embrace digital strategies that complement the existing physical product and support brand building and penetration efforts.

The films sector was a mixed bag in 2014 with some films creating box office records, while several were unable to attract audiences to the theatre and profitability was impacted, overall. The exhibition sector saw several players expanding their footprint; both organically (especially in Tier II and Tier III cities) and through acquisitions. The cable and satellite market also saw correction. Regional films continued to see success, in particular the Tamil and Telugu markets. Going forward, with an increasing number of multiplex screens and better internet penetration and bandwidth Tier II and Tier III cities may soon hold the prime focus of the industry.

The radio sector saw the much awaited movement in Phase III auctions, with the government giving the go ahead for partial auctions across 69 cities, where potentially 135 channels are up for grabs. Though there may be some key contentious issues of exorbitant reserve prices for the auctions, the 15 per cent limit on the total number of frequencies that an entity may hold, as well as dearth of new frequencies in the profitable A and A+ cities remain, the commencement on Phase III provided the required fillip to the industry which hopes to revive its fortune with these new developments.

What would it take for India to take its place as a global superpower in the sector? India's significant consumer market base and increasingly favourable macro-economic and regulatory environment have prompted several investors and global players to look to the Indian market for growth. For Indian players, tailored content strategies for audiences (be it global, national or local), and a focus on building the relevant digital and physical touchpoints to enable easier and more open and interactive access could be key success factors going forward. With this, India could be at the cusp of significant growth and earn its place in the global spotlight.

The building blocks for future growth have been put in place in 2014 by offerings; such as new spectrum for mobile, ongoing digitisation in cable, consolidation in exhibition, and Phase III auctions for radio. India now needs to ensure flawless and timely execution of these policies. In addition, at a local level, interventions such as speeding up permissions for multiplexes, live events and film shoots, and so on, could go a long way in boosting confidence and growth. With an advertising boost due to the ICC cricket world cup, strong projections for economic growth and a sturdy base of these building blocks, 2015 seems to hold great promise for the industry.

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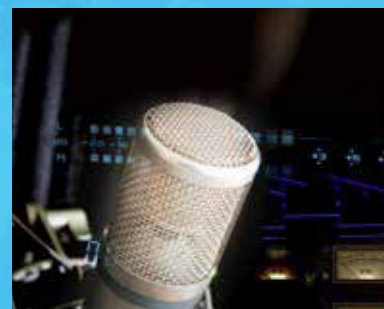
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Media and Entertainment
KPMG in India

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Introduction



Making India a global entertainment superpower: dream or future reality

The theme for this year's FICCI Frames conference is 'Making India a global entertainment superpower'. This comes at a time, when India is taking its place on the global stage as a market with tremendous growth potential and also, creating exciting investment opportunities.

Offering the world's largest base of young work-force, an expanding middle-class constituting one of the biggest consumer markets and a robust, well-functioning democratic system, India, along with its pro-reforms government, is now scripting a turnaround story. The global economy is struggling to gain momentum, as China suffers a slowdown, the euro-zone slips into deflation, and Japan's economy is too soft to absorb the fiscal consolidation plan. Despite the shaky global economy, India is performing relatively well, with a stable macroeconomic environment, (inflation eased while the current account deficit came under control) bolstering

the economic outlook. The Indian economy is on a strong footing, with FY15 growth estimated at 7.4 per cent while FY16 growth was pegged at 8 to 8.5 per cent.⁰¹

As a result, there is a marked shift in investor sentiment towards India: global investors increasingly see India with renewed interest and optimism, thanks to an optimistic government at the centre and its reform agenda. The government's recent budget announcements underpinned the sentiment further. Improved business sentiment together with policy reforms could boost the country's long-term growth potential.

This growth story extends itself across Media and Entertainment sectors. We estimate that the Indian market is poised to grow at a CAGR of 13.9 per cent, to grow from INR1026 billion in 2014 to reach INR1964 billion by 2019,⁰² a growth rate that is almost double that of the global media and entertainment industry.

The Indian media and entertainment industry: size and projections

Overall industry size (INR billion) (For Calendar Years)	2008	2009	2010	2011	2012	2013	2014	Growth in 2014 over 2013	2015P	2016P	2017P	2018P	2019P	CAGR (2014-2019P)
TV	241.0	257.0	297.0	329.0	370.1	417.2	474.9	13.8%	543.2	631.2	739.6	854.6	975.5	15.5%
Print	172.0	175.2	192.9	208.8	224.1	243.1	263.4	8.3%	284.5	307.1	331.9	358.0	386.8	8.0%
Films	104.4	89.3	83.3	92.9	112.4	125.3	126.4	0.9%	136.3	155.6	170.7	186.3	204.0	10.0%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	17.2	17.6%	19.6	22.3	27.0	32.7	39.5	18.1%
Music	7.4	7.8	8.6	9.0	10.6	9.6	9.8	2.3%	10.4	12.0	14.2	16.9	18.9	14.0%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	22.0	14.0%	24.4	27.1	29.6	32.2	35.1	9.8%
Animation and VFX	17.5	20.1	23.7	31.0	35.3	39.7	44.9	13.1%	51.0	58.7	68.5	80.6	95.5	16.3%
Gaming	7.0	8.0	10.0	13.0	15.3	19.2	23.5	22.4%	27.5	31.8	35.4	40.0	45.8	14.3%
Digital Advertising	6.0	8.0	10.0	15.4	21.7	30.1	43.5	44.5%	62.5	84.0	115.3	138.2	162.5	30.2%
Total	580	587	652	728	821	918	1,026	11.7%	1159	1330	1532	1740	1964	13.9%

Source: KPMG in India analysis.

The growth in popularity of digital media continued to surge in 2014 with a significant growth in digital advertising of 44.5 per cent over 2013.⁰² At the same time, traditional media continued to exhibit healthy growth rates, with the television sector continuing on its path of cable digitisation, advertising across media buoyed

up by general election spends, and the emergence of e-commerce as a significant new category. Advertising revenues in 2014 grew at a growth rate of 14.2 per cent over 2013, to reach INR414 billion, of which print (43 per cent) and television (37 per cent) captured the lion's share.⁰²

01. Economic survey projections

02. KPMG in India analysis



Advertising revenues and projections

Overall industry size (INR billion) (For Calendar Years)	2008	2009	2010	2011	2012	2013	2014	Growth in 2014 over 2013	2015P	2016P	2017P	2018P	2019P	CAGR (2014-2019P)
TV	82.0	88.0	103.0	116.0	124.8	135.9	154.9	14.0%	174.6	198.4	226.2	260.1	299.1	14.1%
Print	108.0	110.4	126.0	139.4	149.6	162.6	176.4	8.5%	192.6	211.8	232.9	255.2	280.0	9.7%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	17.2	17.6%	19.6	22.3	27.0	32.7	39.5	18.1%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	22.0	14.0%	24.4	27.1	29.6	32.2	35.1	9.8%
Digital Advertising	6.0	8.0	10.0	15.4	21.7	30.1	43.5	44.5%	62.5	84.0	115.3	138.2	162.5	30.2%
Total	221	228	266	300	327	362.5	414.0	14.2%	474	544	631	718	816	14.5%

Source: KPMG in India analysis.

The following themes reflect the year that was and the key drivers for growth:

Digital India

In 2014 India topped as the world's fastest growing smartphone market.⁰³ Fuelled by the availability of low-cost smartphones and dropping data plan tariffs the absolute number of internet connections is at a record high, but internet penetration stands at about 19 per cent⁰⁴, which is still lower compared to internet penetration across other countries.

The advent of 4G services, healthy growth in the number of 3G subscribers, continued adoption of 2G by the masses in the hinterlands and concerted efforts by various digital ecosystem players under the 'Digital India' initiative, have played a major role in making this growth possible. As operators like, Reliance Jio, Airtel and Aircel plan/continue to rollout their 4G services, India stands at the brink of an internet revolution.

Eyeballs that earlier used to be captivated by TV, print and other traditional media are now moving to online channels. Availability of affordable smartphones and tablets has fuelled the 'second screen' phenomenon that cannot be ignored by content creators, curators and advertisers alike.

A case in point is the transformation we have seen in the music sector, which now sees over 50 per cent of its revenues from music through digital channels, and a significant decline in physical sales to the tune of 30 to 35 per cent year on year.⁰⁵

The next wave of growth in internet penetration is expected to be driven by the adoption of internet in the rural areas, whose first experience with the internet could come through mobile phones.

Digital media advertising in India grew by 44.5 per cent in 2014⁰⁶, and continues to grow at a faster rate than any other advertising category. However, digital ad spends are still a long way from global averages.

Elections and spends by e-commerce players fuel advertising growth

Reflecting the macro economic growth rate, the advertising industry witnessed a healthy year largely on the back of heavy spending during the national and state elections, and a significant surge in spends by e-commerce companies. Companies in the e-commerce space are said to have spent INR7.5 to INR10 billion on advertising across media, mostly on account of spends by popular private equity funded sites such as Flipkart, Snapdeal, Jabong, Olx, and Quikr.⁰⁷



03. eMarketer newsletter, 29 December 2014

04. eMarketer newsletters, KPMG in India analysis, Internetlivestats.com

05. Industry discussions conducted by KPMG in India

06. KPMG in India analysis

07. Livemint, 17 December 2014, E-commerce, politics drive ad sales in 2014



Tax and regulatory interventions are imperative for accelerating growth

With proposals to defer the General Anti Avoidance Rules (GAAR), reduce tax on royalties and fees for technical services (FTS) and implement the Goods and Service Tax (GST) regime from 1 April 2016, the Finance Bill 2015 has set an optimistic roadmap for the M&E sector from a tax perspective. The implementation of GST is expected to greatly benefit the industry in the form of reduction of tax cost for the industry, doing away with dual taxation (i.e. levy of service tax as well as VAT on certain transactions, subsuming entertainment tax, etc.)

2014 was also an important year for the radio industry as the government started proceedings on the much delayed and highly anticipated Phase III auctions. Although the final auctions are probably in the latter half of 2015, the Government has given its nod to the partial auctions for 135 channels in 69 cities. The commencement on Phase III provided the required fillip to the industry which hopes to revive its fortune with these new developments.

At the same time, on the ground implementation likely holds the key.

Case in point: the DAS rollout in the television industry

The rollout of digital cable set top boxes in Phases I and II cities as a part of the Digital Addressable System (DAS) implementation was largely complete by December 2013. 2014 was expected to be the year when gross billing and rollout of channel packages would progress, resulting in more equitable sharing of revenues among the different players in the television value chain. However, this has continued to evade the television industry, due to several challenges on the ground. The MIB has extended the deadlines for Phase III and IV of DAS implementation from the earlier combined deadline of December 2014 to December 2015 and December 2016, respectively. The deadline extension is expected to provide enough time for MSOs and LCOs to work on set top box (STB) procurement, setting up digital headends where required, fixing agreements with broadcasters, implementing channel packages, and getting the logistics in place for rolling out the implementation of set top boxes.

Ensuring collaboration across the value chain, mechanisms for measuring and monitoring, and equitable sharing agreements could go a long way in enabling the industry to reap the benefits that regulatory initiatives and reforms promise.

Content is king

In the film sector, category-A films with top league actors continued to perform well at the box office, however the same was not true for films which lacked both, strong content and a top league actor to attract



audiences to the theatres. As a result, the industry barely grew in 2014, a surprise for many, given India's film obsessed population. With an increasing number of multiplex screens and better internet penetration and bandwidth, Tier II and Tier III cities may soon hold the prime focus for the industry. Regional film industries (particularly Tamil and Telugu) have already come of age with the number of movies on par or greater than their bollywood counterparts, and this trend is expected to continue.

For TV and digital content producers, original programming for video-on-demand (VoD) and OTT platforms is emerging as the next big growth driver. Content is likely to be a critical success factor for the platform, hence content deals are increasingly turning exclusive as competition heats up for unique, quality content.

Indian media companies can draw several lessons on the importance of content from the evolution of the industry in the U.S. and Europe, where distribution companies have acquired content companies, aggregators and delivery services that have won awards for original programming (Netflix, Amazon).



A year of consolidation

Deal activity in the media and entertainment sector was on an uptrend in 2014, recording 61 transactions versus 26 transactions in 2013.⁰⁸ Deal values increased from USD224 million in 2013 to USD2,380 million in 2014.⁰⁸ Investment in the industry continued to grow on the back of key themes such as; market consolidation, portfolio diversification, digital media and capital raising for expansion.

In the television sector, Reliance Industries Limited (RIL), through Independent Media Trust, acquired control of Network18 Media & Investments Ltd. and its subsidiary TV18 Broadcast Ltd. The transaction is likely to enable RIL's Jio Infocomm to get access to broadcast, digital and e-commerce content for its 4G mobile data services platform. In the radio sector, with operators gearing up for Phase III auctions, many players are looking to enter the market through M&A rather than the auction process. This trend of consolidation has commenced with the acquisition of Radio City by the Dainik Jagran Group.⁰⁹ With the addition of Radio City in its portfolio, Jagran gets access to a well-run and organised operator with presence in key, advertiser-friendly cities like Mumbai, Bengaluru and Delhi among its 20 stations.

There was also significant consolidation in the filmed exhibition segment. Carnival Films Pvt. Ltd. acquired BIG Cinemas for USD111 million and HDIL Entertainment Pvt. Ltd. for USD18 million. They also acquired Stargaze Cinemas from Network18 Media, to become one of the largest cinema chains in India.⁰⁹

Animation studios are working in collaboration to execute big projects. There continues to be a scope for consolidation between players as was demonstrated by the acquisition of Reliance MediaWorks Ltd. by Prime Focus Limited for USD61 million.⁰⁸

It is expected that the trend of market consolidation will continue across the M&E sector as larger firms merge with smaller ones in order to further their foothold over the market.

Digital media: complementing traditional models

While digital media is seeing unprecedented growth in the last couple of years, traditional media in India seems to still provide advertisers critical mass, reach and scale of audiences and continue to constitute a significant part of the overall media pie. Successful companies are likely to be those which embrace digital technologies as a complementary part of their overall strategies.

For example, while the print sector is likely to remain a fragmented industry in the foreseeable future, it is imperative for players to take steps to diversify and

monetise digital content. Several print players are already investing heavily in digital media, making services such as, news delivery possible via mobile applications and web portals.

Broadcasters, especially in genres such as music, English entertainment, kids and news, are cultivating multi-screen engagement among viewers to raise awareness, increase stickiness and to understand audience preferences better.

Internal business models and structures are also realigning to deliver in a digital ecosystem. For example, many print players, are moving towards the 'Integrated Newsroom' concept where digital and print could grow together as an integrated solution over a multimedia platform comprising of the internet, OOH, events, radio, etc. In 2013, Zee News merged its broadcasting business with DNA (newspaper). India Today shifted its office to a new building with a focus on integrating its TV, print, radio and online arms and foster enhanced collaboration¹⁰. Players such as Bloomberg, CNN, BBC have already integrated their news operations across various media arms. Recently, CNBCTV-18 joined hands with Mint to further extend the integrated newsroom model by sharing content, analysing and working on joint editorial initiatives.¹¹

Measurement systems: are they delivering on their promise?

In previous reports, we have discussed the critical role that could be played by having an effective industry wide measurement system in place. Some sectors have taken steps towards this.

The TV audience measurement system from BARC, proposed as an alternative to the current system being operated by TAM India, is likely to be rolled out in April 2015. In the films sector, we are seeing an increased use of Box Office tracking systems from players like Rentrak.

Other sectors like radio and outdoor media continue to lag in terms of providing credible, industry wise measurement systems.

At a company level as well, in a scenario of rapid technological and other changes, broadcasters are increasingly depending on data-driven insights to help monitor performance, improve monetisation and manage costs. While currently analytics is a 'good to have' tool, going forward it may become a 'must have' strategic enabler to help solve complex issues. Analytics is expected to be a key differentiator and companies who implement and utilise analytics effectively, are expected to have a distinct competitive advantage.

08. Mergermarket, Capital IQ accessed on 2 February 2015

09. LiveMint, 18 July 2014, "Carnival Films to acquire 3000 screens"

10. Business Standard, 1 May 2014, Where newsrooms are rife with barriers

11. IndianTelevision, 1 April 2014, CNBCTV 18 extends integrated newsroom with mint alliance



Sports: evolution from a one game viewing nation to multiple sporting events

With economic development, sports viewership in a country usually moves from a single sport to multi sport. Cricket is among the most popular sports in India, however, recent years have seen a rise in non-cricket sports. The success of the IPL has led to the creation of several other league-format sporting events, such as the Indian Badminton League, Hockey India League and the recently launched Pro Kabaddi League, which had an estimated 66 million people tune in for the first game of the season¹². A sports league creates several opportunities for private companies in domains such as league management, franchisee, broadcasting and sports videos production houses, advertising, sports infrastructure such as multipurpose venues, player management, and licensing and merchandising.

In conclusion, the media and entertainment sector in India is poised for exciting times, powered by the growth in digital media consumption, and the supporting environment created by regulatory reforms. The new digital ecosystem brings with it a new set of challenges, with increasingly fragmented and on-the go audiences, and hurdles to monetise digital platforms. To seize the opportunities, front-runners are expected to continue to place consumers, both domestic and global, at the heart of their strategies for content and access channels. Collaboration across players may remain key to success. Efficient and transparent measurement systems at an industry level, and focus on big data analytics at a stakeholder level can be critical to measure and monitor performance. The momentum generated by regulatory reform needs to be underpinned by strong implementation on the ground and partnership across the value chain.

And then a 'global superpower' may be a not too distant reality.



12. Star Sports' Pro Kabaddi League rakes in ratings, IndianTelevision, 31 July 2014



Television

Promise of a new season



Introduction

The television industry continued to have a dynamic operating environment in 2014. Despite the ongoing cable digitisation, increase in the much-awaited addressability and resultant improvement in economics for Multi System Operators (MSOs) and broadcasters continued to evade the industry in 2014, while subscription revenue growth from Direct-to-home (DTH) continued at a fast clip. The break-up of the channel aggregators as a result of the disaggregation regulation from Telecom Regulatory Authority of India (TRAI) has not significantly impacted the larger broadcasters but is likely to affect the smaller and niche broadcasters more. Towards the end of the year, in an industry-first initiative Star India Private Limited decided to provide all its channels on a transparent and non-discriminatory Reference Interconnect Offer (RIO)⁰¹ basis and offered incentives to MSOs based on availability and placement of its channels. This has the potential to push MSOs to introduce tiered packages and increase prices, which could benefit all the players in the industry but is likely to require support from other large broadcasters as well to be successful. In 2015, key things to watch will be the ability of MSOs to enforce channel packaging in Phase I and II cities and rollout of set-top-box (STB) in Phase III areas.

Television advertising bounced back significantly on account of elections and improved macro-economic environment leading to companies increasing their ad spends. E-commerce emerged as a key sector driving growth, followed by mobile handset companies, while some of the traditionally large advertisers such as Fast Moving Consumer Goods (FMCG) and automobiles also saw renewed growth. The ecosystem for TV ad revenue growth is expected to remain strong in 2015 on account of the rebound in the India growth story. The implementation of the viewership measurement system by Broadcast Audience Research Council (BARC) in 2015, will likely impact the way advertising spend is allocated among different genres and channels, due to inclusion of new markets and increase in sample size.



2014 was a good year for TV advertising given the fillip provided by the (1) national elections and (2) the emergence of e-commerce as a key spender. Moving forward, TV advertising is bound to benefit from a stable government at the Centre, positive investor sentiment and a low-inflation environment (leading to higher disposable incomes in the hands of the consumer). On the subscription side, there is still scope for higher growth. Even though digitisation of signals has progressed well, addressability continues to be a challenge. Full addressability will be a market-driven phenomenon. In fact, this change will be expedited by the penetration of broadband. The entire segment of the value chain that looks at distribution revenue needs to quickly ramp up its capacity and resources if it wants to truly leverage this inevitable consequence.

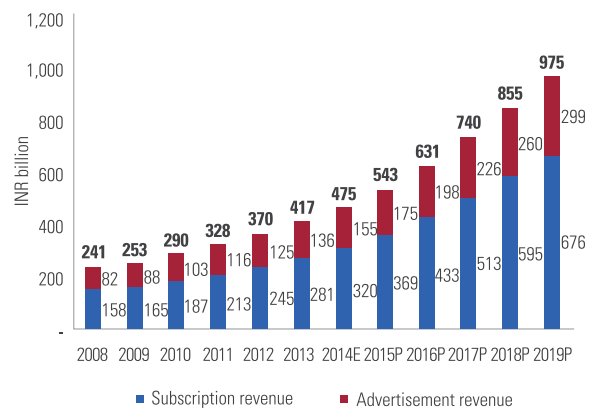
- Sudhanshu Vats
Chief Executive Officer,
Viacom18 Media Private Limited

01. There are typically 3 types of subscription deals between broadcasters and distribution platform owners – i) Fixed deals, ii) Cost per subscriber (CPS) deals – Payment for all the active subscribers, iii) RIO deals – Payment only for those subscribers which have chosen the channels.

02. KPMG in India Analysis

The television industry in India is estimated at INR475 billion in 2014, and is expected to grow at a CAGR of 15.5 per cent to reach INR975 billion in 2019. Subscription revenue growth at an annualised growth rate of 16 per cent is expected to outpace the advertising revenue annualised revenue growth of 14 per cent, on account of improving monetisation due to digitisation.⁰²

TV industry size

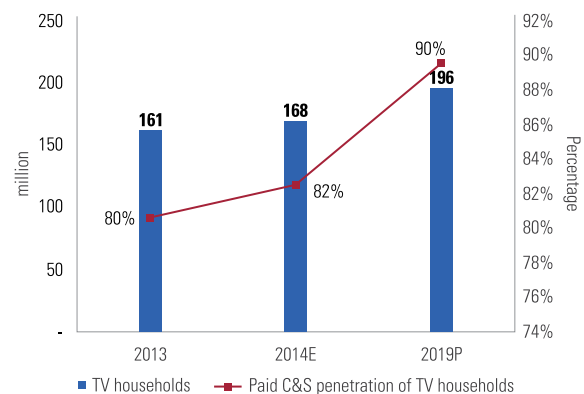


Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: Figures are rounded to nearest integers and may not add up exactly to column totals. Our new estimates reflect delay in digitisation and addressability on account of the postponement of the DAS deadline

Paid C&S penetration of TV households expected to increase to 90 per cent by 2019

The number of TV households in India increased to 168 million in 2014, implying a TV penetration of 61 per cent. The number of Cable and Satellite (C&S) subscribers increased by 10 million in 2014, to reach 149 million. Excluding DD Direct, the number of paid C&S subscribers is estimated to be 139 million, implying a paid C&S penetration of 82 per cent. The paid C&S subscriber base is expected to grow to 175 million by 2019, representing 90 per cent of TV households.

TV households and paid C&S penetration of TV households



Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: Paid C&S refers to C&S subscribers excluding DD Free Dish subscribers; Previous year's report referred to C&S penetration which included DD Free Dish subscribers



Distribution

With 168 million TV households, India is the world's second largest television market after China but remains highly unstructured. Though digitisation of C&S households crossed the 50 per cent mark in 2013, implementation challenges remain in achieving improvement in addressability and increase in monetisation. As a result, there was no real impact from digitisation on sharing of subscription revenues among the different participants or carriage fees in 2014.



While digitisation has definitely seen good progress, so far there has been minimal impact on transparency, revenues or costs for broadcasters. The cable business is undergoing fundamental changes and needs to be run like a telecom business with rollout of different packs, subscriber management system and robust collections.

- Punit Goenka
Managing Director and Chief Executive Officer,
ZEE Entertainment Enterprises Limited and
Chairman, Broadcast Audience Research
Council (BARC)

While the rollout of digital STBs slowed down in 2014, MSOs have focussed on improving their business model in Phase I and II cities. Digitisation has changed the role of MSOs from being a B2B service provider to a B2C service provider and it is taking time for MSOs to build internal processes to reflect this change in business model. This, coupled with continuing resistance from LCOs, has resulted in delays in implementation of gross billing and rollout of channel packages in Phase I and II cities. According to industry participants, higher collection per subscriber for the MSOs and hence broadcasters, is possible only after the end-customers start paying for what they watch, instead of paying for the base pack and receiving all channels. On the other hand, DTH operators have continued to focus on improving realisations by increasing penetration of HD channels, premium channels and value added services.



Digitisation has the potential to be the single largest value driver for the entire industry, but it has been disheartening to see this bold initiative being derailed due to the vested interests on a few stakeholders. Absence of digital business practices of packaging and billing along with deadlines getting pushed back has adversely impacted the sentiment around this endeavour.

- Uday Shankar,
Chief Executive Officer,
Star India Private Limited

Status of digitisation – Dec 2014⁰³

Phase	Regulatory date for shutdown	No. of paid C&S subs* (million)	Non-digitised subs (million)	Digitisation including DTH *
Phase I	Jun-12	12.0	1.0	>90% (100% excluding Chennai)
Phase II	Mar-13	22.0	1.0	>95%
Phase III	Dec-15	32.0	14.0	~50%
Phase IV	Dec-16	73.0	54.0	~25%
Total		139.0	70.0	~50%

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
* Excluding DD Free Dish



2014 was a year of evolution for the television industry with respect to distribution. However digitisation that was expected to bring in transparency and drive down carriage fees, has remained a technical digitisation till now with lack of addressability, absence of packaging and continuing carriage fees. The industry is expected to mature by the time all digitisation phases get over and all these issues should get tackled.

- Narayan Ranjan
Chief Financial Officer,
Viacom18 Media Private Limited

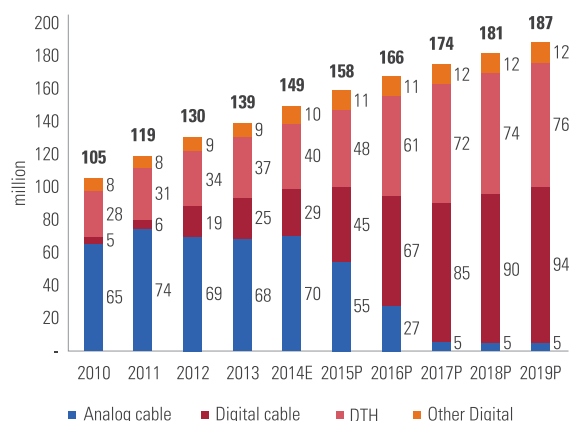
03. In 2011, the government announced mandatory digitisation of TV distribution over 4 phases through its DAS policy: i) Phase I: 4 metros: Delhi, Mumbai, Kolkata, Chennai; ii) 38 cities with a population

of more than 1 million; iii) Phase III: All other urban areas (Municipal Corp./Municipalities); iv) Phase IV: Rest of India (Rural areas)



The Ministry of Information and Broadcasting (MIB) extended the deadlines for Phases III and IV of Digital Addressable System (DAS) implementation to 31 December 2015 and 31 December 2016, respectively.⁰⁴ DAS rollout in Phases III and IV is expected to be more challenging on account of the larger geographical spread, funding requirements and low potential for ARPU. DTH is expected to take the larger share of analog subscribers in Phases III and IV than they did in Phases I and II given the advantage of DTH in sparsely populated areas and also due to their finances being healthier than those of MSOs. We expect a delay of 12 months in the rollout of STBs in Phases III and IV each and expect rollout in Phase IV to be largely complete by December 2017.⁰⁵ We believe that the government to be intolerant of any further delay; however, we will not be surprised, if this gets pushed further to December 2018. The benefits of digitisation in these phases in terms of improved addressability and ARPU is expected to take much longer. At the end of 2019, we expect Digital cable subs and DTH subscribers to be in the ratio of 55:45, with 94 million digital cable subscribers and 76 million DTH subscribers by 2019.⁰⁵

No. of subscribers



Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

Note: (1) DTH figures are net of churn

(2) Other Digital includes DD Free Dish

(3) Our new estimates reflect delay in digitisation and addressability on account of the postponement of the DAS deadline

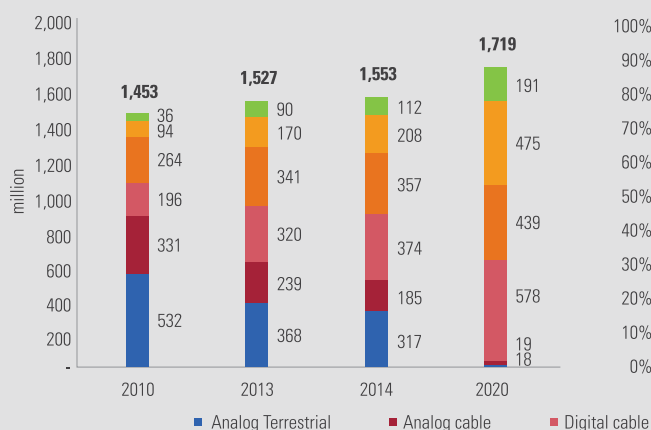
(4) Figures are rounded to the nearest integer and may not add up exactly to column totals

Globally, digital TV conversion is expected to be almost complete by 2020

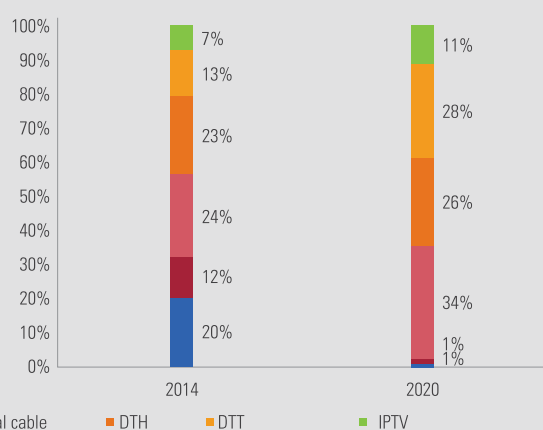
Based on forecasts for 138 countries, global digital TV penetration is likely to reach 98 per cent of television households in 2020, up from 40 per cent in 2010 and 68 per cent in 2014. By 2020, 94 countries are expected to be completely digital compared with only 12 in 2013. About 124 countries are expected to have more than 90 per cent digital penetration by 2020. Digital cable is expected to become the most popular TV platform in 2014, accounting for 34 per cent of the world's TV households in 2020. Other dominant digital technologies will be Digital Terrestrial Transmission (DTT) and DTH, followed by IPTV.

Cable is a dominant technology largely in China, in India and USA. In 2013, India cable accounted for 58 per cent of all TV households, followed by China and USA at 56 per cent and 51 per cent, respectively. Outside of these countries, cable accounted for only 21 per cent of TV households in 2013. As a result, TV digitisation efforts of most governments have been on ATT to DTT switchover rather than on digitisation of cable.

Global TV subscribers by technology



Split by technology



Source: Digital TV Research, 14 May 2014, Global digital TV conversion almost complete by 2020. KPMG in India analysis

04. Televisionpost.com, 17 September 2014, MIB notifies new DAS deadline, Phase 3 and 4 extended

05. Industry discussions conducted by KPMG in India

06. KPMG in India Analysis



The LCOs also want digitisation to progress smoothly as long as the customers benefit, they benefit from increased ARPUs & value additions and do not go out of business since they are the ones who manage the network on the ground. However, there is lot of ambiguity present when it comes to the revenue share between MSOs & LCOs and MSOs & broadcasters. LCOs also need bare minimum revenue to upgrade, maintain, operate and service their network infrastructure that must be ensured. The regulator needs to understand the ground reality and step in to standardise interconnect agreements so that there is no room for negotiations and thus disagreements, between MSOs and LCOs, at least for the first five years so that a viable business model is evolved. Once networks consolidate, everyone will benefit. Everyone, including the government wants cable TV infrastructure to deliver broadband but no one is caring to help LCOs develop a robust last mile infrastructure. The entertainment taxes in different states should also be made uniform for proper billing and collection from customers. All this will ensure that there is smoother flow of revenues among different stakeholders and that the customers also benefit.

- Roop Sharma
President,
Cable Operators Federation of India

Progress in Phase I and II cities, but at a slow pace

The rollout of digital cable STBs in Phases I and II cities was largely complete by December 2013. 2014 was expected to be the year when gross billing and rollout of channel packages would progress, resulting in more equitable sharing of revenues among the different players in the television value chain. However, this has continued to evade the industry, due to several challenges on the ground. While resistance from LCOs in giving up ownership of customers continues, the MSOs have tried to tackle this challenge by taking a joint go-to-market approach instead of attempting to remove LCOs from the value chain. Though channel packages have been rolled out in some cities, collection for the MSO from the LCO continues to take place on the basis of a fixed amount per subscriber and not on the basis of the channel package chosen. On a positive note, the larger MSOs appear to have reached an understanding to stop poaching LCOs from each other in Phase I and II areas and focus instead on improving realisations.



In 2014, one of the key hurdles in cable digitisation was that billing did not move to the rightful hands of the MSOs. Entertainment and Service taxes further added to trouble. The MSOs need to act swiftly and resolve the issues on the ground.

- Mihir Modi
Chief Finance and Strategy Officer,
ZEE Entertainment Enterprises Limited



Over the past year or so, the mindset of the cable industry has changed from that of landgrab to that of internal transformation. Our focus has been on cleaning up the subscriber base and achieving full addressability. This combined with increasing focus on marketing and better relationships with the LCOs should lead to significant improvement in monetisation in Phase I & II areas over the next 12-18 months.

- Jagdish Kumar
Managing Director & Chief Executive Officer,
Hathway Cable & Datacom Limited



Challenges at every step of digitisation

Steps to monetisation	Challenges faced by MSOs	Status at top MSOs												
KYC forms and Updation in SMS	<ul style="list-style-type: none">LCOs are wary of sharing customer data with the MSOs due to fear of losing customer ownershipImplementation of middleware that can work with different types of STBs that have been rolled out and putting subscribers on a common Subscriber Management System (SMS) is proving to be a problem for some MSOs	<ul style="list-style-type: none">Though KYC form collection in Phase I cities is 100 per cent and > 90 per cent in Phase II cities, most customer identifying data (name/address) is incorrect.Though customers are on SMS, customer identification data from CAF is not reliable												
Gross billing – billing with taxes	<ul style="list-style-type: none">LCOs do not want to lose control of the subscribers to MSOs on transfer of billing rightsIssue of who pays the taxes. Seems to have been resolved for the time being with LCOs paying both service taxes and entertainment taxesLegal issue in Mumbai on who pays the taxes and the amount of entertainment tax; the matter is pending with the HCLogistical issues in issuing bills to LCOs based on the channel package choice in the SMS and the LCOs issuing them to customersNegotiating an acceptable revenue share formula between MSOs and LCOs	<ul style="list-style-type: none">Phase I: Gross billing was started in Delhi and Kolkata in January 2014. Mumbai is still on net billing because of lack of clarity on who is entitled to pay entertainment tax.Phase II: Net billing continues												
Rollout of channel packages	<ul style="list-style-type: none">Channels need to be bundled in packages by taking into consideration pay channel costs demanded/negotiated by the broadcasters and customer choiceDue to their history as B2B businesses, there has been a significant lapse by MSOs in marketing the channel packages effectively to customers	<ul style="list-style-type: none">Phase I: Channel packages have been rolled outPhase II: Channel packages have been selectively rolled out in some cities such as Bangalore and Pune; Rollout in other cities expected to happen over the next few months.												
Billing as per channel packages and collection as per channel packages	<ul style="list-style-type: none">Though customers have chosen the channel packages, there is resistance from LCOs to pay higher even if customers are paying.LCO may switch to another MSO leading to loss of revenues and investment in STBs for the MSO. Given the capital crunch for most MSOs after rollout in Phases I and II, this option seems less likely, but is still possibleMSOs can not switch off STBs for non-payment since they do not know which customer is paying and who is not. Some MSOs are switching off customers at random to induce the LCO to start collecting which could prove to be counter-productive, since LCOs may shift.	<ul style="list-style-type: none">Phase I: While package selection has happened from billing point of view in Delhi and Kolkata, it is pending from collection point of view.Phase II: Channel packages have not been rolled out and billing is on a fixed amount per sub basis and not on the channel packages chosen												
<table><tr><th>City</th><th>MSO collection (INR/sub/month)</th></tr><tr><td>Delhi</td><td>100-120</td></tr><tr><td>Mumbai</td><td>85-110</td></tr><tr><td>Kolkata</td><td>85-100</td></tr><tr><td>Bangalore</td><td>80-90</td></tr><tr><td>Other Phase II</td><td>55-70</td></tr></table>			City	MSO collection (INR/sub/month)	Delhi	100-120	Mumbai	85-110	Kolkata	85-100	Bangalore	80-90	Other Phase II	55-70
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Bangalore	80-90													
Other Phase II	55-70													
Poaching of LCOs and box swapping	<ul style="list-style-type: none">Poaching of LCOs and box swapping was at its peak in 2013.The poaching happens on account of either sweeter deals being offered (more revenue share and cheaper STBs) or due to disputes with managers in the MSOs.This hurts the MSOs' bargaining power in negotiating revenue shares, since poaching of LCOs would lead to loss of STB as well as any future revenues from the LCO.	<ul style="list-style-type: none">Towards the end of 2013, the larger MSOs reached an understanding of not poaching LCOs and instead focussing on improving collections.												

Note: Gross billing implies that if a subscriber has chosen a package of INR180, then he/she will have to pay entertainment tax (varies from state to state) and service tax on the package rate of INR180.

Source: News articles, Company filings, KPMG in India analysis, Industry discussions conducted by KPMG in India



Difficult road ahead in phases III and IV

The MIB extended the deadlines for Phase III and IV of DAS implementation to provide more time for different players in the value chain to resolve contentious issues on the ground, indigenous manufacturing of STBs and registration of MSOs in Phases III and IV for DAS. Given that ~70 million STBs need to be rolled out in Phase III and IV areas compared to ~25 million STBs in Phase I and II areas in 42 cities, the task ahead is enormous.⁷ The deadline extension is expected to provide more time for MSOs and LCOs to work on STB procurement, setting up digital headends where required, fixing agreements with broadcasters, implementing channel packages, and getting the logistics in place for rolling out the STBs. While some in the industry welcomed the move, saying the December 2014 deadline was not practical, a section of the industry was also of the opinion that this would lead to loss of momentum in the digitisation process.

Regulatory push critical for phases III and IV

The government on its part took various measures to ensure that the momentum for DAS rollout in Phases III and IV is not lost:

- In order to expedite the registration of MSOs for DAS licenses, the MIB had asked MSOs to apply for DAS licenses for operations in Phase III areas latest by 21 December, 2014, which was then extended to 6 February, 2015. As per industry discussions, several MSOs were not able to apply for licenses before this deadline and the government's action on this needs to be seen.
- The MIB reconstituted the digitisation task force for Phases III and IV in September 2014, giving more representation to independent MSOs and LCOs.
- The government made efforts to fulfill the long pending demand of domestic manufacturers of STBs to get tax concessions in order to compete with imported STBs. In order to incentivise STB manufacturers, the Department of Telecom confirmed STBs as 'Telecom Network Equipment', as a result of which domestic STB manufacturers would be charged Central Sales Tax (CST) of 2 per cent as against the earlier VAT of 12–14 per cent.

Regional MSOs to lead in phases III and IV

Phases III and IV mainly comprise of smaller towns and villages where the disposable income of the people is much lower than in Phase I and II areas. Current analog ARPUs are in the range of INR100 to 150 and INR60 to 80 in Phases III and IV, respectively.⁷ In the Digital scenario, this is expected to increase to ~INR160 to 200 and ~INR120 to 160 in Phase III and Phase IV, respectively.⁰⁷ The lower paying potential from Phase III and IV subscribers increases the challenge of monetising the investment, which will extend the payback periods.

The MSOs made significant investments in digital headends and STB rollout in Phases I and II but

monetisation has not kicked in fully for the MSOs while broadcasters continue to ask for higher revenue share, resulting in stretched balance sheets for the larger MSOs. The smaller MSOs on the other hand do not have prior experience of digitising Phase I and II and have even lower access to capital. To reduce the capex required for Phases III and IV, most MSOs are likely to use inter-city fiber from their existing headends in Phase I and II cities and even opt for sharing headends from other MSOs. To improve the subscriber economics in Phases III and IV, MSOs are also unlikely to provide subsidies on STBs and customers are expected to bear the cost of STBs. Even though there is push from the government to roll out domestically manufactured STBs in phases III and IV, according to industry discussions this may be difficult to achieve because of several reasons - i) Domestic STB manufacturing facilities may not be able to scale up in such a short period of time, ii) The foreign STB manufacturers provide vendor financing which is critical for MSOs, iii) The quality of imported STBs is superior in most cases, and iv) There are no incentives from the government to use domestically manufactured STBs.

However, irrespective of the deadline postponement and other challenges on the ground, some regional MSOs have taken the lead in rolling out digital STBs in Phases III and IV areas. Some of these are Gujarat Telcelink Private Limited (GTPL) in Gujarat and West Bengal, Asianet Satellite Communications Limited and Kerala Communicators Cable Limited (KCCL) in Kerala, Manthan Broadband Services Private Limited in West Bengal, Fastway Transmission Private Limited in Punjab, Ortel Communications Limited in Orissa.⁰⁷ Another emerging trend is that the LCOs in phase III and IV areas are uniting to form cooperatives so that they can combine their finances and digitise on their own, without being backed by a MSO.

DTH operators keen to grab the large opportunity during phases III and IV

The battle for subscribers in Phases III and IV is expected to be more keenly fought between MSOs and DTH operators. While the DTH operators managed to gain only 20 to 30 per cent of the subscribers converting from analogue to digital in Phases I and II⁷, they are in a much better position in Phases III and IV due to the inherent technology advantage of DTH in sparsely populated areas and also due to their balance sheets being healthier than those of MSOs, especially the smaller regional MSOs. However, they may have to re-work their channel packages in these areas to be more relevant and affordable for Phase III and IV subscribers.

Dish TV has already taken an innovative route by launching a sub-brand Zing to take on digital cable in Phases III and IV. Zing specifically caters to the different linguistic needs of subscribers and offers regional specific channels as part of all available packs, while the other channels can be added as per the customer's choice. Zing has been launched in West Bengal, Tripura, Odisha, Maharashtra, Telangana

07. Industry discussions conducted by KPMG in India



and Andhra Pradesh. Zing's package prices are cheaper than those of digital cable for the base packages (INR99/month for Zing versus ~INR220/month for Digital cable) and mid-level packages (INR249/month for Zing versus ~INR270/month for Digital cable)⁰⁸. Besides content, even the advertising and other marketing activities will be in the regional languages, while customer support services will be at the local level through trade partners, similar to the cable TV model.

HITS could play a key role in phases III and IV

Head end in the sky (HITS) could play a key role in achieving the goal of 100 per cent digitisation as the existing Digital cable and DTH models may not be enough for digitising Phases III and IV. Unlike traditional cable, HITS uses a virtual headend from one single location that broadcasts signals through transponders to multiple last mile operators (LMOs). In the HITS model, while encryptions, SMS, billing etc. are handled centrally by the HITS operator, the LMO focusses on customer acquisition and customer service. Unlike DTH, HITS provides LMOs the ability to customise the feed for local tastes by inserting local language channels at the last mile and is also less susceptible to rain fade compared to DTH. However, on the flip side, HITS also faces some of the disadvantages of traditional cable such as managing

the LMO-MSO relationship and the large revenue share that will be retained by the LMOs. There are currently two HITS licensees – (1) Jain HITS of Jain TV Group has launched services in 250 districts and rolled out 0.1 million STBs⁰⁹. (2) Hinduja Group was provided license in March 2014 and is expected to launch services in June 2015.¹⁰



Our market study has revealed that i) LCOs want to remain independent and own customers, ii) LCOs want to be able to package and bundle, iii) There is strong demand for local channels in Phase III & IV areas and iv) Customers do not mind paying for STBs. HITS as a platform addresses all these and will also have better per subscriber economics in Phase III & IV areas due to lower capex required.

- Tony D'Silva
Group Chief Executive Officer,
Hinduja Media

Cable digitisation in China: Slow progress due to multiple challenges similar to India, with ~72 per cent cable houses digitised as of 2013, after starting in 2003

In 2013, China had 400 million TV households with 97 per cent TV penetration and cable TV penetration of 56 per cent. China's TV market has several similarities with India. Like India, China also has thousands of cable operators and is organised in a four layer hierarchical structure. The top 5 cable operators in the country have only 44 per cent of the market share while the rest is fragmented among smaller operators, similar to India where the top 5 have 50 per cent of the market share. The difference is that in China all the cable operators are at some level owned by the government.

China started its digitisation process in 2003 by beginning conversion of its analogue cable households. This was in contrast to the international trend of beginning with DTT. However, this process faced several roadblocks and is yet to be completed.

Progress on cable digitisation

- **2000–02:** Several commercial pilots were held in the large cities along with availability of digital pay TV services from CCTV, the largest broadcasters in China.
- **2003:** A four stage process of digitisation by 2018 was announced but a market-led approach was used instead of regulatory intervention. However, conflicts between national broadcasters of pay TV channels and local cable companies over conditional access, incompatibility between different encrypted systems implemented by the local cable companies cropped up and slowed down the digitisation process. The process received lukewarm interest from the consumers due to lack of quality content. Though 40 basic analog channels provided in the previous system were

extended to 50 to 60 there was limited value addition in terms of content. Subscribers thus refrained from paying higher prices.

- **2005:** The stage I digitisation target was missed. This is similar to the situation in India where deadlines have been missed due to conflicts between national providers of pay TV channels and cable companies. Government made digital switchover compulsory since market-led approach did not show results. In order to boost the process, the government gave various subsidies and soft loans to the cable companies to enable them to give STBs free of cost to the consumers.
- **Post 2007:** State Administration of Radio, Film and Television (SARFT), administrator and supervisor of state-owned enterprises engaged in the television, radio, and film industries in China, claimed that 27 cities had achieved full (95 per cent) digitisation in 2007. However, it was limited to the central parts and not the outskirts of the cities. Post 2007, different cities adopted different approaches to speed up the conversion rate. For instance, i) in Guangzhou Investment in digital infrastructure was financed by state loans and STBs were given free of costs with new data services and ii) in Beijing, direct subsidy of USD 16 was provided to Gehua company for every STB installed with the condition that subscription fee would remain constant at USD 2.9
- **Current status:** By 2013, China had completed 72 per cent of cable TV digitisation

The experience in China indicates that digitisation of cable, especially over a large geography, is a path filled with roadblocks and hence the challenges faced by the Indian TV industry are par for course.

Source: (1) CCBN Cable Digital TV Operator International Summit, 21 March 2014, (2) China Television Industry Market Report, Italia, 2011, (3) ZDnet.com, 23 March 2011, China to digitize cable TV by 2015 (4) Digital Television Switchover - China goes its own way, 2010, (5) The Development of Digital Television in China and Norway, 2008, (6) KPMG in India analysis

08. Zing company website

09. Business Standard, 18 December 2014, Jain HITS targets Rs 400-cr revenue in FY15

10. Cablequest.org, 7 March 2014, MIB grants HITS license to Hinduja



DTH ARPU growth continues even as digital cable is still struggling to roll out channel packages

While subscriber addition for DTH operators was muted in 2014, they had a healthy revenue growth due to sustained increase in ARPU. According to industry discussions, DTH operators have seen an ARPU increase of around 12 to 15 per cent in 2014. While some of the ARPU increase was driven by DTH operators' ability to continue to push price hikes (there was a price increase in April 2014 of ~8 to 9 per cent),¹¹ the more promising trend is that DTH operators are able to increase collections from customers by providing additional services such as HD channels, premium channels and other value added services.



HD penetration has scaled up significantly over the past few years and today 4K is where HD was a few years ago. With TV screens getting larger, customers are expecting better picture quality and seeding of 4K boxes will provoke broadcasters towards producing more 4K content. Sports is expected to drive 4K adoption first, followed by English entertainment and then the Hindi entertainment channels.

- Harit Nagpal
Chief Executive Officer,
Tata Sky Limited



The boom in the panel TV industry has been a key trigger for growth in HD channel viewership. The viewers are ready to pay a premium price for HD channels. With the right pricing and packaging for these channels, HD channels can achieve faster and deeper penetration.

- Anil Khara
Chief Executive Officer,
Videocon d2h Limited

DTH and Digital Cable ARPU

ARPU per month	2014E	2015P	2016P	2017P	2018P	2019P
Digital Cable	190	215	225	246	276	306
DTH	224	247	266	291	321	349

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

While Digital cable operators are still grappling with getting their business model right, DTH operators have focussed on increasing monetisation by providing additional value to their subscribers either through innovative services or STBs, such as those with unlimited recording and 4K. According to our discussion with industry participants, there are 4 million HD subscribers, accounting for ~10 per cent of all DTH subscribers, while 15 to 20 per cent of incremental subscribers in 2014 were

All the major DTH operators, Tata Sky, Dish TV, Videocon D2H and Airtel Digital, have launched TV Everywhere¹⁴ apps on mobiles and tablets through which subscribers can watch live TV, catch up TV and video on demand (VoD) for an additional monthly fee. While there are several players along the media value chain who have launched online platforms for on-demand content to capture the surging viewer base, DTH operators have a key advantage in monetising these viewers through their TV Everywhere apps, given their already existing payment relationships with subscribers.



With HD channels and premium subscription channels, the idea of paying for better content has been incubated among the subscribers and is expected to translate to other value-added content as well. There is growing traction in subscription on DTH mobile apps, given the ease of payment compared to non-DTH mobile apps. In 2 to 3 years this could become a meaningful revenue stream.

- R.C. Venkatesh
Chief Executive Officer,
Dish TV Limited

11. Indiantelecom.com, 31 December 2014, 2014: A year of improved subscriber numbers

12. Industry discussions conducted by KPMG in India

13. The Economic Times, 20 January 2015, TV makers like Sony, Panasonic and Samsung hoping for sales rebound during ICC World Cup, IPL

14. TV Everywhere, also called authenticated streaming or authenticated video on-demand, refers to a business model wherein television distributors allow their customers to access content from their network through internet-based services either live or on-demand, as an extension of their subscription to the service.



VAS in DTH – is it a sustainable differentiator?

We are now living in a super connected world. The traditional view of television value chain where each participant (be it the content owners, broadcasters, platform providers) operates within pre-specified boundaries is increasingly becoming passé. Customers are getting spoilt for choice with affordable and extensive content available anytime, anywhere and through any medium/screen.

In India, where content is commodity due to 'must carry' regulations (no exclusivity), the DTH players have but few options to differentiate and sustain a competitive advantage. VAS could potentially play this role but we have a long way to go in exploiting this. Let us look at why this is so.

Historically interactive services (a key VAS) in India predominantly focussed on genres like music, kids, spiritualism and English learning. Some DTH players experimented on services like pizza delivery, movie ticket booking and travel services but withdrew these later due to insufficient traction, as the customer had other cheaper and more convenient ways to access these services. VAS products typically entail higher upfront investment, a longer payback period (as customer education and adoption takes time delaying the pace of monetisation). There is also a need to continuously refresh the content and stay relevant for the customer. Last but not the least, the DTH players were far more focussed on category creation – rightly so, (since digitisation was new to India) and therefore were left with little time to focus on VAS.

All the above meant that the growth of VAS in the last few years has been understandably subdued. But now, with a critical mass well within the reach of the DTH industry, this situation can quickly change for the better.

In the mature markets, customers are already moving towards time shifted/device shifted viewing. Realising this, many DTH players are already offering suitable VAS products (eg 'Foxtel Go' in Australia – on demand services with 50+ channels; 'Astro on the Go' in Malaysia – live TV, VOD, Catch up; 'iSky' in New Zealand – authenticated online TV service with catch up, online and a mega movie library content and 'Sky Go' in the UK – service offered when the customer is not in front of the TV, i.e. he/she can watch on tablet or smartphone or computer). This appears to be the next key driver to increase VAS penetration. The fact that a lot of content is exclusive in international markets further accentuates the growth of VAS.

VAS ARPU in India is still at a low single digit percentage of total ARPU. To reverse this situation, DTH players need to do a few things systematically. First, focus on Video on Demand, Pay Per View services and offer wider content (both linear and catch up) on mobile devices/tablets/computers/laptops. Second, continuously refresh and launch interactive content around genres like education, fitness, gaming and languages. Third, enhance customer education through ATL and BTL measures. Fourth, structure the organisation suitably with aggressive revenue/penetration targets for VAS. There is no single silver bullet. With over half the country below the age of 25 and therefore adaptable to change, there is a latent demand for VAS, which will become apparent once a plethora of options are available. Customers are willing to pay for choice and convenience.

In addition to the VAS trends I have talked about, India has seen a significant growth in the number of HD/premium channels. On an average, operators do provide around 30 relevant HD channels with

a significantly improved quality of viewing and the customers do not mind paying extra for this. A large share of the ARPU growth of DTH players is contributed by the access revenue from HD/premium channels. This trend is likely to continue for some time to come, as more regional HD content gets produced and new regional HD channels get launched in the near future.

On VAS, there are minor technological challenges towards integrating the back end (for eg, to make the existing active set top boxes compatible with the new services). There is also a well-founded fear that free content over the internet could become a significant threat to DTH VAS. DTH players could partially overcome this threat by providing their own (in house IP) interactive services to captive customer base.

On balance, I believe that in the medium term, VAS in DTH has the potential to become a strong acquisition/retention tool – in addition to being an ARPU enhancer – IF the DTH players adopt a clear segmented approach to launch products based on customer insights.

G Sambasivan -
Chief Financial Officer,
Tata Sky Limited



Unless otherwise noted, all information included in this column/article was provided by G Sambasivan. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.





Ongoing transformation in MSO operations and LCO relationships

The MSOs spent most of 2014 in stabilising their operations in Phase I and II cities and resolving issues with their LCOs. The larger MSOs are increasingly depending on technology to improve addressability and collections. Even though customer-level addressability remains a challenge, MSOs are implementing systems to track addressable active STBs and collection at LCO level. MSOs are also evaluating different prepaid models to improve their collections – i) Hathway Cable & Datacom Limited (Hathway) has asked LCOs in certain areas to deposit in advance the incremental amount for customers who are choosing packages above the base packages¹⁵; ii) IndusInd Media Communications Limited (IMCL) has implemented prepaid model at customer level for a la carte, Star channels and for the mini-packs with options to pay online or at cash counters.¹⁶ As MSOs try to transform into B2C organisations from B2B, several MSOs are hiring key managerial people with backgrounds in Telecom companies, Marketing and Consulting and there is also increasing focus on customer marketing.

There have been several differences between LCOs and MSOs over billing responsibility, ownership of customers and revenue share formula. However, there is increasing acceptance among the MSOs that LCOs are integral to their operations and among the LCOs that they do not have access to funding. Some MSOs are currently helping the LCOs raise bills in the name of the LCO through their SMS and while the entertainment tax liability lies with the LCOs, the LCO and MSO are each paying service tax for the amount of their bill. The MSOs have also started providing the LCOs limited access to their SMS to manage customer packaging and conducting trainings and workshops to LCOs to enable them to understand the SMS interface.



LCOs will continue to remain an integral part of MSOs value chain due to the implicit trust between him and the consumers. It is necessary that MSOs make the right communication with LCOs for better monetisation. We are also undertaking trainings for LCOs to enable them to function with the new technology, as we want the LCOs to continue to be an integrated part of the value chain.

- M.G Azhar
Chief Operating Officer,
DEN Networks Limited

resulted in broadcasters, Star India and Taj Television (distribution arm of ZEEL), filing complaints with the Telecom Dispute Settlement and Appellate Tribunal (TDSAT).¹⁷ In September 2014, TDSAT directed Hathway to pay Star India at INR27 per subscriber for its entertainment and sports channels and Taj Television at INR21.5 per subscriber.¹⁸ However conflict between the parties continued as a result of which, in November 2014, TDSAT directed all MSOs to put Star India channels on RIO basis.

Star India decided to enter into only RIO deals with MSOs in DAS areas and provide its channels to all platforms on a transparent, non-discriminatory basis, as opposed to the earlier deals that were bilaterally negotiated.¹⁹ After initial resistance from MSOs, Star India amended the RIO offer to include incentives to MSOs based on the number of Star channels carried, the number of viewers and the ease of access in terms of LCN positions to Star channels. The new RIO approach enables tiering of consumers through a structure that does not push all channels in the base pack and instead encourages MSOs to create packages based on consumer requirements. Though it does away with the need for carriage fees, the expectation is that the incentives would induce MSOs to come up with better subscriber packages, resulting in improved realisations for both the MSOs as well as Star India. According to industry discussions, while the MSOs have come out with various packages for Star channels, there is resistance from the LCOs and not enough awareness is being created to the end consumers for premium packs and a la carte channels.



RIO has been put into action by Star India for more clarity in distribution, as there has been no change in revenue share in the value chain so far. The continuing challenges on the ground makes one question whether we have been thoughtful in creating a strong delivery framework. RIO is one such initiative that will enable the delivery framework critical to ensuring that creative and diverse content gets its dues.

- Sanjay Gupta
Chief Operating Officer,
Star India Private Limited

Star India's non-discriminatory RIO and incentivised-distribution approach

2014 was a year of conflicts between MSOs and broadcasters. Unsuccessful negotiations with MSOs

Overall, this is a brave step from Star India and given its marquee position in the industry, one that Star India should be able to push forward. If nothing else, implementation of RIO is expected to result in content cost paid by MSOs to Star India to increase by 15 to 20 per cent which will induce the MSOs to implement stratified channel packages in DAS markets. If implemented widely in the industry, this will go a long way in bringing about transparency in the system and also put a stop to the continuing broadcaster-distributor tussles.

15. Industry discussions conducted by KPMG in India

16. Indiantelevison.com, 27 December 2015, IMCL introduces prepaid payment options

17. Exchange4Media.com, 11 November 2014, What you should know about RIO

18. Indiantelevison.com, 26 September 2014, TDSAT directs Hathway to enter into RIO pacts with Zee, Star India

19. Afaqs.com, 28 October 2014, We will offer all our channels only on RIO: Uday Shankar, CEO, Star India



This would result in faster realisation of subscription ARPU increase and equitable sharing of revenues among the LCOs, MSOs and broadcasters. However, much depends on whether other large broadcasters such as ZEEL, Viacom18 and Sony MSM follow suit.



In recent times digitisation is the biggest leap that the industry has witnessed. Going forward, RIO will be the next big leap. ARPU's will step up with the implementation of RIO, pay channels with quality content will create pull as the customers will pay for what they want to watch. Rest will continue to pay carriage to be carried over to the network.

- V D Wadhwa
Chief Executive Officer,
Siti Cable Network Limited

Channel aggregator regulation to impact smaller broadcasters more; Carriage fees per channel not expected to decline significantly in the medium term

In February 2014, TRAI passed a regulation according to which only broadcasters could enter into interconnection agreements with Distribution Platform Owners (DPOs) such as MSOs and DTH operators. Broadcasters could continue to use channel aggregators as agents and in case an agent acts as an authorised agent of multiple broadcasters, such an agent could not bundle channels or bouquets of multiple broadcasters. This led to most of the major channel aggregators breaking up, since most contracts had to be re-negotiated and allocation of subscription revenues to different broadcasters became challenging.

- **MediaPro:** MediaPro, the JV between Star-DEN and Zee-Turner has been wound down.²⁰ Star India merged carriage and the distribution of its sports and entertainment channels together and Star-DEN JV became dormant. Zee Group merged distribution of all Zee Group channels and Turner channels to Taj Television India, a wholly owned subsidiary of ZEE Entertainment Enterprises (ZEEL). Taj Television was earlier the sole distributor of Ten Sports channels. NDTV, MCCS (owns ABP News) and MGM, who were using MediaPro, are distributing their channels on their own and are building up teams internally for the same.
- **MSM-Discovery:** The One Alliance, the 12-year long joint venture between Multi Screen Media (MSM) and Discovery Network, was dissolved in January 2015.²¹ Times Television Network which used the services of The One Alliance had earlier broken away from The One Alliance with distribution now being managed by Times Global Broadcasting Company (TGBCL).

20. Business Standard, 12 April 2014, Zee Turner, Star Den Media end JV

21. Business Standard, 26 November 2014, MSM-Discovery, last of broadcast JVs, ends on Jan 1

IndiaCast: IndiaCast and Disney India have decided to end their JV. IndiaCast will, however, continue to distribute Disney India's channels as an agent.²²

Post breaking up of the channel aggregators, the positions of Star India and ZEEL remain strong due to addition of sports channels to their channel packages, while other larger broadcasters also did not see significant impact on their bargaining power due to the strength of their individual channel bouquets. However, as per industry discussions, the smaller and niche broadcasters with few channels have been affected more from this move as their channels cannot be bundled with those of other broadcasters, tilting the balance of power back to the MSOs and DTH operators. Also, these smaller players are now in the process of setting up their own distribution teams that will add to their cost base.



The regulation of channel aggregator has significantly impacted the smaller players in the industry. The big broadcasters have bounced back to normal after an initial hit, but it remains to be seen how small broadcasters will cope with the change.

- Anuj Gandhi
Group Chief Executive Officer,
Indiacast Media Distribution Private Limited

Over the last two years, Phase I and II markets witnessed a 25 to 30 per cent drop in carriage fees driven by digitisation and the negotiating power of channel aggregators.²³ However, as per industry discussions, there was an increase in the overall carriage fees paid to distributors in 2014. This was due to the i) Flurry of new channel launches, ii) Delayed benefits of digitisation for MSOs and iii) Impact of channel aggregator regulation iv) LC1 (less than class I; towns with under 0.1 million population) regions being added to ratings. This has particularly impacted news channels, niche channels and the newly launched channels. As per industry discussions, carriage fees remained broadly stable for existing channels but new channels saw a hike in carriage fees in the range of 15 to 25 per cent in 2014, depending on the genre.

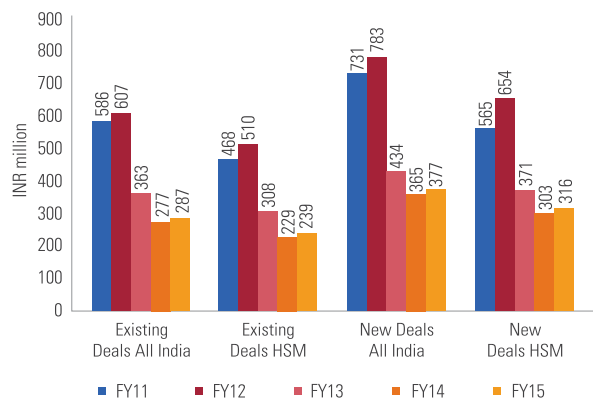
This was also reflected in the Distribution Investment Index study by ChromeDM, according to which carriage fees for a channel to be distributed across the country declined significantly between FY12 and FY14 (~50 per cent decline in two years) for both existing deals and new deals. However, in FY15, there was a 3 to 4 per cent increase in carriage fees for both existing and new deals.

22. Televisionpost.com, 17 June 2014, IndiaCast, Disney UTV JV to dissolve; IndiaCast to distribute Disney UTV channels as agent

23. Industry discussions conducted by KPMG in India



Carriage fees



Source: Chrome Dii, Copyright reserved with Chrome Data Analytics and Media; Any use of Chrome DM data (or derivative thereof) mentioned herein without express permission of Chrome DM shall be treated as illegal

Note: HSM – Hindi Speaking Markets (excludes the four South Indian states)



The existence of carriage fees even today is a cause of great concern. Even though digitisation is addressing the challenge of capacity constraint, broadcasters are still being made to pay carriage taking the analog era as a base.

- Rajesh Kaul
President, MSM Discovery Private Limited

Going forward, carriage fees for existing channels is expected to remain stable over the next 2 to 3 years, while the increasing number of channels being carried by each MSOs is expected to result in carriage fee continuing to increase by 10 to 15 per cent for MSOs. Industry participants expect that the MSOs will have to start receiving higher subscription revenues, thus reducing their dependence on carriage, before expecting any further reasonable decline in carriage fees per channel.

Broadband opportunity for MSOs

Even as the MSOs are spending their efforts on cable TV digitisation, they also need to focus on leveraging their infrastructure to capitalise on the potential for broadband growth. Wired broadband connections in the country are expected to grow up from 20 million in 2014 to 32 million in 2019, and presents a huge opportunity for MSOs. Globally, DOCSIS (Data Over Cable Service Interface Specification) is the predominant technology used for cable broadband and has higher speed and lower investment advantage over the DSL (Digital Subscriber Line) family of technologies used by telecom operators. Prior to DOCSIS, cable operators in India were providing

internet over the cable TV infrastructure using Ethernet/ LAN which required significantly less investment, but had speed limitations. Currently, DSL is the primary technology in India, accounting for ~70 per cent fixed broadband connections in 2014.²⁴ This could change significantly if the MSOs get their broadband act together, given that the last mile infrastructure is largely in place for cable broadband, while telcos have to invest significantly in fiber to be able to provide speeds comparable to that of cable broadband.

Among MSOs, Hathway has been a pioneer in cable broadband, launching 50 mbps broadband plans, powered by DOCSIS 3.0 in 2013 and the service is currently available in Mumbai, Bangalore, Pune and Hyderabad.²⁵ DEN also launched its DOCSIS 3.0 powered broadband services in September 2014, starting with Delhi. DEN Networks Limited (DEN) has invested INR2.5 billion on its broadband project and plans to extend their broadband services to Mumbai, Kolkata, Chennai, Pune, Lucknow and Ahmedabad.²⁶ Siti Cable Network Limited (Siti Cable) has launched broadband using DOCSIS 3.0 in Delhi and also has broadband services in the Eastern region of the country.²⁷ Some of the smaller regional MSOs, have also started investing in broadband – Asianet Satellite Communications is upgrading from DOCSIS 2.0 to DOCSIS 3.0 and plans to invest INR200 million on broadband,²⁸ while Ortel has decided to stick to DOCSIS 2.0 for the time being but is also expanding its broadband footprint.



Broadband provides a great opportunity for MSOs to increase their monetisation of the existing network by making some incremental investments in infrastructure. Many MSOs have realised this and are working towards rolling out broadband services. DOCSIS as a technology provides significant advantages over DSL, both in terms of higher speed and lower capex.

- Dinyar Contractor
Editor and Executive Publisher,
Satellite & Cable TV Magazine

It is imperative that MSOs unlock the value of broadband to sustain revenue growth as well as for ensuring returns on investment. For instance, Hathway had a broadband gross margin of 70 per cent and broadband EBITDA margin of 30 per cent in FY14,²⁹ compared to consolidated gross margin of 49 per cent and consolidated EBITDA margin of 17 per cent.³⁰ Even in a relatively mature market such as the US, broadband has been the key growth driver for cable companies. Broadband revenues for Comcast and Time Warner Cable, the two largest Cable companies in the US, have grown at a CAGR of 9 per cent and 12 per cent respectively over 2010 and 2013 as compared to overall revenue growth of 6 per cent and 5 per cent, respectively.³¹

24. TRAI performance indicator report, September 2014

25. Business Standard, 7 October 2013, Hathway introduces ultra high speed internet in South Mumbai

26. Business Standard, 17 July 2014, Den to launch Cable Internet Broadband from September

27. Telecomtiger.com, 12 November 2014, Siti Cable selects Cisco DOCSIS 3.0 technology to launch high speed broadband service in India

28. Televisionpost.com, 3 March 2014, Asianet to invest Rs 200 mn in broadband biz in FY15; upgrades to Docsis 3.0

29. Edelweiss, 13 June 2013, Expanding bandwidth

30. Q4FY14 quarterly financial results for Hathway

31. Annual reports 2010-2013 for Comcast and Time Warner Cable



Broadcasting

Television advertising revenues bounced back in 2014 led by the election-related advertising and the improved macro-economic outlook due to a stable government at the centre. The year also saw several new channel launches, especially in the Hindi GEC space. While the legal proceedings on implementation of the 12-minute ad cap continued, the I&B minister's statement that the government is not keen on implementing the ad cap³² came as a welcome move for many broadcasters, especially those with ad-dependent business models such as news and music channels.

The total TV advertising market is estimated to have grown at 14 per cent in 2014 to INR155 billion, higher than the 12 per cent projected in our report last year.³³ Going forward, television advertising in India is expected to

grow at a CAGR of 14 per cent over 2014 to 19, to reach INR299 billion³³.

While advertising brought in all the good news in the year, subscription revenue ramp up was less than expected. In 2014, subscription revenues for broadcasters is estimated to have grown at only 10 per cent to INR75 billion, which was significantly lower than expectations.³³ Going forward, subscription revenue is expected to grow at a CAGR of 22 per cent from 2014 to 2019 to INR201 billion. Increase in the declared subscriber base and increase in revenue share of broadcasters in the subscription pie is expected to drive up the share of subscription to total broadcaster revenue from 33 per cent in 2014 to 40 per cent in 2019.³³



2014 was a fairly challenging year for broadcasters from a distribution perspective. While on the one hand carriage fees inched up, there has been no real increase in addressable subscriber base and subscription revenues. The channel aggregator regulation and deadlines for Phases III and IV being shifted have also had an adverse impact.

- N P Singh
Chief Executive Officer,
Multi Screen Media Private Limited (Sony)

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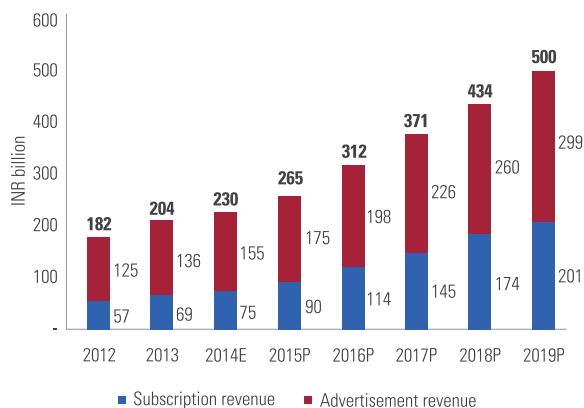
&tv
Ek Naya Hindi Entertainment Channel

32. Indiantelevison.com, 19 January 2015, Ad cap conflicts with fundamental rights: Arun Jaitley

33. KPMG in India Analysis



Broadcaster industry size



Source: KPMG in India analysis, Industry discussions conducted by KPMG in India.

Note: Our new estimates reflect delay in digitisation and addressability on account of the postponement of the DAS deadline

Advertising revenues in 2014 – Green shoots

The first couple of months of 2014 continued to be affected by the slow economic growth and muted ad spending. However, the general elections and state elections in 8 states, including key states such as Maharashtra and Andhra Pradesh, acted as fuel for TV advertising. Following the general elections a stable central government and falling oil and food prices resulted in positively changed consumer and business sentiments. Following two years of sub 5 per cent GDP growth and high inflation, the Indian economy picked up pace in 2014 to have grown at 6 per cent with inflation significantly falling to the range of 4.5 to 5.5 per cent. The fall in global oil prices and stability in the Indian currency further added to the positive outlook. Reflecting the macro economic growth, the television advertising industry witnessed a 14 per cent growth largely on the back of heavy spending during the national & state elections and significant contributions from e-commerce companies.³⁴

As per industry discussions, elections are expected to have contributed ~INR4 billion to TV ad revenues in 2014, excluding which TV advertising grew 11 per cent on a like-to-like basis.³⁵ Companies in the e-commerce space are said to have spent ~INR10 billion on advertising across media, of which a majority was spent on television.³⁶ Till 2010 to 2011, top 10 e-commerce companies hardly spent INR1 million each on advertising, but have now increased their ad spends to INR250 to 750 million each.³⁷ Several e-commerce companies launched TV commercials for the first time in 2014 and several more continue to do so in 2015. Mobile handset companies also contributed significantly to the advertising revenue growth. The automobile and consumer durable sectors saw resurgence in the last few months of the year, primarily in the festive season, and started pushing up their ad spends in pursuit of volume growth.³⁴ In spite of facing consumption pressure, the FMCG sector continued to be the largest spenders in TV advertising, however the dependence is decreasing.



2014 was a remarkable year for TV advertising revenues. Apart from the national elections which saw large spends across mainline channels and news, new high spending categories such as e-commerce entered the market, fueling advertising revenue growth. At the same time, sectors such as Mobile handsets, Automobiles and Consumer durables and the FMCG which had cut down on ad spends in 2013 increased their ad spends in 2014.

- Rohit Gupta
President - Network Sales,
Licensing and Telephony,
Multi Screen Media Private Limited (Sony)

In 2015, advertising across media by e-commerce companies is expected to grow by 40 per cent, backed by huge foreign investments, as they continue to their customer acquisition spree.³⁸ In 2015, automobile, BFSI (Banking, Financial Services and Insurance) and mobile handset businesses are expected to perform better than in previous years and therefore increase ad spends on TV. The Cricket World Cup is also expected to prop up TV ad spends, contributing INR12 to 15 billion in TV advertising.³⁹ Compared to 2014, there will be much lesser political advertising, but the two assembly elections in key states of Delhi and Bihar will help. The recent rate cut by the Reserve Bank of India (RBI) is expected to stimulate the banking and finance sector and thus expenditure. Driven by these triggers, TV advertising is expected to grow at 13 per cent in 2015, on an already high base in 2014.⁴⁰

Update on ad cap regulation

TRAI had passed a regulation in March 2013 that restricted advertisements to 12 minutes per hour, allowed for advertisements only during breaks of live sporting events, prohibited partial advertisements and required broadcasters to submit details of advertisements carried on their channels in a specified format to TRAI. This had left the industry divided. While several Hindi entertainment channels implemented the rule, the News Broadcasters Association (NBA), independent music channels and several regional broadcasters appealed against the TRAI order in the Delhi High Court. The Delhi High Court passed an interim order prohibiting TRAI from taking any coercive action against channels not following the ad-cap regulations and the case is expected to be heard next on 24 March 2015. In the mean time, the new I&B minister, Arun Jaitley, has commented that the government is not inclined to interfere in the content or the business of media entities, and that the government is not in favour of a cap on advertising for TV or print media.

34. Industry discussions conducted by KPMG in India

35. Televisionpost.com, 30 December 2014, 2014: Ecosystem for ad revenue growth has improved

36. Livemint, 17 December 2014, E-commerce, politics drive ad sales in 2014

37. The Economic Times, 28 March 2014, Online retailers like Flipkart, Jabong and Quikr spending massively on television ads

38. Exchange4media.com, March 4 2015, E-commerce ad spends could go as high as Rs 1,300 crore in 2015

39. Trak.in, 23 February 2015, Advertising Dynamics Of Cricket World Cup 2015. 1B+ TV Viewers, Rs 1500Cr Ad Spent

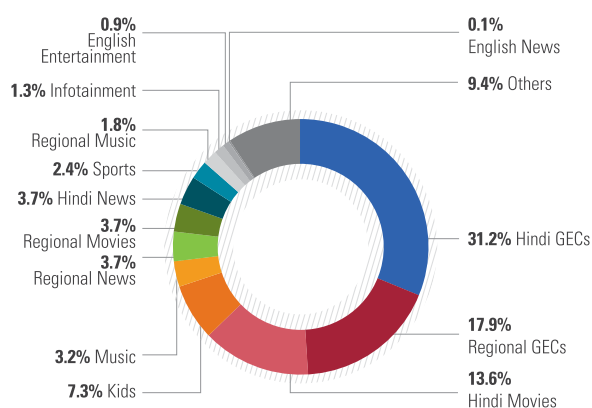
40. KPMG in India Analysis



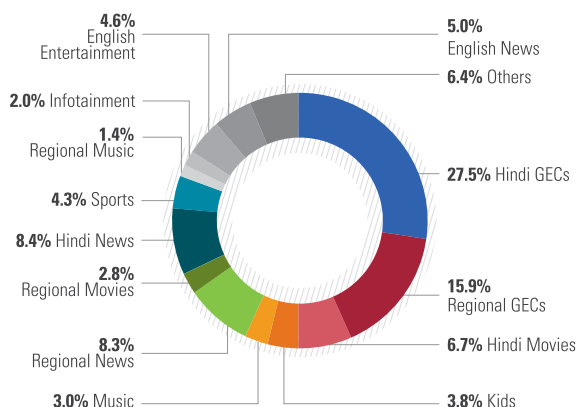
Genres⁴¹

Television viewership continued to be driven by Hindi and Regional GECs, which accounted 49.1 per cent of total viewership in 2014. Over 2012 to 2014, Hindi GECs have seen an increase in viewership share from 29.3 to 31.2 per cent (partly due to increase in the number of channels), while the Regional GECs have seen their viewership share decline from 21.1 to 17.9 per cent. Hindi movies saw its viewership dip from 15.1 per cent in 2013 to 13.6 per cent in 2014. Kids and Music genres also saw decline in viewership shares to 7.3 per cent (from 7.5 per cent) and 3.2 per cent (from 3.6 per cent), respectively in 2014. News channels (including Regional News) accounted for 7.4 per cent viewership in 2014, up from 6.9 per cent in 2013, largely on account of elections.

Viewership share by genre



AdEx share by genre



Source: TAM; Week 1 to 52, 2014; All India CS4+ market; TAM AdEx is based on rate-card based value share; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

Note: No of channels available in 2013 and 2014 might be different. English News includes English General News and English Business News; Hindi News includes Hindi General News and Hindi Business News; English Entertainment includes English GECs and English Movies.

Hindi GEC

While 2013 was a year of change for Hindi GECs due to addition of LC1 towns, change from TVRs to TVTs and the 12-minute ad cap, 2014 was no less an eventful year for Hindi GECs, due to a plethora of new launches. However, there was no significant change in viewership share in the top order. Similar to 2013, Star Plus retained the top spot by a wide margin, while the second spot saw intense competition between Zee TV, Colors and even Life OK for some period of the year.⁴² SabTV continued to have steady ratings through 2014 at the fourth or fifth spot, while Sony remained at a weak sixth spot.⁴³ Overall, ad growth for the genre was between 14 to 16 per cent, driven by 10 to 15 per cent increase in ad spot rates, similar to the previous year.⁴⁴

The year saw launches of three new GECs – Zindagi from ZEEL, Sony Pal from Sony MSM and EPIC, an independent channel – followed by the launch of a fourth GEC, &TV from ZEEL, in March 2015.⁴⁵ A parallel can be drawn to 2008 to 09 when four new Hindi GECs launched – Colors, 9X, Imagine and Real. Of these, Colors was the only channel that has withstood the test of time. This time around, the prospects of digitisation- related subscription revenue increase and lower carriage fee is likely to improve the economic viability of these new launches. At the same time, consumption has become fragmented with digitisation and the inclusion of LC1 towns in TV ratings. This has resulted in all the new launches taking a segmented approach instead of a one-size-fits-all approach. The new launches have clearly stated differentiation in terms of the audience they want to target and the type of programmes they want to air. While Zindagi has focussed on airing fiction content acquired from Pakistan, '&TV' intends to target the male and youth audience, Sony Pal is women-centric and EPIC has original content based on Indian history, folklore and mythology.

The content mix of Hindi GECs tilted towards fiction in 2014, driven largely by Star Plus which changed its programming schedule by extending all its fiction shows from Monday through Saturday. Hindi GECs also displayed increasing risk appetite for experimentation and continued investments in different ideas which are off the beaten path. A key trend that emerged was the launch of several finite fiction series with focus on a pre-written script, high production values and good acting talent. Though these shows have been a mixed bag in terms of impact on ratings and advertising revenues, broadcasters seem keen on continuing with experimentation in order to differentiate themselves in an increasingly competitive market. For instance, the newly launched Zindagi and EPIC have most of their shows in the finite format.

41. TAM; Week 1 to 52, 2014; All India CS4+ market; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

42. Televisionpost.com, 29 December 2014, 2014: The year of new launches in Hindi GEC

43. Indiantelelevision.com, 31 December 2014, Hindi GECs 2014 the year of experimentation

44. Industry discussions conducted by KPMG in India

45. Televisionpost.com, 29 December 2014, 2014: The year of new launches in Hindi GEC



Indicative list of finite TV series on Hindi GECs

TV series	Channel	No. of episodes	Industry estimate for production cost per episode	Star actor/director
Yudh	Sony	20	INR30 million/60 mins	Amitabh Bachhan/Anurag Kashyap
24	Colors	24	INR20 million/60 mins	Anil Kapoor
Mahabharat	Star Plus	200	INR8 million/30 mins	
Everest	Star Plus	100	NA	Ashutosh Gowariker
Airlines	Star Plus	26	INR1.8 to 2.4 million/60 mins	Tulip Joshi
Maharakshak Aryan	Zee TV	26	NA	
Maharakshak Devi	Zee TV	26	NA	
Zindagi Gulzar Hai	Zindagi	26	NA	Fawad Khan
Humsafar	Zindagi	23	NA	Fawad Khan
Aunn Zara	Zindagi	19	NA	
Ajeeb Dastaan Hain Yeh	Life OK	108	NA	Sonali Bendre
Pukaar	Life OK	24	INR1.3 million/30 mins	Vipul Shah

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
NA: Not available

Maa ke sanmaan mein kiya,
Bharatvarsh ka nirmaan.

CHAKRAVARTIN
Ashoka
SAMIRAT

colors
VIACOM 18

MON-FRI
9PM



Top 10 fiction series on Hindi GECs - 2014

Serials	Channel	Average TVT
Diya Aur Baati Hum	Star Plus	10,651
Jodha Akbar	Zee TV	8,678
Ye Hai Mohabbatein	Star Plus	8,519
Saathiya Saath Nibhana	Star Plus	8,390
Yeh Rishta Kya Kehlata Hai	Star Plus	7,377
Mahabharat	Star Plus	7,124
Taarak Mehta Ka Ooltah Chashma	SAB TV	6,916
Kumkum Bhagya	Zee TV	6,348
Sapne Suhane Ladakpan Ke	Zee TV	4,355
Sasural Simar Ka	Colors	5,489

Top 10 non-fiction series on Hindi GECs - 2014

Serials	Channel	Average TVT
Comedy Nights With Kapil	Colors	7,090
India's Got Talent 5	Colors	6,829
Fear Factor Khatron Ke Khiladi	Colors	6,107
Dance India Dance Little Masters 3	Zee TV	4,978
Bigg Boss 8	Colors	4,837
Jhalak Dikhhla Jaa	Colors	4,521
Dance India Dance 4	Zee TV	4,095
Kaun Banega Crorepati	Sony	3,511
Nach Baliye 6	Star Plus	1,470
Mad In India	Star Plus	1,315

Source: TAM; HSM 4+ Week 1 to 52, 2014; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

Hindi GECs continued with their efforts to capture the eyeballs of the male audience through comedy and crime-related shows, but most of the new launches did not have any significant impact while old favourites such as 'Comedy Nights with Kapil', 'Taarak Mehta Ka Ooltah Chashma' and 'CID' continued to do well. On the non-fiction side, there were no major launches with most non-fiction shows running their seventh or eighth seasons and this could be a key area of competition in 2015.

Top 10 fiction characters on Hindi GECs

Rank	Character	Show	Share
1	Jethalal	Taarak Mehta Ka Ooltah Chashmah	9.1
2	Jodha	Jodha Akbar	8.5
3	Sandhya	Diya Aur Baati Hum	6.8
4	Ishita	Yeh Hai Mohabbatein	5.9
5	Akbar	Jodha Akbar	4.1
6	Anandi	Balika Vadhu	3.8
7	Maharana Pratap	Maharana Pratap	3.8
8	Akshara	Yeh Rishta Kya Kehlata Hai	2.7
9	Mahadev	Mahadev	2.4
10	Gopi	Saath Nibhaana Saathiya	2.1
10	Daya	Taarak Mehta Ka Ooltah Chashmah	2.1

Source: Characters India Love, Jan-Dec 2014, Ormax Media



With the advent of a new trend being observed in the industry, wherein the Hindi GECs are seen catering new shows targeted towards the male audiences to broad-base their viewership; advertisers are now giving an equal attention to Hindi GECs as well for the male skewed product communications. Traditionally for such communications the target genres have always been sports, news and other mediums, but with this trend, even Hindi GECs will certainly take a substantial share of the pie.

- Ashish Sehgal
Chief Sales Officer,
ZEE Entertainment Enterprises Limited



Content differentiation – Breaking the clutter

Globally television is going through a renaissance. The best and the brightest writers and directors are gravitating towards a bold new world of stories that work only on television. The canvas of television allows them to build complex characters and stories over many hours. Shows like 'Game of Thrones' and 'House of Cards' build a story in a new manner across several episodes and seasons. These shows feed a massive demand of consumers who want high quality content that they want control over how much and when they should consume it. The new drivers for what makes content work are binge-watching and on-demand watching. Channels and creators are taking epochal steps in a short duration of time. New platforms such as Netflix and Amazon Instant Video are leading these changes.

This is the future that we had in mind when we launched EPIC, our premium segmented channel that has stories and docudramas set in Indian History and Mythology. While digitisation is still a fundamental one in India, it is a matter of time before the powerful combination of broadband and mobile change the entire entertainment landscape. In the short run, we will see an evolution of the surreal family dramas to a faster-paced new world of drama, action and comedy. This has already started happening. And as that evolves, we will see television taking bigger risk in content. In this new world, consumers will seek variety and a higher level of sophistication of stories, characters and effects. The key insight that we have in EPIC is that we have a deep and special relationship with our history/mythology. So we worked with the ecosystem and offered stories that appeal to the Indian in us. The creative and production eco-system has responded with enthusiasm and originality and we have introduced narrative non-fiction docudramas/documentaries in television after a long time and are seeing very positive social chatter. Our shows also allow for binge-viewing since they are finite episodes and in seasons.

The analogy of what happened to films with the rise of multiplexes in the late 90's and early 2000's is relevant here. The range of stories in films changed as film-makers realised that there was an audience for unique and story-led films. It was no longer a one size fits all single screen approach to films anymore. Similarly, as capacity and non-linear consumption increases, choice moves from networks and platforms to consumers. That is a huge and dramatic change. Channels and MSOs will have to respect this change and the key drivers of performance will then be marketing and content.

As this evolution becomes a revolution, we can ignore these changes and lose our relevance or ride them and our industry into a golden age of television entertainment.

Mahesh Samat -
Managing Director,
EPIC Television Networks
Private Limited



Unless otherwise noted, all information included in this column/article was provided by Mahesh Samat. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.





Slowdown in acquisition of movie C&S rights and viewership fragmentation on the hindi movies genre

There seems to have been moderation in the competition among broadcasters to acquire C&S rights of Hindi movies. Over the past few years, the upper limit for a single film deal had increased from the INR200 million to the INR750 million, with broadcasters buying C&S rights before movie releases and in bulk deals. However, poor performance of some big budget star movies and also poor ratings on television for some of the box office hits have forced broadcasters to rethink their strategy. For instance, movies such as 'Action Jackson' and 'Jai Ho' whose rights were pre-sold sank at the box office and the impact was seen on the TV ratings for premiers of these movies. At the same time, TV premiere ratings of even blockbuster films such as 'Kick', 'Singham Returns' and 'Dhoom 3' were down 50 per cent as compared to the record breaking ratings achieved by earlier blockbuster movies such as 'Singham', 'Dabangg' and '3 Idiots' between 2010 to 2012.⁴⁶

Star India broadcaster already has two deals in place - one with Salman Khan (for INR5 billion) and another with Ajay Devgn (for INR5 billion) for all their movies released between 2013 and 2017.⁴⁷ Hence, Star India has not been aggressive in acquiring C&S rights for other big budget movies. As per industry discussions, other major broadcasters such as Sony MSM, Viacom18 and ZEEL have also adopted a wait-and-watch strategy for acquiring C&S rights of new movie releases. The fragmentation in the Hindi movie genre due to too many channels has also led to low ratings for repeat airings, which has resulted in longer recovery periods for the investment in C&S rights.

This has resulted in i) broadcasters being selective in their purchase of C&S rights of movies, ii) movie acquisition deals happening once the movie is released, iii) pricing based on its response from the masses, and iv) broadcasters avoiding entering into bulk deals. The C&S rights of several movies, (including PK, which was one of the largest blockbusters of 2014), have not yet been sold. Going forward, while big budget movies would still be bought, albeit at a lower price point, the smaller movies will likely find it difficult to find buyers for their C&S rights.



The cost of C&S rights for Hindi Feature Films had shot up over the past few years into astronomical ranges, and returns were not justifying the investments. Continuing fragmentation in the Hindi movie genre also resulted in muted advertising revenue growth for the genre which further reduced the attractiveness of C&S rights. This appears to have made broadcasters very circumspect whilst acquiring high cost C&S rights.

- **Nitin Nadkarni**
Chief Financial Officer,
Multi Screen Media Private Limited (Sony)

In the Hindi movie genre, fragmentation continued with the newer movie channels gaining viewership share and the larger channels witnessing a decline. This was largely driven by the widening of the distribution footprint by the smaller channels owned by large networks due to reduction in carriage fee and the resultant improved visibility. While Star India and ZEEL had launched Movies OK and &pictures, respectively in 2013, Sony MSM also introduced a flanking Hindi movie channel, Max2, with the intention of targeting audiences above the age of 25.

Indicative list of cost of C&S rights for new releases in 2014

Movie name	Industry estimates for cost of C&S rights (INR million)	Channel/Broadcaster
Happy New Year	530	ZEEL
Holiday	400	ZEEL
Humpty Sharma Ke Dulhania	220-250	Viacom18
Ek Villain	200	Star India
Queen	150	Sony MSM
Mary Kom	120-140	Viacom18
2 States	120-130	Star India
Highway	30-50	Star India

Source: News articles, KPMG in India analysis, Industry discussions conducted by KPMG in India

Top 10 movies on Hindi GECs

Movie	Channels	TVTs
R Rajkumar	Colors	11,527
Krrish 3	Sony	10,655
Ramleela	Sony	8,962
Main Tera Hero	Zee TV	8,725
Dhoom 3	Sony	8,209
Jai Ho	Star Plus	7,848
Singh Saab The Great	Colors	7,657
Ramayi Vastavaiya	Zee TV	5,926
Gunday	Sony	5,806
Mary Kom	Colors	5,078

Source: TAM; HSM 4+ Week 1 to 52, 2014; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

46. Indianetv.com, 10 January 2015, 2014: The year of fatigue for Hindi movie channels

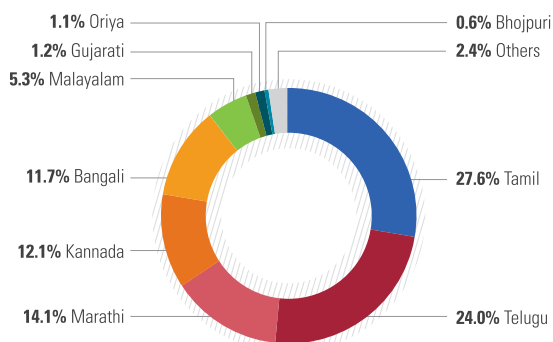
47. BusinessToday, 17 April, 2014, Broadcasters to go slow on movie acquisitions



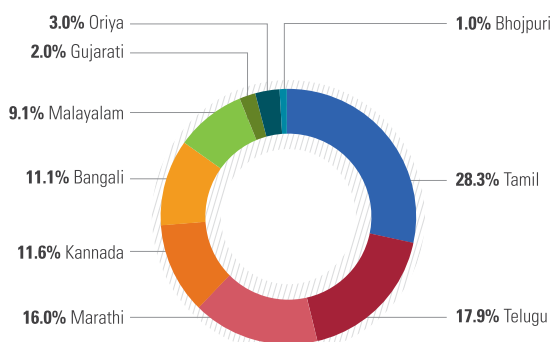
Regional entertainment

Regional Entertainment channels comprising of Regional GECs, Regional Movies and Regional Music accounted for 23.3 per cent viewership share in 2014, marginally higher than the 23.1 per cent in 2013.⁴⁸ Similar to HSM, GECs are the leading genre in regional markets as well with 17.9 per cent viewership share followed by Regional Movies with 3.7 per cent in 2014.⁴⁸ Of this, Tamil GECs occupy the biggest share with 27.6 per cent viewership, followed by Telugu GECs with 24 per cent and on third spot is Marathi GECs with a 14.1 per cent of the total viewership.⁴⁸

Viewership share of regional channels



AdEx share of regional channels



Source: TAM; All India 4+ Week 1 to 52, 2014; TAM AdEx is based on rate-card based value share; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

Note: No of channels available in 2013 and 2014 might be different

Advertising growth in the regional channels is expected to have been lower than HSM channels partly because regional channels did not see the huge e-commerce ad spends that the Hindi GECs witnessed. Digitisation has aided the growth of regional channels and with Phase III and IV of digitisation, it is expected that niche regional channels are expected to get more visibility.



The key drivers of growth in the regional broadcasting space are richness of content, continuous innovation, strong cultural and regional affinity and direct engagement with viewers making it possible to reach their hearts and not just their living room.

- Sharada Sunder
Cluster Head, Regional Channels,
ZEE Entertainment Enterprises Limited.

The content mix in regional markets remains focussed on fiction, movies and music and there is not much experimentation being seen on Regional GECs. The cost of production for fiction shows has not seen any significant rise and remains at INR70,000 to 250,000 depending on the language.⁴⁹ Adaptation and dubbing of successful fiction and non-fiction shows from Hindi GECs to regional languages continue to have reasonable success both in terms of viewership and cost optimisation.



Each regional market has unique audience characteristics that are distinct from the Hindi audience. One needs to carefully select show ideas for remakes and assess its fit with the regional platform and audience for the remade shows to be effective.

- Anuj Poddar
Executive Vice President- Regional Channels,
Viacom18 Media Private Limited

48. TAM; Week 1 to 52, 2014; All India CS4+ market; Copyright reserved with TAM MEDIA RESEARCH PRIVATE LIMITED; Any use of TAM data (or derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal

49. Industry discussions conducted by KPMG in India



Regional markets continue to be a key revenue driver for the national broadcasters and they are looking at expanding their regional language offerings. It is estimated that non-Hindi markets account for anywhere between 15 to 25 per cent of the top line for the three big networks – Star India, ZEEL and Viacom18.⁵⁰ Viacom18 plans to re-brand the five regional ETV channels with the Colors brand.⁵¹ With Star India's recent acquisition of Maa Television Network, one of the leading broadcasters in the Telugu market, Star India has filled the gap in its regional portfolio and the regional broadcasting space is expected to turn more competitive. However, beyond the six existing reasonably large regional markets, it is unlikely that any other regional market would gain enough scale.



For a new attractive regional market to emerge a distinct language and culture should exist. Also, there has to be an affluent state which will provide potential for large advertising revenues. Given these criteria, it is difficult to expect that any other regional market beyond the 6 existing ones would grow to a critical mass.

- K Madhavan

Managing Director,
Asianet Communications Limited (Star-Asianet)



50. Industry discussions conducted by KPMG in India

51. The Economic Times, 5 March 2015, Viacom18 to license its brand Colors to five ETV regional channels



News

The news genre that comprises general and business news in English, Hindi and regional languages is highly fragmented with a total of 405 news channels⁵² competing for an estimated INR33 billion of the advertisement pie.⁵³ According to industry discussions, most of the news broadcasters are not following the TRAI ad cap regulation of 12 minutes and on an average are playing between 20 to 24 minutes of ads on Hindi news channels and 14 to 18 minutes of advertisements on English news channels. The news genre continues to be over-indexed, taking 21.7 per cent of AdEx, compared to 7.5 per cent of viewership share in 2014.⁵⁴

2014 turned out to be a great year for the news genre with the general and state elections providing a boost in the first half of the year. Growth in second half of the year continued, driven by the positive outlook created by a stable government and companies in FMCG, Auto and the BFSI sectors increasing their ad spend. Unlike entertainment channels, the news genre did not see as much of a positive impact from increased ad spending by the e-commerce sector. After almost three years of no significant change in effective ad rates, the News genre saw effective ad rates increasing by 20 to 25 per cent during the year due to the elections.⁵³ The regional news genre has outperformed national news over the last 3 years and this trend continued in 2014, driven by the national elections as well as state-level elections in Maharashtra, Andhra Pradesh and Haryana. In 2014, viewership share of Regional News stood at 3.7 per cent, marginally higher than the 3.6 per cent in 2013, while the AdEx share increase was higher – 8.3 per cent in 2014, versus 7.9 per cent in 2013.⁵⁴

term, profitability of news broadcasters can remain under duress. Given the fragmented nature of the news industry coupled with increasing cost pressures the News genre appears ripe for consolidation. However, industry experts believe that there is limited scope for consolidation in the short term, as non-economic factors play an important role in the industry.⁵³



Given that there are 400+ news channels, consolidation in the news genre should happen over the next couple of years, especially at the regional level, the trigger could well be the FDI limit being raised. ▲▲

- Avinash Kaul
Chief Executive Officer,
IBN18 Network

As consumption of news shifts to digital platforms, online news category has seen rapid growth with reach of online news among internet users in India at 57 per cent in 2013. However, this is still lower than other BRIC countries, indicating further potential for growth. News is also among the most engaged online categories in India at 33.5 minutes, but still lower than that of China and Brazil with the world average at 69.7 minutes, indicating opportunity for increasing engagement from existing online news users.⁵⁵ So far, online news has taken share from print media largely, but going forward, its impact on the TV news businesses can not be ignored.



2014 was a phenomenal year for news channels on account of elections. It not only helped the national channels but the regional channels also witnessed a strong growth. Going forward, regional news channels have far more potential for growth. ▲▲

- Bhaskar Das
Group Chief Executive Officer,
Zee Media Corporation Limited (ZMCL)



On digital platforms in India, news has been one of the fastest growing content categories but there is still a lot of room for growth. We believe that the strategy to reposition ourselves from television to a much greater emphasis on digital will pay good dividends. ▲▲

- Vikram Chandra
Group Chief Executive Officer and Executive
Director, NDTV Limited

Though 2014 was an excellent year for the News genre, challenges persist for News broadcasters due to hyper competition, not enough decline in carriage fees and low opportunity for subscription revenues. Apart from the top 2 to 3 channels there is hardly any differentiation, as a result of which ratings are strongly linked to availability of channels and hence the amount of carriage costs incurred. With carriage fees for existing channels expected to remain stable or go up slightly in the short

52. Indiantelevisiion.com, 20 January 2015, I&B Ministry gives clearance to five new channels; private TV channels increase to 826

53. Industry discussions conducted by KPMG in India

54. TAM; All India 4+ Week 1 to 52, 2014; TAM AdEx is based on rate-card based value share

55. ComScore India Digital Future in Focus 2013



Kids

The Kids genre accounted for 7.3 per cent of the viewership share in 2014, making it the largest genre after Hindi GECs and Movies. The Kids genre continues to be under-indexed accounting for only 3.8 per cent of AdEx in 2014, down from 4.2 per cent in 2013.⁵⁶ There has been a significant number of channel launches also in the genre across languages, with the number of Kids' channels, at 22 which is more than double of the 10 channels from a year ago.⁵⁷ Top ad spenders on Kids genre channels are malt food drinks brands, confectionaries, fast food and ice-cream brands.⁵⁸ Though kids' brands do not constitute more than 10 per cent of the total base of advertisers, the categories which advertise on Kids genre channels are increasing, due to advertisers targeting parents or to tap the pester power of children who are increasingly influencing buying decisions at home.

Localisation of content on Kids channels continues, with the average ratio for international to local content at 60:40 currently compared to 90:10 in 2008.⁵⁹ Content cost for Kids channels continues to increase and it currently costs around INR2 to 2.5 million for 22 to 24 minutes of episode which is almost thrice the cost of a regular fiction episode on Hindi GECs.⁵⁹ The upside is the long shelf life of Kids content which is anywhere between 4 to 8 years, compared to lower shelf life for regular Hindi GEC content. IP ownership is a very important factor in the Kids genre as it facilitates the scope of taking the content beyond television. This provides additional sources of revenue by not depending on broadcast only but venturing into films, gaming, mechanising, licensing of characters and on-ground events.



Importance of IP ownership is critical especially when one looks at a more digitised future and a more connected world. Cost of content can be managed better if and when IPs are created for larger geographies and global footprint.

- Siddharth Jain
Managing Director, South Asia,
Turner International India Private Limited

English entertainment

The viewership share of the English entertainment genre that consists of English GECs and movies marginally reduced to 0.9 per cent in 2014 compared to 1.1 per cent in 2013, while AdEx share in 2014 was at 4.6 per cent.⁵⁶ Content costs on English entertainment channels have seen a 3 times increase in the last few years. For instance, English movies that cost INR1 to 3 million earlier now in the range of INR4 to 8 million.⁵⁹

The increasing penetration of premium, ad free channels such as HBO Hits, HBO Defined and Star World Premier has resulted in boosting subscription revenues significantly for the English Entertainment genre. Premium HD channels recorded ~10x topline growth, with DTH accounting for over 95 per cent of the premium channel subscriber base.⁵⁹ The success of premium channels is a win-win situation for both the broadcasters and the DTH platforms. On the digital cable side, challenges for adoption of premium channels remain due to low awareness among subscribers and long response time at the last mile operator level which leads to loss of potential subscribers.



Ad-free, pure subscription-based, premium channels have brought to the Indian consumer a viewing experience which they have never experienced before. Increasing penetration of premium channels is a win-win situation for both distribution platforms and broadcasters. They have paved the way for the Pay TV model in India.

- Monica Tata
Managing Director, South Asia
HBO India Private Limited

Given the metro and youth target segment for English Entertainment channels, engagement on screens other than TV is becoming increasingly important for the genre. Broadcasters are cultivating multi-screen engagement among viewers to raise awareness, increase stickiness and also to understand audience preferences better. Social media platforms are at the centre of English Entertainment channels' strategy to drive digital engagement.⁶⁰ Advertisers are supportive of this trend since social media engagement can improve effectiveness of ad campaigns by association. Brands are also willing to associate with channels which have a high digital success rate, even if the TV ratings are not too high.



The digital medium has already started sharing space with television. After all it's television over another distribution protocol and newer hardware. This shift is quicker and more obvious in certain genres such as News, Sports, English entertainment and Youth-focussed channels. It will grow to significant value in 2 years. It is imperative that channels in these genres build digital visibility.

- M K Anand
Chief Executive Officer and Managing Director,
Times Television Network Limited

56. TAM; All India 4+ Week 1 to 52, 2014; TAM AdEx is based on rate-card based value share

57. Business Standard, 2 October 2014, Kids' channels grow up, but not the money

58. Televisionpost.com, 4 August 2014, Digitisation and ad cap fuel Nick's growth

59. Industry discussions conducted by KPMG in India

60. Indiantelevision.com, 6 December, 2014, Looking for a digital high



Social media engagement of english entertainment channels-2014

Channels	Facebook fans	Twitter followers
Star Movies	3,877,884	96,700
Pix	2,168,570	49,200
HBO	3,417,539	55,400
Zee Studio	1,455,263	63,000
Movies Now	4,421,487	133,000

Source: Indiantelevision.com, 6 December 2014, Looking for a digital high, KPMG in India analysis.

Sports

In 2014, one of the key developments in the Sports genre was the emergence of non-cricket leagues. The last two years have seen launches of several IPL-styled leagues for non-cricket sports such as football, badminton, tennis, hockey and kabaddi. Of these, Pro Kabaddi League (PKL) was the most successful with cumulative viewership of 435 million during the entire tournament, followed by Indian Soccer League (ISL), with 410 million.⁶¹ Broadcasters are also increasing their investment in non-cricket sports. For instance, Star India currently allocates 70 per cent of their sports budget to cricket, down from the 90 per cent a few years ago.⁶² Star Sports and Sony Six have also started broadcasting sports content in regional languages.⁶³

Going forward as well, the Sports genre is expected to add significantly to TV advertising revenues in 2015 driven by revenues from the Cricket World Cup and IPL and the growing popularity of new sporting properties. The Cricket World Cup and IPL are expected to attract ad spends between INR22 to 25 billion in 2015.⁶⁴ Post channel disaggregation, the importance of the Sports genre as a part of the channel bouquet has grown since Sports content can drive subscription revenues on account of its exclusive nature. As a result, broadcasters are expected to increase their focus and investment on Sports.



In early January 2015 the forecast for the ICC Cricket World Cup would have been a tepid India performance and hence a not-so-great sell out. Reality and sentiment have changed and one should expect a full house. Indian media often gains from key events like the many elections in the previous year. So both the ICC Cricket World Cup and IPL should continue to get the support from key marketers who have planned their launches in 2015.

- Sunil Lulla
Chairman & Managing Director,
GREY Group India

Music

The Music genre garnered a 3.2 per cent viewership share and 3 per cent advertising share in 2014, which was down from 3.6 per cent and 4.0 per cent, respectively in 2013.⁶⁵ Ad revenue growth in Music genre in 2014 was muted compared to overall TV advertising and was in single digits. To escape commoditisation, music channels continue to invest in refreshing their brands. ZEEL changed the positioning of Zing to a mix of music and youth GEC, while B4U too revamped its logo. Disney India re-branded its Bollywood music and entertainment channel UTV Stars and into a pure-play music channel Bindass Play. Viacom18 added another channel, called MTV Indies, in their music bouquet for sharper segmentation.⁶⁶

Along with investing in building brands, channels in the genre are also trying to innovate on creating an environment that retains eyeballs. Sony Mix came out with 'Tippani', and 'Sentimeter' in addition to music-based programmes like 'Yuh Bana Ye Song', 'TV Ka Pehla Radio Show' and 'Music Room with Javed Ali'. 9XM launched a Bollywood-based talk show '9XE' and started an ad-free music block in the late-night time band to provide something unique to viewers.⁶⁷ While the share of Digital advertising is still small, the shift of ad dollars from TV to Digital advertising is faster among advertisers which target the youth. As a result, all the channels in the music genre are also investing heavily in building their digital presence and engaging their audience on multiple screens.



In the digitisation environment, where viewers have multiple channel options, they end up going to their favourite channel and it is critical to be in that Top of Mind/favourite space. This Top Of Mind recall and brand affinity in the music genre is dependent on providing a differentiated offering and well-curated music. Another key differentiator in the music genre is the second screen experience. Viewers, especially in the youth target segment, have a need to be constantly informed, engaged and entertained through digital platforms, be it via live streaming, social media, entertainment portals or mobile apps. Our Bollywood portal 9XE.com and app 9XE are initiatives where we continue to engage our audience on digital platforms

- Punit Pandey
Executive Vice-President,
New businesses, 9X Media Private Limited

61. Times of India, 28 December 2014, And we played cricket too

62. The Telegraph, 21 September 2014, Not just cricket

63. Business Standard, 10 February 2015, Regional GECs flourish with growing viewership; draw more marketers

64. Livemint, 2 February 2015, GroupM says ad spends to grow 12.6 per cent in 2015

65. TAM; Week 1 to 52, 2014; All India CS4+ market

66. Televisionpost.com, 24 December 2014, 2014: A quiet year for music channels

67. Televisionpost.com, 12 May 2014, Sony Mix finds success in short format



Content production

The size of the Indian TV content production industry is ~INR30 billion, excluding news, animation and sports.⁶⁸ Of this, Hindi language content contributes 2/3rd of the market, with regional languages contributing the rest.⁶⁸ The industry is fragmented due to low barriers of entry with more than 6,000 producers in the fray.⁶⁸

Hindi GECs, which are the mainstay of revenues for content producers, are experimenting with different types of content and formats, beyond the traditional low cost long-running fiction shows and high octane non-fiction shows –one such emerging trend is high-budget finite fiction shows with new storylines such as ‘24’, ‘Yudh’ and ‘Everest’ which is expected to propel revenue growth for Content producers. Even though these shows have not yielded the expected ratings, Hindi GECs will likely continue experimenting with new content since they enable subscription revenue demand, help channels in brand building and also help in selling ad slots and sponsorships as bundles. This bodes well for the TV content production industry overall, but it is also bringing in new content production companies into the fray, usually with a Bollywood connect, which could increase competition further. Launch of new GECs and conversion of music channels such as MTV and Channel V to Youth GECs with more focus on scripted shows are also driving growth for content producers.

Content producers would like to own or co-own IP rights for content so that they can monetise the same on other platforms and in other markets. However, it is unlikely that broadcasters will easily give up on IP licenses. While this model can work for specific content which has a USP – Balaji Telefilms for ‘Box Cricket league’ and Endemol and Saraswati Creations for ‘Yudh’ – it is unlikely to become the norm in the industry.



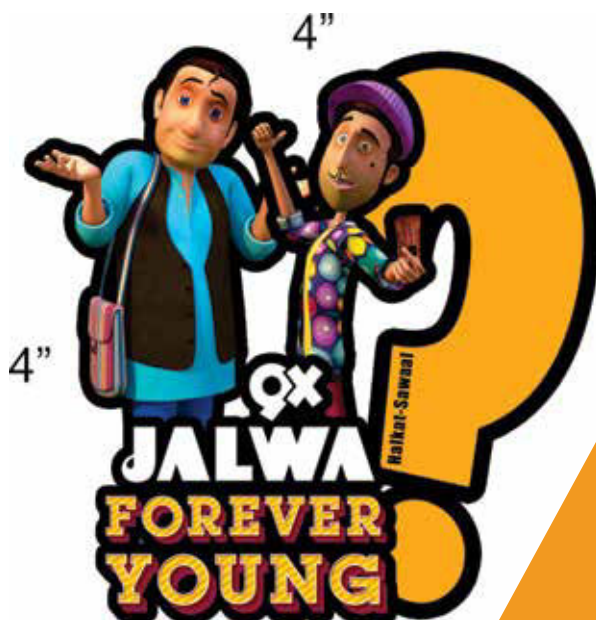
For content producers, the chances of retention of IP varies on a case to case basis and depends on what the producer brings to the table - whether it is a talent relationship or sponsorship or sharing of business risk. However, it is unlikely that the entire industry model would change towards content producers retaining IP.

- Indranil Chakraborty
Chief Operating Officer,
BIG Synergy Media Limited



Some VoD platforms are already taking the lead on creating original content for the digital medium. Original programming for digital medium is expected to grow to a reasonable size within the next 2 to 3 years.

- Abhishek Rege
Chief Operating Officer,
TV Business, Endemol India



68. Industry discussions conducted by KPMG in India

69. Over-the-top content (OTT) describes internet delivery of video and audio without a MSO or DTH operator being involved in the control or distribution of the content itself.



Other themes in 2015 and going forward

Upcoming regulations that can impact the industry

Commercial establishments

As per the amendment to the 2004 broadcasting and cable TV tariff order made by TRAI in July 2014, broadcasters cannot charge differential rates to commercial subscribers which do not specifically charge customers on account of showing TV programmes. Instead broadcasters should charge them on a per television basis like an ordinary subscriber.⁷⁰ However, in cases in which commercial establishments specifically charge extra to its clients or visitors on account of viewing of channels at its premises, the tariff would be as mutually agreed between the broadcaster and the commercial subscriber. The amendment also directs that commercial subscribers cannot obtain television service from broadcasters directly and have to do so only from a distribution platform such as MSO or DTH operator.⁷¹

The TV broadcasters did not respond well to these amendments since at present they charge commercial establishments with a high premium. The Indian Broadcasting Federation (IBF) appealed against the order with TDSAT and the case is still pending. While revenues from commercial establishments is still under-monetised, it is said to contribute ~2.7 per cent of the overall subscription revenues of broadcasters.⁷² Sports broadcasters and international news channels are likely to be the most impacted as content costs for acquiring rights are rising and hotels, restaurants, pubs, sports bars were a key platform for increasing subscription revenues. Globally, commercial establishment and subscribers pay more than common subscribers and revenues from commercial establishments is a substantial revenue stream for broadcasters.

Cross media ownership

In August 2014, TRAI released recommendations covering a comprehensive definition for control, cross-media ownership and vertical integration. For the purpose of cross holding restrictions, TRAI clarified that the DPOs can be categorised into two categories i.e. (1) DTH and (2) MSO and HITS together.

- **More comprehensive definition of control:** The definition of 'Control' has been made more comprehensive at 20 per cent shareholding, or over 50 per cent voting rights or right to appoint half the members in a media company's board, or a say in its management.⁷³ Control could rest with an individual, group of individuals, companies, firms, trusts, societies and undertakings.
- **Restrictions on cross holding/control:** TRAI recommends that broadcasters and DPOs operators should be separate legal entities. Any entity controlling a DPO or the DPO itself to be restricted

from controlling any DPO of another category. However, MSOs and HITS operators can have cross holding/'control' amongst them, subject to market share restrictions.

- **Restrictions on vertically integrated broadcaster:** Vertically integrated broadcasters can only enter into CPS deals with the related DPOs on a non-discriminatory basis as well as file its RIO for its approval by the authority
- **Restrictions on vertically integrated DPO:** Vertically integrated DPOs can reserve only 15 per cent of channel capacity for its vertically integrated broadcasters. Vertically integrated DPOs should charge carriage fees on its network on a non-discriminatory basis and publish the charges over its network.⁷⁴

If the media cross holding recommendations are accepted, some of the major broadcasters which have interests in cable as well as DTH, may have to give up control of one of the distribution platforms.

DTH Licensing

TRAI in its recommendations on DTH licenses has addressed the two main issues that have been looming over the sector namely, continuity of DTH licenses and license fees. TRAI has recommended that the licenses will be issued for 20 years instead of the earlier 10 years, with one-time entry fee proposed to be retained at INR200 million. The license fee is proposed to be reduced from 10 per cent of gross revenue to 8 per cent of adjusted gross revenue (excl. service, entertainment and sales tax) in line with telecom license. The recommendations are an encouraging move for the DTH industry that is currently riddled with high investment costs and taxation. Mandatory inter-operability of STBs from existing guidelines have been deemed not feasible by TRAI. However, DTH players have to meet the new updated specifications of Bureau of Indian Standards (BIS). TRAI has further mandated commercial interoperability among DTH operators and among MSOs through two separate tariff orders, which TRAI has re-iterated now. Some DTH operators have challenged this in TDSAT and the matter is sub-judice.⁷⁵

70. Indiantelecom.com, 20 August 2014, Commercial TV subscriber tariffs: Broadcasters, Star take battle to courts

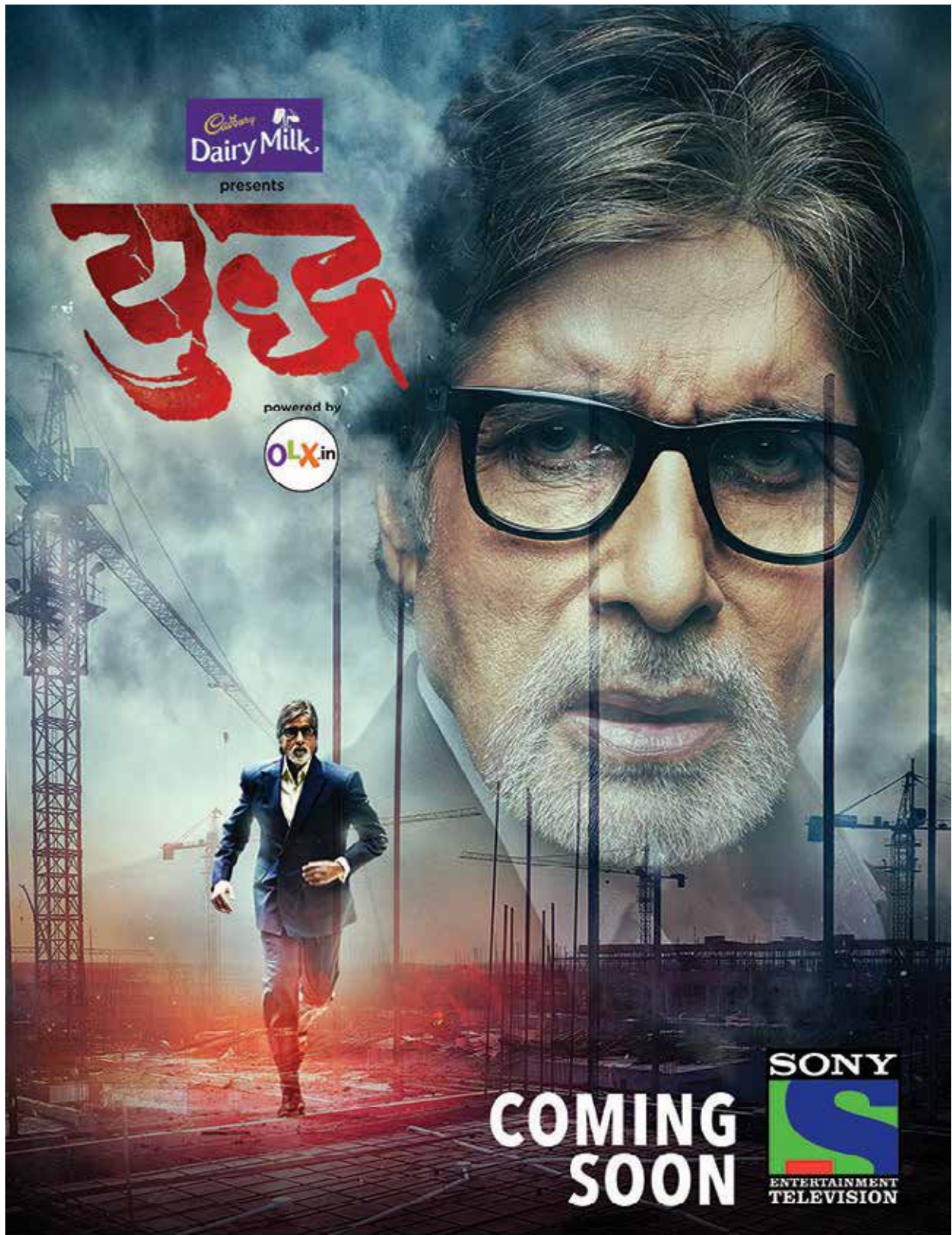
71. EconomicTimes, 16 July 2014, TRAI's tariff order for commercial subscribers of cable TV

72. Televisionpost.com, 17 July 2014, Broadcasters see red in TRAI's new tariff order for commercial subs; MSOs & DTH ops happy

73. Business Standard, 13 August 2014, TRAI sets out rules for media owners

74. Televisionpost.com, 24 July 2014, Running through TRAI's cross-media recommendations

75. Indiantelecom.com, 23 July 2014, News Headline | DTH licensing recommendations: TRAI restricts vertically integrated broadcasters from owning more than one DPO





Increasing use of analytics

The TV industry today is undergoing transformation due to i) digitisation of TV distribution, ii) explosion in the type and quantity of content available to consumers, including user-generated content, iii) shifting consumer preferences often leading to shorter content lifecycles and iv) convergence of media. In a scenario of such rapid changes, broadcasters are increasingly depending on data-driven insights to help monitor performance, improve monetisation and optimise costs. While currently analytics is a 'good to have' tool, going forward it will become a 'must have' strategic enabler to solve complex issues. Analytics is expected to be a key differentiator and companies who implement and utilise analytics effectively, are expected to have a distinct advantage versus their competitors.

Key focus areas for analytical solutions for TV:

- **Audience measurement:** So far, audience measurement has been the most important tool used by broadcasters and advertisers for ROI measurement on Television. However, this system has seen several issues such as lack of a large enough sample size, non-inclusion of rural markets and veracity of data. Apart from resolving issues in the current ratings system, TV measurement systems will have to evolve and keep up with the way audiences are consuming content. Some key issues that will need to be tackled in the near future: i) wider acceptance of CPT metric instead of the CPRP metric, ii) measurement of the impact of deferred viewing (catch up TV), iii) viewership measurement across multiple media as consumption of TV content across platforms rise, iv) integrating social media engagement into audience measurement.
- **Content analytics:** Currently, the most common form of content analytics being used by broadcasters is concept testing to understand the potential of a program based on primary research of the targetted audience. Concept testing has picked up significantly recently, due to the launch of new channels, especially in the GEC genre. Channels are experimenting more on content and also increasing their investments in content with big-budget shows and in such a scenario, concept testing has become important to keep the risks under check. According to industry discussions, the smaller broadcasters are also spending on testing, since the impact of failed shows is higher for them. Posh-launch analytics and identification of suitable time slots for shows are also gaining traction. Going forward, due to inclusion of rural markets in the new TV audience measurement being launched by BARC, the larger broadcasters are expected to use data-driven insights to understand the mindset of rural consumers and develop content for them.
- **Distribution analytics:** Broadcasters are increasingly focussed on improving their subscription revenue mix and decreasing their reliance on advertising revenues that tend to be cyclical. Identification of an optimum distribution platform mix and the right placement of channels on these platforms have become critical to improvement in net subscription revenues for broadcasters. Some of the distribution analytics being currently provided by third party providers such as

Chrome Data Analytics and Media Private Limited and What's-ON India Private Limited are –

- Availability and placement of TV channels on analog cable, digital cable and DTH platforms across markets, enabling broadcasters to know their exact distribution status compared to their competitors
- Carriage fee' return on investments across MSOs in key markets based on the MSO footprint and carriage fee for a particular band/frequency and specific Logical Channel Number (LCN)
- Market share and number of headends of MSOs across different markets which can help broadcasters decide whether their channels need to be carried a particular MSO in a market or not.
- Tracking of availability, pricing and genre placement of channels on the various channel packs of digital cable and DTH operators

These aid broadcasters to gain deeper insight into the distribution dynamics and help them take immediate corrective measures in improving channel availability, placement and packaging. Looking beyond, as customers start paying for specific channel packages and a la carte options, a lot of data on subscriber-level channel choices will become available. This will provide a huge opportunity for broadcasters and distributors to discover new insights into how customers consume content and their and willingness to pay for different types of content.



The challenge and the opportunity for the broadcasters is to create a coherent view of the end consumer by making multi-touchpoint data - including TV ratings, social media insights, online engagement, primary research findings and subscription level data - talk to each other in a consistent and seamless manner.

- Achint Setia
Head - Corporate Strategy and M&A,
Viacom18 Media Private Limited



Evolution of TV distribution measurement

The television industry is continuously evolving with the introduction of new and advanced systems, including digitisation and the ever changing television consumption practices. Connected TVs, internet set-top boxes, PCs, smart blu-ray players, smart phones and tablets are changing the way consumers consume content and advertisers engage with consumers. However, along with catalyzing advancements in the industry, challenges also emerge simultaneously. Through the rigorous amounts of data we witness on a daily basis, industry concerns become increasingly apparent. For instance, a leading DTH provider launches a brilliant mobile application meant to be paired with a certain set-top box – however, they go wrong by not seeding the new boxes before launching the application itself! In effect, the products in the industry may be excellent, but if the quality of measurements is not in place, the steps thereafter are not duly valued. In-depth analysis and comparisons, aid broadcasters and distributors to gain deeper insight into the dynamics of the industry and become statistically sound to embed alterations into their performance.

Distribution analytics facilitate concrete addressability. Digitisation of cable saw humungous progress of the television industry, after completion of the mandatory DAS in Phase I & II cities. Consequently, carriage fees saw a reduction by ~20 per cent. However, carriage fees continues to be one of the biggest cost centres for broadcasters – to cite an example, for a 75 per cent availability across the country, a channel on average, incurs a cost of ~INR 178 million to reach ~70 million cable homes. However, historically, there has been no measurement of how increasing carriage fees leads to an increase in addressability and hence better ratings and advertising revenues for channels. Can you imagine, if there were no electricity metres and individuals were to pay electricity bills based purely on negotiations? Similarly, without a robust methodology for calculating carriage fee costs, it is as good as firing in the dark; negotiations take place without rationale or logic, and end up becoming completely subjective. If the deals are structured, defined and have a benchmark there is clarity for all stakeholders - broadcasters are able to segment and prioritise markets and calculate the carriage fee' return on investments across cable networks. This is just one example of how analytics can help the industry become more performance-oriented.

Internationally, distribution analytics has created and embarked on various avenues. Multi-screen measurements include multi-screen advertising campaigns focusing on mobile ad targeting after years of 'Spray and Pray'. Targeting ads to specific devices and operating systems is the most established form of mobile ad targeting. With

the increasingly high number of smart-phone and tablet users, time spent with media on these devices is escalating steadily, resulting in marketers investing in multi-screen advertising campaigns. In 2013, the Association of National Advertisers and Nielsen found that two-thirds of marketers spent up to 25 per cent of their media budget on integrated multi-screen campaigns. By 2016, 72 per cent of respondents expected this share to increase to between 26 per cent and 100 per cent. With regards to rating the importance of multi-screen advertising, 48 per cent believed that it was vital to their marketing efforts in 2013, and 88 per cent expected it to be very important in 2016. Immense credit must also be given to social media platforms such as Facebook and Twitter – that have opened a whole new realm of advertising alternatives, even on multi-screens. Despite the eventual replacement of Web Cookies by a superior mobile tracking and measurement system, current mobile tracking still targets consumers across devices with 70 per cent to 75 per cent accuracy. Similarly, the direct integration of Nielsen TV data with Videology (one of the world's largest video advertising platforms), is an initiative that has taken cross-screen planning, buying and measurement across linear television and online video to new heights - with advertisers being able to plan effectively and efficiently as well as buy and measure ad campaigns across linear television and digital video platforms. Besides this, Nielsen's study with Twitter in 2013 gave rise to evidence validating that tweets can, indeed, influence tune-in rates while TV programming drives Twitter activity. Live TV ratings had a statistically significant impact in related Tweets among 48 per cent of the episodes sampled, and that the volume of Tweets caused statistically significant changes in Live TV Ratings among 29 per cent of the episodes. Thus, this two-way causal influence is one that can reap numerous advantages for the industry.

However, in India the basics of distribution measurement are still not in place. These should be very carefully focussed upon in order to create a strong and successful foundation upon which the rest of the analytics can be implemented, and services be made sustainable.

Pankaj Krishna -
Founder & Chief Executive Officer,
Chrome Data Analytics & Media
Private Limited



Unless otherwise noted, all information included in this column/article was provided by Pankaj Krishna. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.



New TV audience measurement system from BARC to be rolled out in April

The TV audience measurement system from BARC,⁷⁸ proposed as an alternative to the current system being operated by TAM India, is likely to be rolled out in April 2015.⁷⁹ There were several reasons for the delay from the earlier launch date of October 2014 are i) the scale of the set-up, ii) technological re-checks to assure completeness to the process and results, iii) data availability issues, iv) cost and v) avoiding plausible anomalies like IRS data 2013 had to face.⁸⁰ According to our discussions, most broadcasters are not concerned with the delays as they believe that it is better to launch a stable and scientific rating system, even if that means taking more time for the launch.

Currently, the BARC team is in the process of conducting roadshows with broadcasters and media agencies to explain the workings of the new ratings system while making the new ratings system available to some broadcasters on a pilot basis.⁸¹ BARC intends to start operations with 20,000 peplemeters, which is expected to be increased to 50,000 over the next few years. In the first batch ~70 per cent of the meters will be in urban markets, and ~30 per cent will be in rural markets.

Inclusion of markets such as rural India, North East and Jammu and Kashmir in the measurement for the first time and increase in number of households measured, could impact the ratings significantly in some genres. While this would mean broadcasters will be able to monetise on the viewership in previously untapped markets, it could also lead to reshuffling in current rankings of channels. As the industry gears up for the launch of the new ratings system some participants are also anxious around the co-existence of two rating systems since in any market only a single currency can exist.



BARC's new consumer classification system will be able to deliver fairly robust viewership preferences. A larger sample representation and spread into rural will enable better ad monetisation.

- Nikhil Gandhi
Vice President - Revenues,
Media Networks, Disney India



Steady recruitment of homes for the BARC TV audience measurement is happening and the systems are working well. To maintain high level of integrity and authenticity, several mechanisms have been put in place. Some of them are – i) The process is automated with minimal manual intervention, ii) High level of checks and balances have been built in to detect outliers, iii) Concurrent audit process will be running on a continuous basis by external entity.

- Paritosh Joshi
Member - TechComm, BARC and Principal, Provocateur Advisory



Given that BARC is a joint industry initiative involving broadcasters, ad agencies and advertisers, everyone has a common agenda to get the new TV measurement system up and running as soon as possible. Media planners and advertisers will have to establish new benchmarks to work with the new rating system. However, do not expect any major hassles in the new system being accepted, since all the stakeholders have been involved in setting it up.

- CVL Srinivas
Chief Executive Officer - South Asia,
GroupM Media India Private Limited

78. BARC is a joint body of advertisers and broadcasters with three shareholders – Indian Broadcasting Foundation (IBF), Advertising Agencies Association of India (AAAI) and Indian Society of Advertisers (ISA). IBF holds 60 per cent in the JV, with the balance 40 per cent equity being shared by AAAI and ISA.

79. Business Standard.com, 4 February 2015, BARC ratings to roll-out in April

80. Adgully.com, 24 August 2014, BARC launch delayed Industry speaks

81. Business Standard.com, 4 February 2015, BARC ratings to roll-out in April



Industry wishlist



The media and entertainment industry cannot prosper if our creative community is constantly apprehensive about representing dissenting opinions. We need to enable an atmosphere where stories against the populist commentary get an equal platform. Heterogeneity of ideas is the cornerstone for a democratic media and we should ensure its freedom above all else.

- Uday Shankar
Chief Executive Officer,
Star India Private Limited

Entity	Wishlist	Details
MSOs and DTH operators	Support from the Government for digitisation	<ul style="list-style-type: none"> The government and regulators were very active in the first half of 2014. Currently, there is not much activity happening. They should again step up the action.
	Regulate billing and tax payment	<ul style="list-style-type: none"> Currently the customers are paying LCOs and MSOs are paying the tax. The regulator should remove any ambiguity on who should be billing and who will pay tax.
	Enforce revenue sharing	<ul style="list-style-type: none"> TRAI should come up with Standard Interconnection offer for revenue sharing between the different stakeholders of the industry.



For smooth functioning of the industry, the regulator should enforce the standard interconnect offer for revenue sharing amongst all the three stakeholders – Broadcaster, MSO and LCO. This will drive the industry growth manifold.

- Subhashish M azumdar
Senior Vice President - Marketing and Customer Relations,
IndusInd Media Communications Limited

DTH operators	Rationalise taxes	<ul style="list-style-type: none"> The DTH industry is subject to multiple taxes. Rationalisation of taxes is necessary to enable the industry to continue to invest in infrastructure development and subscriber acquisition. Government can look at subsuming the entertainment tax as part of service tax for DTH. There has also been hike in the ISRO commission from 5 per cent to 7.5 per cent which is further impacting the profitability of DTH companies. While the new guidelines on DTH licensing are welcome, excluding content cost from being a pass through was a disappointment for the DTH industry.
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All 6 DTH companies continue to make losses at PAT level. With already more taxation than other players in industry, the hike in ISRO commission is going to impact the DTH industry further. The regulators need to ensure level playing field for all the players.

- Rohit Jain
Deputy Chief Executive Officer,
Videocon d2h Limited

Broadcasters	Reduction/removal of customs duty on set to boxes	<ul style="list-style-type: none"> Approximately 95 per cent of customer-end equipment (STB and antennae) are imported. DTH providers would like to see a reduction in custom duty on digital head-end equipment and STBs.
	Removal of 12 minute ad cap	<ul style="list-style-type: none"> The 12 minute ad cap should be removed and channels should be allowed to self-regulate. The ad cap, if implemented, should be different for free-to-air and pay channels.
	Regulate revenue share between MSOs and broadcasters	<ul style="list-style-type: none"> In the DAS regime, the government has regulated the revenue share terms between the LCO and the MSOs, but not the revenue share between MSOs and broadcasters. There has to be regulation to ensure that broadcasters receive their fair share of revenues from MSOs.



Entity	Wishlist	Details
	Entry barrier for new players in certain genres	<ul style="list-style-type: none"> For genres such as news, there has to be regulation put in place for players willing to enter in the segment.
		<p>Entry into the news broadcasting space has very little barriers and that has resulted in having over 400 news channel in the country. Regulators must further raise the entry barriers to ensure that entrants are serious and are likely to adhere to journalistic standards of integrity and fair play.</p> <p>- Ashok Venkatramani, Chief Executive Officer, Media Content and Communications Services (ABP News)</p>
		<ul style="list-style-type: none"> For infotainment channel, there can be a 6 month carriage-free airing where the consumer decide if they would like to watch the channel.
		<p>Channel disaggregation has resulted in higher carriage fees for the smaller broadcasters. To make it a viable proposition, regulators need to ensure at the least, that even niche channels are aired for a certain period in the digital environment, post which viewers can decide whether they would like to watch the channels.</p> <p>- S K Barua Chief Executive Officer, Turmeric Vision Private Limited (FoodFood)</p>
	Pricing forbearance has to be implemented	<ul style="list-style-type: none"> Currently, there is restriction at different levels on the rates of pay channels – i) Non-DAS rates can be increased only when TRAI approves ARPU hikes, ii) DAS rates have to be lower than 42 per cent of Non-DAS rates, iii) Commercial establishments can not be charged higher than retail rates. Pricing forbearance should be implemented by TRAI and the prices have to be left to market forces to ensure that subscription revenue growth matches up to its potential.
	Strict regulation on carriage	<ul style="list-style-type: none"> While there is a 'must provide' clause for broadcasters, there is no 'must carry' clause for distribution platform owners. Post the initial decline after DAS implementation, the carriage fee has not declined further and has in fact increased for certain genres and new entrants. It will economically stop making sense for small broadcasters so there has to be some strict regulation from regulators to keep the carriage fee under check.
		<p>Carriage fees needs to be regulated and has to be based on a per household metric. Carriage fee of INR0.5 to 1 per household per annum would be optimal and there have to be regulations to support this.</p> <p>- Gulab Makhija Chief Financial Officer, Independent News Service Private Limited (India TV)</p>
	Increase in FDI in news channels	<ul style="list-style-type: none"> News channels are struggling with high cost base and lack of investment. Increase in the FDI limit for news channels will help revitalise the news genre.
Content producers	Copyright law	<ul style="list-style-type: none"> The copyright law makes it mandatory to take prior approval for any commercial use of IP owned by the content producer. The law has not been implemented in the TV industry though it has been implemented in the film industry. Implementing it would increase the complications in rights management, but it would ensure that the owners of content receive their rightful dues.

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India



Conclusion

In 2014, the Television industry continued on the transformative path driven largely by digitisation of TV distribution. While some progress has been made in improving monetisation from subscription revenues, on-ground challenges in existing DAS markets continue resulting in low addressability, inconsistent rollout of channel packaging and dependence of the MSO business model on carriage fees. During the next few months, a key development to watch will be the progress in implementation of tiered channel packages by MSOs in DAS markets and the consumer reaction to the same. The industry acceptance of Star India's new RIO approach will go a long way in pushing ahead packaging. While MSOs try to stabilise their operations in Phase I and II markets, the deadline for STB rollout in Phase III markets is closing in. On the advertising side, all eyes will be on the implementation of the new audience measurement

system from BARC and industry acceptance of the same, which can have a long-term impact on the way ad spends are allocated among different genres and channels. Looking beyond, as the industry looks to de-risk itself from cyclical advertising revenues funding content and carriage, it is imperative that stable mechanisms are put in place for improving subscription revenues and equitable sharing of the same among different stakeholders. Once this is in place, the industry will be well-placed to reap benefits of increasing HD penetration, premium channels, catch up TV and other value added content and services, for which customers would be willing to pay. Going forward, the growing penetration of time-shifted TV and OTT video viewing can fundamentally change the TV industry and players along the value chain are investing to capitalise on this opportunity.





Print

Regional making headlines



Introduction

The Indian print industry continued its journey at a steady rate in 2014 with most players strengthening their presence in the existing markets, and consolidating their existing operations.⁰¹ The structure of the Indian print industry continues to be highly fragmented with both national and regional players present in the market.

The industry's growth is directly related to the macroeconomic conditions prevailing in the country. Post general elections in 2014, the formation of a stable government at the centre generated optimism in the country. This boosted investors' confidence in the otherwise shaky economy. During the April – June 2014 quarter, the FICCI Business Confidence Index (BCI) rose to a 15-quarter high of 72.7 points from 49 points a year earlier.⁰² The macroeconomic stability seems to have facilitated the growth in the print industry.

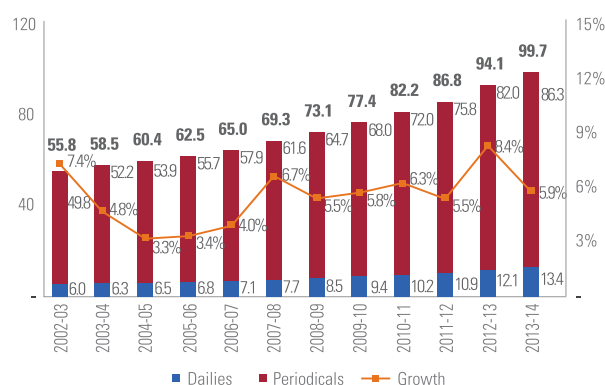
Correlation between GDP and print advertising revenue growth⁰³

Year	Advertising revenue growth	GDP growth	Factor of advertising/GDP
2005	14.7%	9.5%	1.5
2006	22.5%	9.6%	2.3
2007	17.6%	9.3%	1.9
2008	8.0%	6.7%	1.2
2009	2.2%	8.6%	0.3
2010	14.2%	8.9%	1.6
2011	10.6%	6.7%	1.6
2012	7.3%	4.5%	1.6
2013	8.7%	4.7%	1.9
Average			1.5
Correlation between advertising revenue growth and GDP growth in India			0.6

Note: While advertising revenue has been estimated for a calendar year, GDP growth has been calculated for the financial year

As on 31 March 2014, the total number of registered publications stood at 99,660, out of which there were 13,350 dailies and 86,310 periodicals.⁰⁴ Of the total registered print publications in India, over 40 per cent are Hindi and nearly 47 per cent vernacular (including bilingual and multilingual publications).

Number of registered newspapers and periodical (in 000')



Source: The Registrar of Newspaper for India, Annual report 2013-14

Newspapers continued to contribute a major portion in the total revenue generated by the print industry in India. While niche magazines registered some growth, general interest magazines experienced a dip in terms of readership. New content and delivery formats have emerged in the industry and both newspapers and magazines are leveraging new media channels as additional distribution channels for future growth.

While advertisement revenue held a significant part in the total revenue pie and continues to be the growth driver for the industry, circulation revenue growth was higher than that of advertising revenue for Hindi and English markets last year.⁰⁵ We also saw concepts such as integrated newsroom, OneIndia, and capacity sharing gain foothold in the industry.

The print industry is expected to grow in the coming years, riding on the back of growth in Tier II and Tier III cities – the disposable income and literacy rate is on rise in these cities, providing a steady impetus to the Indian print industry.



Given India's demographics and socioeconomic parameters, there is a huge amount of runway left for the print industry in general, Hindi in particular, to grow in terms of volume and revenue. The threat posed by digital media is mostly applicable to the big cities, while the regional markets still remain relatively insulated. This is definitely not the end of the road for the print industry, keeping in mind the macroeconomic environment of the country.

- Piyush Gupta
Chief Financial Officer,
HT Media

01. Industry discussions conducted by KPMG in India
02. Business Standard, 7 October 2014, 'Optimism up in CII, FICCI surveys'
03. KPMG in India analysis; mospi.nic.in, accessed on 15 March 2015
04. 58th Annual Report – The Registrar of newspapers for India, 2013-14
05. KPMG in India analysis



Going forward, the advertising industry is expected to exhibit a higher growth rate owing to the stable macroeconomic environment. With a number of reforms being announced, inflation is expected to stabilise, in the coming years. Amidst the heightened expectations from the new central government, the outlook for the print industry looks promising.



Market size

Print media market

INR billion	2010	2011	2012	2013	2014	Growth in 2014	2015P	2016P	2017P	2018P	2019P	CAGR (2014-2019P)
Advertising revenue	126	139	150	163	176	8.5%	193	212	233	255	280	9.7%
Circulation revenue	67	69	75	81	87	7.9%	92	95	99	103	107	4.2%
Total print market	193	209	224	243	263	8.3%	284	307	332	358	387	8.0%
Newspaper revenue	182	197	211	230	249	8.5%	270	293	318	344	372	8.4%
Magazine revenue	11	12	13	14	14	4.4%	14	14	14	14	14	0.3%
Total print market	193	209	224	243	263	8.3%	284	307	332	358	387	8.0%

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

In 2014, the Indian print industry experienced a growth of 8.3 per cent from INR243 billion in 2013 to INR263 billion in 2014. The industry has witnessed a noticeable uptrend in earnings, with one of the reasons being an increase in the circulation revenues of major players. The industry witnessed a 7.9 per cent rise in circulation revenue on the back of rising cover prices and subscriptions, aided by low media penetration, population growth and rising income and literacy levels. This growth is largely coming from Tier II and Tier III cities with regional language editions outperforming the national editions and English dailies.⁰⁶ This trend is expected to continue as most of the major publishers are working towards strengthening their presence in existing markets. Over the recent years, print players have launched newer editions with an emphasis on non-metro cities and smaller towns. For instance, The Hindu launched its Tamil edition, HT Media launched separate editions for Gurgaon and Noida, Times of India launched a Gujarati edition 'NavGujarat Samay', and Dainik Bhaskar entered Patna.⁰⁷

However, with limited possibility for additional organic growth, the players seem to be consolidating their presence in existing markets and focussing their energy in gaining larger share of the overall revenue pie and subscriber base.⁰⁸

The print sector's share in the overall advertisement revenue pie still remains higher than other forms of media, despite having declined from 49 per cent in 2008 to 42 per cent in 2014.⁰⁷ Having grown by 8.5 per cent in 2014, the print advertisement revenue crossed INR176 billion. The advertisement revenues have grown at a CAGR of 8.8 per cent, whereas circulation revenues have displayed a CAGR of 6.8 per cent between 2010 and 2014.⁰⁷ The advertisement revenues continued to be the main source of revenue for the print industry, contributing 67 per cent to the industry's revenues.

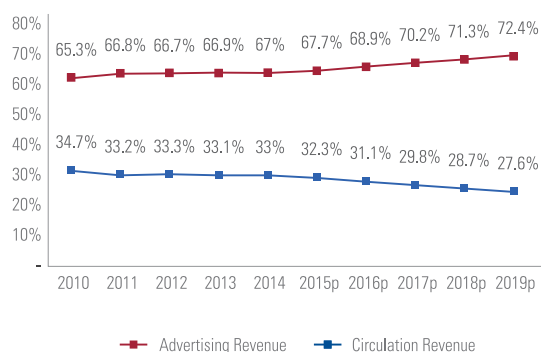
06. Industry discussions conducted by KPMG in India

07. KPMG in India analysis

08. IIFL, 4 July 2014, India – Print Media sector update



Percentage share of advertisement and circulation revenue in the Indian print industry



Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

The growth in advertisement revenue was supported by product and distribution innovation and on-ground activations by various players. In order to stand out from the crowd, the advertiser now tends to look for more inventive solutions to engage and interact with the target audience. In spite of raising cover prices to some extent, the print industry in India is relatively less dependent on circulation revenue, with the trend being more pronounced among the leading players.

Percentage contribution from circulation revenue⁰⁹

Players	Contribution of advertising revenue to total revenue	Contribution of circulation revenue to total revenue
DB Corp	75%	18.0%
Hindustan Media Ventures Ltd.	72.8%	24.4%
HT Media	72.6%	11.6%
Jagaran Prakashan	76.6%	23.4%
Print industry average	67%	33%

Source: Company annual reports, KPMG in India analysis, Industry discussions conducted by KPMG in India



Revenue contribution from newspapers and magazines

Newspapers continue to be the biggest contributor of revenue to the print industry. In 2014, the contribution of newspapers to the total print revenue stood close to 95 per cent. The magazines category continued to struggle with just about 5 per cent share of the total revenue pie. While general interest magazines recorded a dip in their growth, niche magazines are holding strong among both readers and advertisers. Recognising the potential of digital media, several magazine players launched digital versions of their magazines either in form of a mobile app or e-magazines.¹⁰ Some even discontinued the physical version of their product entirely. For example, Indian edition of Entrepreneur was discontinued from May onwards.¹¹ In 2014, the TimeOut Group shuts all its three print editions: Mumbai, Delhi, and Bangalore, and shifted to digital publications.¹² With the rise of vernacular dailies, the size of the magazine segment in the overall revenue pie is expected to shrink in the coming years.

⁰⁹ Company annual reports

¹⁰ Business Standard, 16 September 2014, 'To stay afloat, magazines embrace a digital future'

¹¹ Exchange4media, 3 May 2014, 'India edition of 'Entrepreneur' magazine shuts down'

¹² Livemint, 4 August 2014, 'TimeOut' shuts all three print editions due to recurring losses



Revenue contribution from newspapers and magazines

Revenue contribution	2012	2013	2014	2015P	2016P	2017P	2018P	2019P
Newspaper industry	94.2%	94.4%	94.6%	95.0%	95.4%	95.8%	96.2%	96.4%
Magazine industry	5.8%	5.6%	5.4%	5.1%	4.6%	4.2%	3.9%	3.6%

Source: KPMG in India analysis.

While globally the adverse impact of digital media is evident, digital has not been able to make a significant dent in the India print market yet. Contrary to the situation in western countries, print and digital media are currently complementing each other in the Indian media space according to a lot of industry players. The Indian print industry is still growing at a high single digit rate and is expected to grow at a CAGR of 8 per cent during 2014-19.¹³ Most of the growth in the sector is expected to come from Tier II, Tier III cities and rural markets.¹⁴



▲▼ We at Lokmat, see digital media as an additional platform to monetise our content and in the near term do not foresee one cannibalising the other. We are present on the various digital platforms whether it be news portal, mobile app or social media. Apart from the additional revenue that we get from these mediums, it helps us take our brand to those who currently do not have access to our physical product. It also helps us reach those within our geographical reach, who do not currently consume content from our print product. We earlier offered activation and exhibitions along with print and are now in a stage where we can add digital solutions to the mix, thus creating a more comprehensive solution. ▲▲

- Bijoy Sreedhar
Senior Executive Vice President,
Lokmat



13. KPMG in India analysis

14. Industry discussions conducted by KPMG in India



Contribution of language markets

Print media language market mix

INR billion	2010	2011	2012	2013	2014	Growth in 2014	2015P	2016P	2017P	2018P	2019P	CAGR (2014-2019)
English market	79	83	86	91	96	5.2%	101	105	109	113	118	4.2%
Advertising	53	57	59	62	65	4.8%	69	72	76	80	83	4.9%
Circulation	26	26	27	29	31	6.0%	32	33	33	34	35	2.4%
Hindi market	58	62	68	75	83	10.5%	92	100	109	120	131	9.4%
Advertising	37	41	45	50	54	9.8%	60	67	75	83	92	11.2%
Circulation	21	22	24	26	29	12.0%	31	33	35	36	38	5.6%
Vernacular market	56	63	69	76	84	9.8%	92	102	113	125	138	10.5%
Advertising	36	42	46	51	57	11.8%	64	72	82	92	104	13.0%
Circulation	20	21	24	26	27	6.0%	29	30	31	33	34	4.6%
Total print market	193	209	224	243	263	8.3%	284	307	332	358	387	8.0%

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

The percentage of revenues from regional advertisements has increased in the overall print advertising pie. With high growth among all the language markets, Hindi markets continue to be the major driver of growth in the print industry. Together, Hindi and vernacular markets accounted for close to 64 per cent of the total print revenue in 2014. The Hindi print market grew from INR75 billion in 2013 to INR83 billion in 2014, whereas the vernacular print saw a growth of 9.8 per cent and touched INR84 billion in 2014. English print growth dropped from 5.8 per cent in 2013 to 5.2 per cent in 2014. While many English newspaper subscribers are shifting to online platforms (in line with the global phenomenon), regional print markets still remain largely isolated from this trend. As a result of this, English print is estimated to continue to lose some market share over the years to digital media in the overall advertising spend.¹⁵ However, vernacular print, which is perceived as an economical mode of reaching the target audience by advertisers in smaller cities and towns, is likely to grow at a CAGR of 10.5 per cent during 2014-2019 and will constitute nearly 36 per cent of the total revenue pie by 2019.¹⁶ The regional language newspapers have a strong foothold in the Indian print market and are in a good position to monetise their audience base through both circulation and advertisement revenues.



Print players have been successful, to an extent, in coping with the digital media onslaught so far owing to pioneering paradigms (e.g. cover pricing, home delivery, strategic partnerships with advertisers) adopted over the past decades. Although various media platforms will continue to coexist, their relative market share will hinge on how they evolve to keep reader engagement alive and provide innovative avenues to the advertiser.

- Mohit Jain
Executive President,
The Times of India Group

¹⁵ Industry discussions conducted by KPMG in India

¹⁶ KPMG in India analysis



In the year 2015, the print industry is expected to grow at the rate of 8 per cent and touch INR284 billion by the end of the year.¹⁷ The print industry is expected to contribute 19.7 per cent to the M&E industry by 2019¹⁷ and this steady growth is expected to be facilitated by the

stable macroeconomic conditions in the country. Going forward, industry players are expected to continue their focus on optimising efficiencies, rationalising newsprint consumption, expanding reach to new regions and consolidating in the existing markets.

Industry opportunities and challenges

It has been yet another interesting year for the media industry all round. As always, there has been a bit of everything on display, from new products to re-launches, consolidations, innovations, content re-jigs, changing consumption patterns and most importantly, growth.

In the Indian language space, life is closely entwined with the continuing momentum of growth in the consumption economy of Tier II and III India. Not only have we continued to add to our advertiser base, we have seen continuing traction on volumes and revenue yield.

Looking forward, I see several trends that will directly or indirectly have a bearing on our business.

- 1. Increasing involvement of clients micromanaging media decisions:** Clients are now getting actively involved in the media planning/buying decision making process. This is primarily due to greater accountability being sought for spends. Print does offer a clear and definite ROI equation which is measurable and hence justifiable. The relationship between us and our clients have steadily graduated into one of partnership rather than that of a vendor
- 2. Localised impact over frequency:** Clients are beginning to understand that it is better to create an impactful campaign in print rather than keep pushing the frequency agenda. This helps them to get better recall and purchase intent scores. Highly localised, high-decibel campaigns are increasingly gaining importance.
- 3. Improved quality of print ads:** Clients are taking a lot of interest in the actual creative process of a press ad. They are demanding more engaging communication from their creative agencies. Print campaigns are also being treated as 'separate' from the TV campaigns through use of different creative, local idioms, etc. It is critical that print regains its individuality in communication planning, away from the narrow preoccupation with cost-efficiency that seemed to have taken hold in recent years. Filtering media-mix decisions solely through the prism of cost efficiency at the exclusion of all other yardsticks was never going to be a sound practice for any brand wanting to communicate to disparate consumers across different markets.

4. Talking to their first customer: Today retail confidence is critical for sales. Clients are looking at print as a serious medium to gain trade confidence. This is possibly a fall out of the advent of e-tailers in the fray who cater to customers directly. With all the noise about TV and new media, and despite the fact that print continues to account for a hefty chunk of the AdEx pie, print had gradually slipped into a position low on client involvement in respect to the creative use of the medium. But off-late there is definite realisation that increasing penetration of other media has not really been at the cost of print, especially in cities and towns beyond the big metros. Print continues to reach over 80 to 90 per cent of households in the consuming classes who continue to devote exclusive time to their newspapers.

5. Realisation that digital is a natural ally of print: While the experience of the print industry in the developed world after the advent of digital media has been well documented, there is now increasingly the realisation that the Indian experience is going to be very different. For starters, the distribution and pricing models of print to its end consumer is very different from that of the west. Secondly, publication brands such as those from our stable are extremely conscious of natural changes in consumption behaviours and demands made of our products. Communication planners are quick to take note of the natural compatibilities in combining print and digital media in their media mix. Both media offer pronounced skews towards the consuming classes and are geographically suited to thin slicing.

Girish Agarwal
Promoter Director,
Dainik Bhaskar Group



Disclaimer: Unless otherwise noted, all information included in the column/article was provided by Girish Agarwal. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

17. KPMG in India analysis



Trends prevalent in the Indian print industry

Regional markets, critical for future growth

In 2014, the print industry witnessed rapid expansion in the regional markets in terms of both circulation and advertisement revenues. The phenomenon can be attributed to the fact that the advertisers from Tier II and Tier III cities have relatively fewer options to reach their target audience in these areas, as well as the fact that literacy levels are rising. While the impact of digital media is more pronounced in the metro cities of Delhi, Mumbai, Bengaluru, etc., Tier II and Tier III cities are still witnessing growth in newspaper readership.¹⁸



In the past decade, regional dailies have witnessed much higher revenue growth rate than their English counterparts. This has primarily been driven by higher consumption growth and thus the increased focus of advertisers on Tier II and Tier III towns. There is also much more headroom for growth in circulation and readership for regional newspapers. A combination of these factors makes the future look quite promising for regional language publications.

- Bijoy Sreedhar
Senior Executive Vice President,
Lokmat

Realising the potential of these markets and with metros and larger cities getting close to saturation, many print players are capitalising on regional markets for further expansion. In FY14, a large number of new publications were registered in Hindi and regional languages.

New publications registered in FY14

Language	Number of publications
Hindi	2,295
Marathi	584
English	509
Gujarati	352
Telegu	327
Kannada	325
Urdu	301
Tamil	171
Others	778
Total	5,642

Source: The Registrar of Newspaper for India, Annual report 2013-14

The total circulation of Hindi publications reached 226.4 million and vernacular publications touched 147 million far greater than that of English publications, which stood at 64.4 million in 2013-14.¹⁹

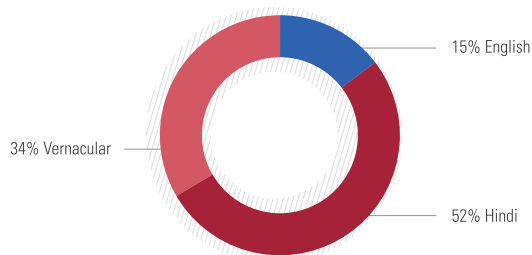


18. Industry discussions conducted by KPMG in India

19. The Registrar of Newspaper for India, Annual report 2013-14



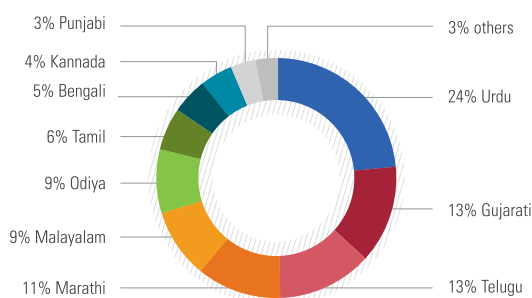
Circulation of registered publications in FY14



Source: The Registrar of Newspaper for India, Annual report 2013-14

Companies are investing money and effort to customise news at the last mile and develop content that is relevant to regional audience.²⁰ Taking a cue from this, advertisers from various sectors such as FMCG, electronics and electricals, education, healthcare, etc. are also increasingly focussing on print as a medium to reach out to their customers in Tier II, Tier III cities and rural markets.²⁰ Non-metro cities such as Lucknow, Ludhiana, etc. are expected to generate higher revenues through investments coming from categories like pharma, footwear, eCommerce, etc.²¹

Circulation of registered publications in FY14 by vernacular language



Source: The Registrar of Newspaper for India, Annual report 2013-14

Local advertising has gained a larger share compared to national advertising. Currently, local advertising contributes close to 65 per cent to the total advertising revenue, vis a vis 55 per cent till a few years back.²⁰ Print is an expensive proposition for nation-wide advertisements in terms of cost per thousand (CPT).²² The medium has a clear value proposition for local advertisers as it offers a degree of engagement that television finds hard to match.



At Dainik Bhaskar, 2014 was a year that demanded greater marketing efforts and finer execution of our growth strategy. Through our deep engagement with clients and media agency partners across sectors, we have been facilitating appreciable market traction for categories like online retail, high end Consumer electronics and durables, FMCG goods, mobile devices and high end automobiles with burgeoning demand in Tier II and III cities.

- Pradeep Dwivedi
Chief Corporate Sales and Marketing Officer,
Dainik Bhaskar Group

However, with radio phase III around the corner and geo-tagging of ads gaining prominence in television industry, print is expected to face some competition from both radio and television broadcasting industry. With over 800 additional frequencies up for grabs, most of which are in Tier III and Tier IV towns, radio is likely to match the reach enjoyed by print.²³

While the first phase of growth for print players was driven by metros and Tier I cities, the second phase of growth is likely to come from the next 40 cities that are experiencing rapid urbanisation, mushrooming demand for products across various categories (such as personal care, food and beverages, consumer durables, electronics, automobiles, education services, etc.), and greater economic growth.²⁰ The print industry is looking at the regional market as the new 'national' on the basis of their dominant revenue share and headroom for growth in future.



20. Industry discussion conducted by KPMG in India

21. Exchange4media.com, 5 January 2015, Prediction 2015: Print Trends 2015: Higher ad revenues from regional print, smarter storytelling on the cards

22. IDFC, 18 August 2014, Media and Entertainment report

23. Exchange4media, 2 February 2015, 'Radio ad spends to rise by 8-12% post phase III'



Tier II and III cities have contributed substantially to growth in the previous year. The aspirational youth from these areas are being perceived as the Holy Grail for the print industry. There is clear focus on creating contextual content to create a monetisable connect with this audience. We cater to 179 districts in the 7 states that we operate. FMCG, Real Estate and Education sectors will try to reach out in regional markets through print advertising, as regional advertising space will witness higher growth as compared to national advertising, which is pretty much saturated. Growth is more apparent in Tier II, III cities because people are willing to pay more for newspapers leading to higher circulation revenue, which has grown for all newspapers in the Hindi domain at 14 to 15 per cent. The digital threat is not so pronounced for the next three to four years due to low internet penetration and rising literacy rates. In any case, we at Amar Ujala do not see digital as a threat but as a complementary product. It offers us an opportunity to grow as an integrated solution bridging print and a multimedia platform comprising of internet, OOH, events, radio, etc.

- Probal Ghosal
Wholetime Director,
Amar Ujala Publications Ltd.

The increasing revenues from Tier II and Tier III cities is expected to lead to expansion of print companies, giving rise to a more competitive landscape.²⁴ In the near term rather than expanding into newer territories, the leading print players are focussing their energy on gaining market share in their existing markets (such as DB Corp in Patna, Jharkhand and Maharashtra, Jagran Prakashan in Madhya Pradesh and Hindustan Times in Uttar Pradesh) and efficient monetisation of its readership base.²⁴

Regional newspapers are being leveraged for localised conversations in the reader's native language. Local language campaigns are providing the much needed boost to brands' marketing messages, not only for a medium like print but also for the digital medium:

- Several top brands such as PepsiCo, Bharti Airtel, OCM Suitings, have also incorporated regional languages in their digital campaigns to connect with the target audience²⁵
- According to social media agencies, Facebook posts uploaded in Indian languages by various brands attract approximately 150 per cent more response as compared to identical English posts²⁵

- In 2014, Twitter India witnessed a 300 per cent increase in Hindi tweets alone²⁵
- The effectiveness of online campaigns is all set to increase as more people from tier II and tier III cities embrace the internet. According to the recent study conducted by Mindshift Interactive, 64 per cent of rural internet users in India use internet in their local languages²⁵
- While vernacular websites are growing at a y-o-y rate of 56 per cent, English websites are growing at merely 11 per cent.²⁵ Top brands are eyeing this as an opportunity to better captivate their audiences.

Even though English dailies are still able to command a premium advertising rate, both Hindi and vernacular dailies have surpassed English dailies in terms of growth. In 2014, English print recorded a growth of 4.8 per cent in advertisement revenues, Hindi growth stood at 9.8 per cent, and vernacular grew by 11.8 per cent.²⁶

FMCG continues to be the top spender

With a contribution of 13.5 per cent in 2014, FMCG emerged as the top spender on the print medium for the second year in succession.²⁷ Of the total FMCG spends in 2014, personal care category contributed 8.2 per cent – the highest of all, household category contributed 4.8 per cent and the remaining 0.5 per cent was contributed by FMCG impulse category.²⁷

Education, which was the leading contributor to the print medium till 2011, has lost its position to FMCG and auto in the last three years. In 2014, the sector witnessed a further dip in its contribution to the overall advertising pie. In 2014, while many of the leading sectors such as education, real estate, retail, BFSI reduced their advertising spend on the print medium, political advertisements during Lok Sabha elections and e-commerce strongly came to its rescue and together contributed close to 85 per cent of the total growth recorded by the sector during last year.²⁷ Though traditional heavy spenders Real Estate and BFSI are still among the top advertising sectors, they were the worst hit in 2014.²⁷

As anticipated, Lok Sabha elections coupled with assembly elections in a few states in 2014 provided the much needed impetus to the overall media sector - with print emerging as a frontrunner. According to the Pitch Madison Media Outlook Report 2015, INR23 billion of advertisement revenue was generated from the elections across all the media segments against INR5 billion²⁸ ad revenue accrued during the 2009 election. Elections contribution to the print medium rose to 1.7 per cent in 2014 from meagre 0.6 per cent in 2013, a y-o-y growth of over 204 per cent.²⁷

24. IIFL, 4 July 2014, India – Print Media sector update

25. The Economic Times, 24 December 2014, Tweets & Facebook posts in Hindi, Marathi, Tamil get more responses than those in English

26. KPMG in India analysis

27. Pitch Madison media advertising outlook 2015

28. The Indian Express, 11 February 2014, 'Nail-biting for politicians but win-win 2014 for ad agencies'



E-commerce players, with large format ads, especially during the festive season, garnered a bigger piece of print advertising revenue pie during the past year and recorded a staggering y-o-y growth of 155 per cent - second only to political ads.²⁹ The substantial growth in the Indian e-commerce sector, riding on the back of fresh funding, is projected to further drive advertising spends. Given the ample cash at disposal, the e-commerce companies brought about an increment of 100 to 200 bps of ad-

growth for the leading print companies.³⁰ Ecommerce as a category heavily invests in print advertisements to showcase its product catalogues especially on special offer days, and will therefore continue to be one of the major contributors to the print medium. The ad-spend from this sector did experience a slowdown in the state of Kerala owing to the Sales Tax issues with the government, however those concerns are likely to get addressed with the introduction of GST.³¹

Big spenders on print

Categories	2008	2009	2010	2011	2012	2013	2014	Change in 2014
FMCG	5.8%	7.2%	7.4%	8.9%	10.3%	12.3%	13.5%	▲
Auto	6.8%	7.8%	7.1%	9.8%	11.4%	11.7%	11.9%	▲
Education	17.1%	17.3%	14.6%	10.6%	10.6%	9.7%	9.4%	▼
Real estate and home improvement	6.4%	6.5%	8.0%	8.4%	8.6%	8.7%	8.0%	▼
Clothing/Fashion/Jewellery	5.1%	5.5%	5.3%	6.5%	7.1%	6.1%	6.1%	■
E-commerce						1.0%	2.2%	▲
Telecom/Internet/DTH	6.2%	5.4%	6.3%	4.7%	4.1%	3.6%	3.7%	▲
Retail	5.5%	5.8%	5.8%	5.6%	5.8%	5.7%	5.3%	▼
BFSI	8.3%	7.9%	8.7%	6.7%	5.7%	6.0%	4.8%	▼
Election/Political ads						0.6%	1.7%	▲
HH durables	6.5%	5.3%	5.3%	5.7%	4.9%	3.9%	4.2%	▲
Travel and tourism	4.3%	3.5%	2.5%	2.8%	2.3%	1.9%	1.7%	▼
Corporate	3.6%	3.0%	3.0%	2.8%	2.2%	1.7%	1.4%	▼
Media	1.9%	2.2%	2.2%	1.5%	1.4%	1.4%	1.1%	▼
Alcoholic beverages	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	■
Others	22.2%	22.5%	23.6%	25.7%	25.3%	25.4%	24.9%	▼

Source: Pitch Madison reports

In 2015, the outlook on advertising is expected to remain buoyant driven by:

Expanding e-commerce players marketing budgets

Brands' renewed focus on rural markets

Launch of new products

- around 25 auto models are likely to be launched in 2015

Aggressive promotions of new initiatives by the central government

- higher spends to promote initiatives such as Make in India, Clean India, Indian Tourism, etc.

Sporting events such as Cricket World Cup and IPL

A vital factor for the print industry's future performance will be the stability in the overall macroeconomic environment given the positive sentiment widespread in the country post the formation of the new government, and publishers' innovations around content and distribution to engage consumers in a better way.

29. Pitch Madison media advertising outlook 2015

30. Macquarie Research, 10 October 2014, Ecommerce Wars: blessing in disguise for print?

31. Industry discussions conducted by KPMG in India



The year 2015 should witness an increased activity in the advertising space by the Telecom sector, primarily revolving around the launch of the 4G LTE services by Reliance Jio Infocomm Ltd. This would trigger some defensive advertising by other major telecom players such as Airtel and Vodafone, thus giving a boost to the advertising revenues in the M&E industry. Another factor to enhance advertising spends would be the telecom spectrum auction in 2015. The Automotive sector had underperformed for the previous couple of years with launches only in the budget car segment. The major car brands are focussing on the smaller towns with their affordable variants and could promote their products through regional print, thus augmenting their revenue growth. The consumer finance sector could see some activity through products like housing loans, car loans, etc., but this would depend on the stability in economic policies and consumer lending rates. ▲▲

- Tarique Ansari
Chairman and Managing Director,
Next Mediaworks Ltd.

such as The Times of India, The Hindu, and Malayala Manorama to raise awareness of it among parents.³³

- Gifting by Cadbury Dairy Milk Silk - In 2015 on the Valentine's Day, Cadbury joined hands with Hindustan Times where its Mumbai and Delhi editions carried a ribbon that could easily be made into a flower on the front page jacket and gifted along with a pack of Silk chocolates.³⁴

General interest magazines losing out to niche magazines

In the otherwise stagnant magazine segment, an evident trend of niche magazines gaining traction among readers is being observed over the last few years. General interest magazines have been losing readership steadily and this de-growth is expected to continue over the next few quarters. Niche magazines are targeted at a particular segment and cater to a limited readership audience of 50,000 to 60,000 people at a high cover price.³⁵ Magazines are now looking to focus on augmenting reach, creating well-defined content that better engages the audience with an intention to attract new subscribers.³⁶

With mobile witnessing an increasing amount of media consumption, innovative ways are being devised to deliver the content and engage with the target group. Business World became the first magazine in India to innovate through augmented reality within its copies. Blippar, which is a mobile image-recognition platform, has created this unique experience for the readers of the magazine. The reader can enter any story or interview by directly pointing his phone at the mnemonic on the page.³⁷

Engaging communication preferred over vanilla advertising

As the revenue generated from vanilla advertising continues to reduce, new options such as solution selling, ground events, etc. are being considered. Traditional vanilla advertising is fast losing its preference among clients, who are now shifting to smart storytelling methods of advertising to maximise customer engagement. Print advertising provides greater scope for creativity compared to TV/radio and hence is increasingly being looked at with more interest by companies. With an ever increasing accountability for ad spends, print media is gaining popularity with clients owing to its unambiguous and measurable ROI equation.³² Some examples of concepts that came about last year include:

- Vibrating newspapers/talking newspapers by Volkswagen
- 3D advertisements by Mahabharat TV show
- Scented newspapers by Johnson & Johnson – J&J embedded the smell of the baby product into a Wednesday edition of a range of daily newspapers



Magazine space has been growing over the last year and it is incorrect to conclude that its contribution to the revenue of the print industry is on the decline. The numbers have resulted from the emergence of a whole new category in the newspaper space i.e. vernacular print, leading to a reduction in share of magazines to the overall revenue. Niche magazines continue to do well and room for similar growth exists in the future in this segment as well. ▲▲

- Pradeep Gupta
Chairman and Managing Director,
CyberMedia

32. Exchange4media.com, 13 January 2015, 'Print Trends 2015: Higher ad revenues from regional print, smarter storytelling on the cards'

33. Livemint, 29 January 2014, 'J&J ad: Marketers wake up to the draw of sensory branding'

34. Afaqs, 18 February 2015, 'Cadbury Silk and HT give readers a 'Valentine Ribbon' surprise'

35. Industry discussions conducted by KPMG in India

36. Afaqs, 6 February 2015, 'It doesn't bother me at all if tomorrow there is no print'

37. Exchange4media.com, 24 November 2014, Business world becomes the first magazine in India to introduce augmented reality



For now, digital media will complement, not threaten, print media

The emergence of digital media had a drastic impact on the U.S. print market, one of the primary reasons being, heavy dependence on the revenue from classifieds. In 2000, classified advertisement revenue accounted as high as 40 per cent of the U.S. print revenue pie.³⁸ As classified business shifted to digital platforms, the revenue accrued from this category witnessed a steep decline of 76 per cent between 2000 and 2013. On the contrary, in the Indian print industry, the dependence on classified revenue is limited to 15 to 20 per cent in the urban markets and five per cent in the regional markets. Moreover, taking a leaf from their western counterparts, the Indian print players have been quick to assess the impact of online classifieds on their business, and have started their own online classified platforms well in advance.



Three to four years ago, advertising on the digital medium was 'nice to have' for most advertisers. Digital advertising has now become a 'must have' for brands. While the changing content consumption pattern of consumers is driving this shift in advertising dollars, the performance-oriented nature of digital advertising is another advantage of digital advertising. Going forward, mobile advertising will likely be a game changer. ▲▲

- Ranjan Kapur
Country Manager,
WPP India

With the rapid adoption of smartphones and next-generation networks, content consumption patterns and consumer engagement channels are rapidly evolving. In order to exploit the digital opportunity, various print players are investing heavily in digital media, making services such as news delivery possible via mobile applications and web portals. Mobile apps and web portals have emerged as additional touch points to engage with younger customers of the millennial generation who prefer to read their news on the move. Print companies leverage their brand equity across newer forms of media to continue to build traction.³⁹ Even non-news publications are aggressively experimenting with digital media models. In 2014, Amar Chitra Katha (ACK) forayed into digital space with the launch of 'ACK Comics' – the official digital comic store app available across Windows 8, iOS and Android platforms. The move was a major step towards making the entire range of Amar Chitra Katha titles available to the readers.⁴⁰



The digital medium should not be perceived as only being web/internet based but also include mobile phones. The cost of accessibility of internet on mobile devices is favourably low, hence heavy investment is happening in digital media by print companies. Going forward, news delivery on mobile apps through the 'Second Screen' concept will grow. The scope for cannibalisation between the print and digital offerings of a media company does not exist as the millennial generation uses mobile to view news headlines, whereas the detailed story is read on print media. ▲▲

- Jayant Mammen Mathew
Deputy Editor and Director,
Malayala Manorama

Most of the national dailies now have a dual presence in the traditional and digital medium either through their e-papers, websites or mobile apps. Even though digital content consumption in India remains low due to poor internet penetration, readers are fast changing habits. With the ever increasing user base of broadband and mobile internet, it is expected that gradually more readers will opt for digital news and information for real time updates.

Since most of the content is available in English and Hindi, the local markets largely remain neglected. In addition, content consumption across digital platforms remains limited to the metros and larger cities with low usage in Tier II, III and IV cities. Further, India is a diverse market, with no two geographic clusters enjoying similar characteristics. Thus, the players need to maintain a fine balance between the national success and local requirements to formulate their 'cluster' strategy. Factors like content, regionalisation, differentiation and multi-platform access at inexpensive prices will be key to local success.⁴¹ The creation of digital content can be aided by technology components such as digital asset management, web content management, digital rights management and usage analytics to make it more effective.

Going forward, as internet penetration increases across India, print companies could tap into the opportunity to distribute content to a wider audience group and generate higher revenue through additional ad inventory. Based on the logic that users follow news headlines via digital apps but turn to print for an in-depth reading, there is limited potential for cannibalisation between traditional print and digital media as long as traditional media recognises this and shifts gear towards analysis and detail. India's leading English newspaper 'Times of India' introduced 3.0 version of its iOS and Android app in 2014.⁴² The upgraded version offers a better design and a host of additional features to keep the readers' updated while on the move. However, presence across digital platforms is not sufficient unless the same is adequately monetised to compensate for any revenue loss through traditional means.

38. Macquerie Research, 23 January 2015, 'D.B. Corp. Once upon a time in the West'

39. Industry discussions conducted by KPMG in India

40. Adgully, 5 May 2014, 'Amar Chitra Katha launches 'ACK Comics' app for iOS and Android'

41. Moneycontrol.com, 21 March 2014, 'Print media's inevitable digital future: A tough ride'

42. Times of India, 14 May 2014, 'Times of India releases major updates for its Android and iOS apps'



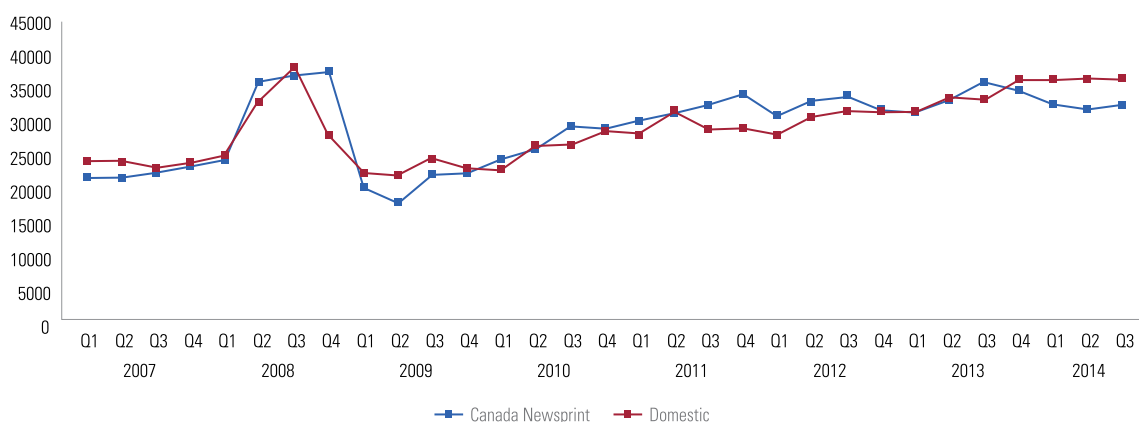
The impact of the digital medium can be perceived as a gradual but steady attrition of the print industry, mainly due to its influence at two points. Firstly, the readership numbers for print are getting affected as more and more young readers are switching over to the online sources for their daily information requirements. They get most of their updates from the feed across social media like Facebook, Twitter and Whatsapp in a seamless manner. For an in depth report, they can refer to any search engine online. Secondly, the digital medium offers a possibility for immediate commerce to advertisers who get extensive and quantifiable data about the revenue generated by their online activities.

- Tarique Ansari
Chairman and Managing Director,
Next Mediaworks Ltd.

Both imported and domestic newsprint costs have stabilised in 2014

Newsprint is the most important raw material constituting 40 to 50 per cent of a publisher's cost base. In 2014, the total newsprint demand in India stood at 2.91 million MT, of which approximately 1.47 million MT was imported from international newsprint producers.⁴³ Many print companies including even Hindi and regional players import a part of their newsprint from a consortium of suppliers. The contracts are usually on a six month basis with producers in countries like Russia.⁴⁴ The newsprint prices reduced and stabilised in 2014, contrary to the past few years where the average cost of newsprint witnessed a growth of 12 to 15 per cent every year.⁴⁵

Newsprint price - Cost per tonne (in INR)



Source: Crisil Research, Data as on 15 March 2015

The appreciation of rupee in the first half of FY2014 and sharp depreciation of rouble had led to a drop in the per-tonne cost of newsprint, as Canada, United States and Russia are the top exporters of news print material to India. The newsprint prices are expected to stabilise at the current level or slightly lower in FY15, thus providing some operating leverage to the print businesses across the country. India and China are the only two countries with an increasing newsprint consumption due to the rise in readership. The demand for newsprint in developed countries has drastically reduced over the recent years owing to consumption patterns getting skewed towards digital media. As freight cost contributes 15 per cent of the landed newsprint price, any fluctuations in crude oil prices also impact the newsprint price. The cost of domestic raw material has also declined as the cost of newspaper waste

(raw material for a variety of newsprint) has declined. Given this backdrop, 100 to 250 bps margin expansion is projected for the leading players in FY15.⁴⁶

Hindi newspapers such as Amar Ujala typically import around 10 to 12 per cent of their newsprint and the rest is primarily a substitute or super deluxe variant of local products. There is a trade-off between the use of lower cost newsprint and increased chances of delays or wastage during production. DB Corp Ltd. imports 15 per cent of its newsprint from Russia because of the decline in price by USD40/tonne and cheaper marine freight involved.⁴⁷ Going forward, the imported component of newsprint may increase by one to two per cent to cater to the rising demand in Automobile/FMCG sectors that prefer better quality imported newsprint.

43. Indian Newsprint Manufacturers Association, accessed on 12 March 2015

44. Industry discussions conducted by KPMG in India

45. IIFL Indian Print Media - July 2014

46. Media and Entertainment IDFC Aug 2014

47. CNBC-TV18, 24 December 2014, India now big market for Russian newsprint companies: DB Corp



Future trends

Traditional business model evolving into Integrated Newsroom model

Print players, both national and regional, are evolving to move towards the 'Integrated Newsroom' concept where digital and print will grow together as an integrated solution over a multimedia platform comprising internet, OOH, events, radio, etc.⁴⁸ Amidst rising operational costs, stagnating revenues, and varying content consumption patterns, integrated newsroom or publishing room is in much demand.



Cyber Media no longer looks at itself as a print business only, rather it is a media brand which needs to be monetised over multiple media sources. Media brands are built to cater to communities, which are then leveraged through different media platforms. The standalone vanilla type of customer engagement has become a thing of the past. We are looking at an integrated solution of events, advertisement support and online programmes – which require a complete change in business model. Print is just one of the multiple connects with the community. ▲▲

- Pradeep Gupta
Chairman and Managing Director,
CyberMedia

The current image and text management systems are becoming outdated and inefficient, thus giving way to a system which allows for the flow of images, text, and videos between different media platforms operating around a centrally supported system. Players such as Bloomberg, CNN, BBC have already integrated their news operations across various media arms. In 2013, Zee News merged its broadcasting business with DNA - the newspaper. India Today shifted its office to a new building with a focus on integrating its TV, print, radio and online arms and foster enhanced collaboration.⁴⁹ Recently, CNBCTV-18 joined hands with Mint to further extend integrated newsroom model by sharing content, analysing and working on joint editorial initiatives.⁵⁰

Some of the likely benefits of implementing integrated newsroom concept⁴⁹

Benefit	Degree of impact
Reduction in operating costs	8-25 per cent
Reduction in manpower costs	~10 per cent
Reduction in time required to launch a news channel	4-5 months (time goes down from 6-7 months to 2-3 months)



There is room for growth for both print and digital. Print is increasingly more into the content space which will sustain Print in the near future, despite losing some of the younger readers to the internet. Medium term, the risk profile will be a function of penetration of the internet and time spent on mobile. ▲▲

- Sunil Lulla
Chairman and Managing Director,
GREY group India

Major Indian dailies join hands to offer pan-India coverage to advertisers

In 2014, six major dailies Hindustan Times, Hindustan, Ananda Bazar Patrika (Bengali), The Telegraph, The Hindu and The Hindu Tamil from three major media houses partnered to form a unified group named 'OneIndia'.⁵¹ In an effort to provide pan-India coverage to advertisers, the joint group has been introduced as a common platform for selling ad space for the vehicles owned by member companies in addition to individual sale of ad space. Though limited in its geographic reach at present, they are open to include more members by invite.

The group offers bundled advertisements at a discounted price in all the newspapers which are a part of this group to cover all corners of the country through a single window. The move is likely to create a favourable proposition for both advertisers as well as print players. While advertisers could get unduplicated reach, print players will not miss out on opportunities arising from demand for a nationwide coverage.

At the risk of being viewed as a monopolistic approach, this alliance offers operational synergies rather than giving rise to anti-competitive tendencies. Further, the sheer presence of a large number of competitors in the existing markets of these six dailies prevents the onset of any unfair practices. Designed to give a competitive edge, the OneIndia alliance, if successful, can act as a game changer for the print industry and emerge as a new business model, much like the formation of similar alliances did in the broadcast industry.

Excess unused capacity sharing: form of 'outsourcing' service for print function

With vernacular print outperforming English dailies, there has also been an increase in production capacity largely contributed by the English or national dailies. Some newspaper companies are employing 'capacity sharing' model by partnering with companies having excess production capacity.⁵² For example, Lokmat prints for its competitor, Maharashtra Times at its facility in Aurangabad.⁵²

48. afaqs! 6 February 2015, 'It doesn't bother me at all if tomorrow there is no print'

49. Business Standard, 1 May 2014, Where newsrooms are rife with barriers

50. IndianTelevision, 1 April 2014, CNBCTV 18 extends integrated newsroom with mint alliance

51. The Hindu Business Line, 27 March 2014, Major newspapers form alliance for better ad reach

52. Industry discussions conducted by KPMG in India



Technology up-grades can be invariably cost-hungry and can come heavy on balance sheets and operating performances of smaller players. Hence, investing on newer and advanced technologies may not always be profitable. Except for a few regional dailies which have installed technologically advanced imported machines, a larger section of Hindi and regional dailies run on a low cost model. These high quality machines are capable of printing 72 pages all colour with 255,000 copies per hour and helps in scheduling production late and finishing early as per demand.⁵³ Such improvement in operational efficiency leads to idle production capacity which creates opportunity for capacity sharing. However, consolidation is not always preferred by companies and many print houses still have significant idle capacity. While 'trust' issues may still delay large scale uptake of this model, it may receive a better response due to pure economic reasons.



Fragmentation of newspaper industry is neither helping the industry nor the media consumers. There are numerous areas in which collaborative approach is possible and can save a lot of wastage but unfortunately fragmentation is the reality of the day. None of us is interested in any kind of collaboration, much less consolidation because there is lack of mutual trust and the media owners are too obsessed with the ownership and more importantly absolute control of the print media company. This is what is coming in the way of realizing full potential of the industry, and pushing the business sense to back seat. ▲▲

- R.K. Agarwal
Chief Financial Officer,
Jagran Prakashan Ltd

Print sector operations: evolving with the changing dynamics

At a time when developed markets are sounding the death knell of the newspaper business, the resilience and variety of the Indian markets have provided rich grounds where the newspaper is growing, evolving and complimenting other exciting mediums of news.

One look at the growth story makes it obvious that the essential impetus is coming from the Tier II and Tier III townships, triggered by factors such as increased literacy, purchasing power, and a richer local markets. Not surprising that the spotlight is on vernacular, which has outperformed national editions with a growth of 13 to 14 per cent in 2014.

These markets are not easy to negotiate by English language newspapers, and are being aggressively sought out by audience-hungry national, regional and local advertisers. Hindi and vernacular newspapers are addressing this need with innovative practices that allow them not only to be viable, but to grow as well. One such trend is newspapers employing 'capacity sharing' model by partnering with companies with excess production capacity. While 'trust' issues may still delay large-scale uptake of this model, it is likely to become the norm in the not-so-distant future.

These vernacular newspapers use a 'low cost model' and therefore remain viable. The challenge is to be operationally sound, and constantly thriving for operational excellence. While the 'low cost' model is essential, it needs to be balanced by gradual improvement in quality of production to address reader aspirations and advertiser needs. Dropping newsprint costs is one important factor in balancing the two needs.

There are other challenges, of course, those of reconciling an extremely fast changing market with business of extreme scales – for instance the same market accommodating a global product and a tehsil level product. Only newspapers with structural and organisational agility, and the ability to map the markets, which they sell into, real-time, are likely to benefit from its potential.

Curiously, two seemingly disparate aspects are leading into this market, almost together – literacy and digitisation. But unlike the West, where digitisation has stunted the inroads of newspapers and killed them, in India, these mediums are complimenting each other. This has worked exactly the way in which TV fuels the uptake of content on the web and vice versa. It wouldn't be wrong to say that the future of newspapers goes beyond print, where print becomes merely one device for delivering the newspaper. Thus, one will see increasingly an integrated model of distribution and selling, which is based on capturing targeted mindshare.

This enables newspaper companies to offer advanced digital services along with existing services, and active advertising instead of merely passive one. To achieve this capability and skill-set, print units need to invest time and money on training the workforce with increased focus on digitisation and integration.

Probal Ghosal
Wholetime Director,
Amar Ujala



Disclaimer: Unless otherwise noted, all information included in the column/article was provided by Probal Ghosal. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

53. Industry discussions conducted by KPMG in India



Improved distribution, logistics and inventory management

The print sector in India is seen adopting innovations in distribution and logistics to drive more efficiency, cost rationalisation and increased penetration in topologically challenged rural areas. Many print companies have adopted a 'Partnership model': an emerging revenue sharing model in the newspaper distribution space. This model thrives on the partnership between the publishing houses and rural entrepreneurs who are responsible for distribution of newspapers across smaller towns, cities and rural communities.

Besides distribution, the print players are practicing an efficient inventory management system by placing their news print stock in such a way that it does not have to travel more than 200 KM to reach the printing houses. Additionally, hedging is also done in proportion to the foreign currency exposure as a standard practice.⁵⁸



Industry considerations

Regulatory wish list	Details
Removal of Majithia Wage Board	<ul style="list-style-type: none"> In 2014, the Supreme Court held the recommendations of the Majithia Wage Board and print players were asked to implement from April 2014 onwards in accordance to the revised pay scale, along with arrears to be paid from November 2011 in four equal instalments within a period of one year.⁵⁴ The implementation of Majithia Wage Board received a lot of resistance from the industry as they are of the opinion that it is not desirable to have the Majithia Board decide wages for the print industry, when no other industry has wage boards.
DAVP rates need further revision	<ul style="list-style-type: none"> In November 2013, the government announced a 19 per cent hike in advertising rates charged by newspaper companies to publish its political advertisements. These advertising expenses are paid by the Directorate of Audio Visual Publicity or DAVP. Many print players, feel that further revision is required for the DAVP ad rates and the challenge lies in rectifying the procedure for fixing the DAVP ad rate after considering representations from different newspaper enterprises, exhaustive analysis of the available data and detailed speculations on the factors involved.⁵⁵
Newsprint to be exempted from VAT	<ul style="list-style-type: none"> The newsprint cost is an important component in printing which can take a share of more than 45 per cent in the total production cost. Under the proposed VAT structure, newsprint falls under the four per cent category. Many print players feel that newsprint should be completely exempted from VAT as it can adversely affect the business particularly in case of the smaller newspapers, which are largely dependent on the domestic newsprint.
Implementation of GST for rationalisation of taxes	<ul style="list-style-type: none"> The Goods and Service Tax (GST), when implemented, will integrate state economies and create an optimised system of collecting indirect taxes. GST can potentially bring about a change in the functioning of the economy by developing a 'One India' approach for the market. GST will help rationalise tax structures for multiple industries, including e-commerce etc, and any positive reform in policies could result in increased advertisement activity for print players.⁵⁶
Increased FDI potential	<ul style="list-style-type: none"> 26 per cent investment by NRIs/PIOs/FIIs is allowed with government approval for newspapers, periodicals and Indian editions of foreign magazines dealing with news and current affairs.⁵⁷ Globally, the print medium is viewed as a mature, entrenched industry, and the major players are concentrating their energies and resources towards embracing the digital technology. Thus, investments can be expected in print in India if the limit was increased⁵⁸ to perhaps 49 per cent - a long standing demand of the industry

Source: Industry discussions conducted by KPMG in India

54. The Times of India, 8 February 2014, Blow to newspaper industry as SC upholds wage board's advice

55. davn.nic.in, Newspaper_Final_Report.pdf, Chapter 1

56. The Financial Express, 27 February 2015, Budget 2015: Speedy implementation of GST will boost e-commerce industry, says Jabong

57. www.investindia.gov.in/media-and-entertainment-sector

58. Industry discussions conducted by KPMG in India



Key challenges

Lack of a robust measurement standard

With a resurgent economy and a new government, opportunities are getting created across sections of the Indian population. The consumption of print media is directly proportional to the level of economic prosperity in the country. Hence, there is a need for a measurement standard that can offer an analysis across socio-economic classes and across regions of the country experiencing different levels of growth. The measurement currency which existed in the form of Indian Readership Survey (IRS) released by Media Research Users Council (MRUC) in 2013 was challenged by many publishers.⁵⁹

In 2014, the new Indian Readership Survey (IRS) was finally released in Mumbai with multiple changes to the methodology to improve accuracy of the data findings. The introduction of DS CAPI (a digital entry system) and data fusion (involves segmenting the survey into parts) was to make it easier for the respondents taking the interview. Even with the changes, many companies remain hesitant to rely on the IRS data for devising their strategies. As an alternative, Audit Bureau of Circulation (ABC) that depicts circulation numbers is again being cited by companies, however, circulation numbers alone are often insufficient for advertisers to take an informed decision, considering it neither offers insights pertaining to readership, demographic profiling, incremental reach, nor covers all the publications. The print sector needs to come together on completely backing IRS or an alternative currency.

Re-skilling of talent to adapt to organisational changes

With the increased focus on shift to digital technology and implementation of the Integrated Newsroom concept, reskilling of the existing staff and recruitment of new, enhanced workforce with the right skills, has become a challenge for the print industry. The integrated services are expected to transform news planning operations for all forms of media, including print and help companies in resource sharing.⁶⁰ The skill sets of the resource base need to be rescaled from just space selling to also focus on multimedia services. Traditionally, the print houses generate maximum revenue (nearly 90 per cent) via space selling and that is where currently the majority of their employee pool is concentrated. Companies need to strike a right balance and adopt a mixed strategy to embed the digital culture within the organisation by investing in adequate training.⁶⁰

Moreover, the M&E industry including the print sector involves high level of uncertainty with new regulations being introduced by policy makers each year. To deal with such an environment an organization needs to have dynamism in its talent base which is ready to adapt to any organizational changes.



59. afaqs! 29 January 2014, "We are responsible for the process, not the numbers": Paritosh Joshi, MRUC

60. Industry discussions conducted by KPMG in India



Current competitive landscape restricts organic growth

The regional markets have experienced rapid expansion by print players over the last few years and are becoming saturated in terms of number of players operating in each market. Currently, most of the Hindi-speaking states have a formidable presence of Hindi and other vernacular players. This has resulted in an immense scarcity of new markets that can be explored profitably for business expansion. Even in vernacular markets such as Tamil, Telugu, Malayalam, Kannada, Bengali, Odiya, etc., a high degree of competition exists among the print players thus limiting the opportunity to expand organically.

Earlier, the presence of two or three players allowed new entrants to gain relatively easy scale in the regional markets. However, the current competitive environment requires a substantial amount of investment to enter these highly competitive regional markets. This has resulted in the print players realigning their investment focus on the existing markets to strengthen their presence and leverage their readership base for better monetisation.⁶¹



The Indian print industry continues to face systemic challenges viz. economic slowdown, currency depreciation/volatility and relentless inflation of costs. With a stable government in place and its pro-development stance, publishers are optimistic on the future outlook of the economy. Going forward, pragmatic fiscal policies of the government, buoyant economic growth and remunerative rates for government advertisements will be critical for sustenance of newspaper industry. ▲▲

- Mohit Jain
Executive President,
The Times of India Group



India is one of the few markets where Print continues to grow although there have been challenges in the recent past. Digital media has taken share of some categories of Print. However, it is not the end of the road for Print. Regional language dailies continue to do very well. The focus needs to be on value creation for advertisers by creating category specific products. ▲▲

- CVL Srinivas
CEO,
South Asia, GroupM Media India Pvt. Ltd.

With a stable overall macroeconomic environment in the country, the print industry is expected to demonstrate a slightly increased pace of growth in CY 2015, backed by the swelling marketing budgets of e-commerce companies, increased localised advertisements by brands and promotional activities revolving around the Cricket World Cup 2015 and IPL sports events.

Going forward, the sustainability of the industry will likely depend on improved efficiencies in the business models and better adaptability to the influx of the digital medium. Many players are currently adopting models like the integrated newsroom, partnership with rural level entrepreneurs to optimise distribution and logistics processes and better inventory management systems. In the near future, we may see many more collaboration among the competing firms for excess unused production capacity sharing to meet the dynamic challenges posed by the print sector. Several organisations are embarking on defining the right cost structures and bringing efficiencies across the news gathering, editorial, advertising, printing, and circulation value chain.

Conclusion

The Indian print industry continued its steady growth trajectory in CY 2014. The ad spends were driven by election spending, increased activity by e-commerce players, revenue growth through the expansion into regional markets and increased circulation growth for English and Hindi players. A large number of Hindi and vernacular publications were registered, in accordance to a shift in focus towards the rural markets by major players.

61. Industry discussions conducted by KPMG in India

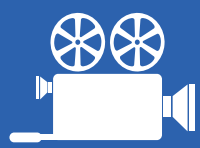




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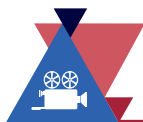
Jai Ho

A SON
PRODUCE



Films
We'll be back...

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Executive summary

2014 could well be termed as the year of 'introspection and reality check' for the Indian film industry. During the year, the gap between box office collections of the top 10 films and the contribution of the rest of the industry widened further. The category-A films with top league actors continued to perform well at the box office, however the same was not true for films which lacked both strong content and a top league actor to attract audiences to the theatres. Industry discussions indicate that 2014's content did not deliver at par with 2013. While there were strong content driven films this year which delivered high returns on investment, the proportion of such films was less than the previous year. With rising average ticket prices and availability of alternate entertainment platforms, the audience today seems to have become more discerning when it comes to watching films in theatres.

Television broadcasters became more strategic with their film acquisition budgets, significantly impacting the Cable & Satellite rights (C&S) of most films. While prices of category-A films continued to hold ground, the rest of the films took a beating either in terms of price or ability to sell the title. There were very few bulk deals and certain films, despite crossing INR1 billion at the box office, were unable to find buyers.⁰¹



The audience today is very evolved and has become much more discerning. The choice of what content to consume on which platform has become very specific. They also decide much in advance whether they will make the effort to watch a movie in the theatre or simply wait for it to appear on another platform. As a result, 2014 saw a plateauing of box office collections, even though average ticket prices went up. In the current environment the industry needs to give utmost importance to developing strong content that creates the compelling draw for an audience to make it to a theatre.

- **Siddharth Roy Kapur**
Managing Director,
Disney India

The exhibition sector took bold strides in expanding its footprint – both organically and through acquisitions. Many players have adopted the organic route to build presence in new markets, especially in the tier II and tier III cities. The year also saw changes to the list of the largest exhibition chains with the emergence of a new player, Carnival Cinemas. Carnival acquired three cinema chains- HDIL Broadway, Big Cinemas⁰² and Stargaze Entertainment.⁰³ Further, consolidation has brought multiple benefits to the otherwise fragmented industry.

Now, film makers have a wider reach and at the same time interact with relatively lower number of exhibitors. The industry is soon expected to see national distributors playing a far greater role in release of a film. Additionally, consolidation is stimulating growth in the in-cinema advertisement platform. Advertisers are now offered a far greater reach and impact with national chains having a pan India presence. The industry is witnessing changes in in-cinema advertisement business models with contracts shifting from 'lump sum' deals to 'pay per contact' which is considered as a better metric for measurement of the efficiency of the medium.⁰¹ For exhibitors the obvious benefit of economies of scale is being reflected through rationalisation of cost structures.

The industry (production houses) needs to take a step back and deliberate on how it can address the fundamental issues plaguing the profitability of the sector and what measures it can take to build sustainable business models. The lack lustre performance of the two key revenue segments for the industry: theatrical and cable and satellite rights has sent many film makers back to their drawing boards to reassess the viability of their future projects.



In terms of improving the fundamentals of the industry, 2014 was a stagnant year. There needs to be a shift in the industry to address cost and the value mismatch. All industry players need to work together to formulate ways so as to manage risk better and not lose money at the box office given the direction of satellite prices. One certain way is to address that is to move from high upfront costs to greater share from film recovery or revenue. Industry must focus on profitability so that it can invest in a sustainable growth.

- **Ajit Andhare**
Chief Operating Officer,
Viacom 18 Motion Pictures

Production

The Indian film production landscape is highly fragmented with a combination of few renowned indigenous film production houses, international studios and numerous independent film producers. The industry has witnessed the entry of new players such as Multi Screen Media (under the banner MSM Motion Pictures) in 2013⁰⁴ and Zee Entertainment Enterprises Ltd. (through its company Essel Vision Productions)⁰⁵ in 2014. The entry of international studios such as Disney India, Viacom18 Motion Pictures and Fox Star Studios in the last few years seems to have made the industry more organised

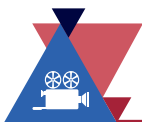
01. Industry discussions conducted by KPMG in India

02. Business Standard, 14 January 2015, 'Carnival Cinemas plans Rs 500-cr investment in Madhya Pradesh'

03. Live Mint, 8 January 2015, 'Carnival Films buys Stargaze from Network18'

04. MXM India.com, 18 June 2013, 'Multi Screen Media forays into film production with MSM Motion Pictures'

05. Indiantelevision.com, 11 December 2014, 'Essel Vision enters into a multi-film deal with White Feather Films'



in the way films are produced in India by bringing in leading industry practices of film production from western markets, thereby increasing efficiency and placing greater focus on pre-production activities such as concept development, audience research, etc. Even many of the traditional family run production houses now seem to understand the importance of bringing in processes and structure to the movie making business and have upped their act to become more professional and corporatised in their operations.

Increasing corporatisation and professionalism in the film fraternity has started to pave way for the establishment of film and entertainment focussed investment funds. 2014 saw launch of four new venture funds focussing on this industry.

New funds launched in 2014

Name	Corpus	Target industry
Indus Media Capital	INR3 billion	<ul style="list-style-type: none"> Hollywood South Indian films Television
Bend It Media	INR1.8 billion	<ul style="list-style-type: none"> Hollywood Indian films Television Theatre
HBS Raksha Movies Fund	INR2 billion	<ul style="list-style-type: none"> Hindi films
Third Eye Cinema Fund (TECF)	INR2-2.5 billion	<ul style="list-style-type: none"> Small and Mid-sized films with INR50-250 million budget

Source: Forbes India, 24 May 2014, 'Bollywood Fund Third Eye Gets Sebi'

Marketing and Distribution

Digitisation of screens has allowed distributors to release films simultaneously across thousands of screens, as a result of which almost 60-80 per cent of theatrical revenues are now collected in the first week of release,⁰⁶ compelling filmmakers to generate enough buzz to attract maximum footfalls within the first weekend itself. Thus, marketing budgets which were negligible a decade back, now account for a significant portion of the overall cost of production. Additionally, film makers now have an elaborate mix of marketing media: television, print, radio, OOH, in-cinema advertisements, social media, live events, merchandising, mobile apps, mobile games, and other digital media at their disposal, the judicious use of which is critical to create the maximum possible impact. Like box office collections, the number of tweets, Facebook likes and YouTube hits have also become an important key performance indicator (KPI) for the movie success.

Film-based mobile applications and games have become an emerging trend while city-wise marketing campaigns have almost become the norm. Given the varied number of marketing and promotional avenues, the huge P&A (Print and advertising) costs are becoming a challenge for films with tight budgets as there is a minimum spend required to reach a threshold audience base.⁰⁶ P&A cost for a Category A film (released across 3000+ screens) can be anything above INR200 million, for a Category B film it could range between INR150-180 million and for a Category C film at least INR100 million.⁰⁶

Given this backdrop, many filmmakers have started exploring campaign and box-office analytics to gauge the effectiveness of their campaign and take appropriate measures to maximise the return on investments. Various firms such as IBM,⁰⁷ Persistent Systems, Google, Prime Focus Technologies mGage, Ormax⁰⁸ etc. are now offering solutions especially designed for the filmmakers to make strategic decisions about their budgets, conduct cost-benefit analysis with minimal risks, measure audience engagement across various touch points.

The release window continues to play an important role in deciding the release strategy for any film. The filmmakers consciously decide to release their films during festivals, long weekends and summer/winter vacations (school breaks), etc. and avoid clashes with any major sporting events. For example, only two out of the 20 movies that were released during the IPL 2014 performed well at the box office.⁰⁹



Theatrical admissions for high concept movies are very encouraging, younger stars are drawing audiences to theatres like never before and big tentpole movies are doing really well only BUT only when the content is strong. This year we will add more screens than in 2014, which is a good sign as theatrical success for a movie is a must for a movie to become profitable, given that other revenue streams haven't really grown. The international footprint of medium and big movies has doubled in the past 6 years and hope this trend continues. We need more movies to be profitable as an industry and that will be important for growth and for newer genres to keep getting greenlit.

- Amrita Pandey
VP and Head of Marketing & Distribution,
Studios, Disney India

06. Industry discussion conducted by KPMG in India, Boxofficeindia.com, KPMG in India Analysis

07. Times of India, 17 March 2014, 'IBM brings in analytics to Bollywood'

08. Persistent Systems, 18 September 2014, 'hurray for Bollywood! Persistent systems earns Computerworld data+ Editors' choice award for Chennai Express SMAC campaign'

09. Hindustan Times, 7 January 2015, 'Who's afraid of cricket? World Cup? Not Bollywood'



Exhibition

2014 saw another round of consolidation with Carnival Cinema's entry into the big league through three major acquisitions: HDIL Broadway¹⁰ (10 screens), Reliance-owned Big Cinemas¹⁰ (252 screens), and Stargaze Entertainment from Network18 Media¹¹ (30 screens). Other prominent acquisitions included Inox Leisure Ltd. acquiring Satyam Cinemas¹² (38 screens) and Cinepolis acquiring Fun Cinemas (83 screens).¹³ Post consolidation, PVR Cinemas continues to be the leading exhibitor with 462 screens¹⁴ followed by Inox Leisure Ltd. with 365 screens¹⁵ and Carnival Cinemas with 330 screens.¹⁰ The industry might witness another round of consolidation soon with the major multiplex chains acquiring smaller regional chains.

Even though India leads the world average in terms of movies produced each year, the gross under penetration of screens continues to be a cause of worry for the industry as domestic theatricals is the primary source of monetising content for most films. There are just 7 screens per million people in India, unlike in the U.S., where there are 125 screens per million people.¹⁶

Additionally, the screen distribution is also skewed in favour of urban centres. Mumbai and Delhi/UP circuit together constitute approximately 60 per cent of the total box office collections for most Hindi films.



The consolidation in the cinema exhibition space augurs well for the industry and is line with how the exhibition industry has evolved globally with 3-4 large operators driving bulk of growth in most countries. The Indian cinema industry is highly fragmented leading to inefficient operations and poor economies of scale. With a screen penetration of 7 screens per million people (one of the lowest in the world), consolidation of industry will help drive future growth and significant advancement in customer experience.

- Nitin Sood
Chief Financial Officer,
PVR Cinemas Ltd.

Box Office Contribution by Circuit

	Mumbai Circuit	Delhi/ UP Circuit
Kick	37%	23%
Happy New Year	39%	20%
Singham Returns	44%	19%
Holiday	40%	23%
Bang Bang	31%	21%
Jai Ho	39%	22%
2 states	37%	21%
Ek Villain	36%	24%
Gunday	36%	22%
Queen	35%	27%

Source: Boxofficeindia.com, KPMG in India analysis

Thus, besides inorganic growth, many exhibitors are also investing in organic expansion especially in tier 2 and 3 cities to capitalise on the opportunity of lower screen penetration. During the year, leading multiplex chains added close to 100 screens. Carnival Cinemas has declared its intention to invest INR5 billion to establish 500 screens in Madhya Pradesh.¹⁰



For the exhibition industry 2014 was an eventful year - consolidation through organic & inorganic growth, increase in F&B spends, enhancements of advertisement revenue and at the same time emergence of demanding & discerning audience who loves quality content. For us at INOX Leisure Ltd., we acquired Satyam Cineplexes Ltd. in New Delhi, thereby strengthening our presence in North India. We also saw a healthy increase in advertisement revenues in the first three quarters of FY15. We look forward to keep this growth momentum and continue to provide the best viewing experience to our audience across the country.

- Alok Tandon
Chief Executive Officer,
INOX Leisure Limited

10. Business Standard, 14 January 2015, 'Carnival Cinemas plans Rs 500-cr investment in Madhya Pradesh'

11. Live Mint, 8 January 2015, 'Carnival Films buys Stargaze from Network18'

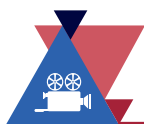
12. Business Standard, 17 December 2014, 'Carnival eyes number two spot by end of FY15'

13. Business Standard, 2 December 2014, 'Cinepolis snaps up Fun Cinemas'

14. Investor Update - Q3 & 9 Months FY 2014 - 15, January 2015, PVR Cinemas

15. Earning Presentation - Q3 & 9 Months FY15, January 2015, INOX Leisure Ltd.

16. MPA, UNESCO, US Census, KPMG in India Analysis



Screen additions by major multiplex chains in 2014

Cinema	Number of properties	Number of screens	Locations
Inox Leisure Ltd.	9	31	Udupi, Jalgaon, Bhilwara, Vizag, Faridabad, Gurgaon, Noida, Delhi, Kolkata
PVR Cinemas	5	22	Hubli, Ahmedabad, Mangalore, Bhopal, Jalandhar
Cinepolis	3	26	Vijayawada, Vadodara, Thane
Carnival Cinemas	1	3	Delhi
K Sera Sera Miniplex	3	6	Abohar, Nawanshahr, Hoshiarpur
Mukta Arts	4	11	Sangli, Aurangabad, Bhopal, Hyderabad
Priya Entertainment	1	3	Haldia
Total		102	

Source: Company Website; Industry discussions conducted by KPMG in India



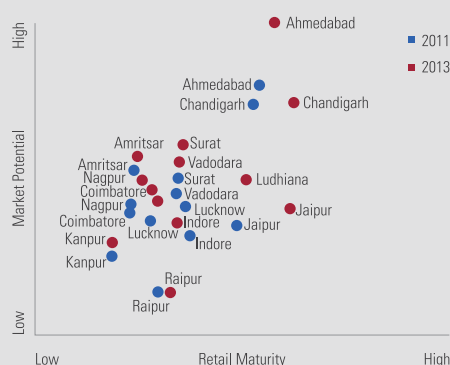


Emergence of new consumption centres: Tier 2 and Tier 3 cities

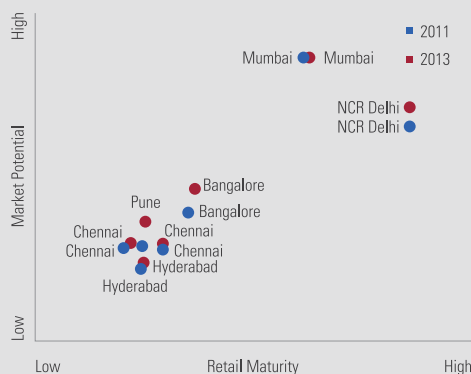
As India moves forward, the development and growth of most industries is expected to be largely driven by the Tier 2 and Tier 3 cities which is expected to hold the focus of the film industry as well. While the metros, especially Mumbai and the NCR region, still contribute about 60 per cent of the total box office collection in India, they have reached saturation and the next phase of growth is expected to come from Tier 2 and Tier 3 centres.¹⁷

Further, organic growth in Tier 2 and Tier 3 cities will likely be linked to the growth of mall properties in the cities. Currently, only 25 per cent of the total malls are located in Tier 2 and Tier 3 cities.¹⁸ According to a study by Jones Lang LaSalle which analyses the retail landscape, the retail attractiveness for tier 1 cities has remained more or less stagnant in the last few years, investors are finding smaller cities much more attractive as shown by the graphs below. In 2014, most screens added by various exhibitors were in smaller cities – Inox Leisure Ltd. opened screens in Udupi, Jalgaon, Bhilwara, Vizag, Faridabad; PVR Cinemas in Hubli, Ahmedabad, Mangalore, Bhopal, Jalandhar; and Cinepolis in Vijayawada, Vadodara, Thane.

Retail attractiveness of tier 2 and tier 3 cities



Retail attractiveness of Tier 1 cities



Source: Jones Lang LaSalle, February 2014, Retail Realty in India: Evolution and Potential

Evolution of programming mix in tier II markets

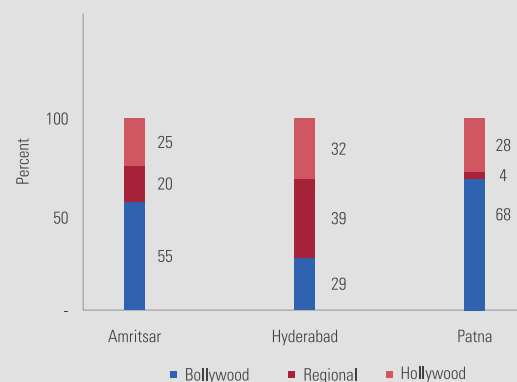
Language	2012	2013	2014	2014 (LTL)
Bollywood	70%	71%	60%	65%
Regional	12%	13%	21%	18%
Hollywood	18%	16%	19%	17%

Source: Cinepolis India

Note: LTL: Like to Like properties

For the film industry, digitisation has not only played a major role in expanding the reach to smaller cities by enabling simultaneous release of movies but also has led to an increased demand for regional and Hollywood content. Cinepolis India, one of the multiplex chains that has a presence in such centres, has seen considerable shift in consumption patterns in the last few years. Additionally, the programming mix is highly influenced by socio-economic factors and varies across cities. For example, Patna has strong demand for Bollywood content over regional or Hollywood films while in Hyderabad, Telugu and Hollywood content is preferred and only few quality Bollywood films perform well. Amritsar has strong demand for Punjabi and Hindi content but is still a weak market for Hollywood films, and thus such films get a delayed premiere.¹⁹ Understanding the potential, the industry is now focussing on the demand from such centres. Today, many films are not only shot in smaller towns but even form a significant part of the promotion spends. Aamir Khan began 'PK' promotions from Patna and Shah Rukh Khan extensively promoted 'Happy New Year' in cities such as Ahmedabad and Indore.²⁰

Illustrative: Programming mix of multiplex theaters in tier 2 cities



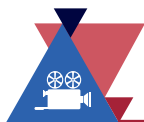
Source: Cinepolis India

17. Boxofficeindia.com, KPMG in India Analysis

18. Live Mint, 16 March 2014, 'Mall developers target small cities to tap potential demand'

19. Industry Discussions conducted by KPMG in India

20. Indian Express, 12 December 2014, Small Town Story



Industry performance and projections

Film industry performance

Revenues (INR billion)	2010	2011	2012	2013	2014	2015p	2016p	2017p	2018p	2019p	2013-14 (YoY growth)	CAGR 2014- 2019
Domestic Theatrical	62.0	68.8	85.1	93.4	93.5	99.9	113.6	123.5	133.7	145.1	0.1%	9.2%
Overseas Theatrical	6.6	6.9	7.6	8.3	8.6	9.6	10.9	11.9	12.9	13.9	3.5%	10.1%
Home Video	2.3	2.0	1.7	1.4	1.2	1.0	0.9	0.8	0.7	0.6	-15.0%	-12.2%
Cable and Satellite Rights	8.3	10.5	12.6	15.2	14.7	15.5	17.6	19.2	20.8	22.5	-2.7%	8.8%
Ancillary Revenue Streams	4.1	4.7	5.4	7.0	8.4	10.3	12.5	15.4	18.3	21.8	19.7%	21.0%
Total	83.3	92.9	112.4	125.3	126.4	136.3	155.6	170.7	186.3	204.0	0.9%	10.0%

Source: KPMG in India analysis

Domestic theatricals

Domestic theatrical revenues remain the main source of income for movie makers in India. The segment contributes 74 per cent to the total industry. In 2014, the overall industry performance was dampened due to the drop in theatre footfalls in the first three quarters and slower growth in average ticket prices (ATP).

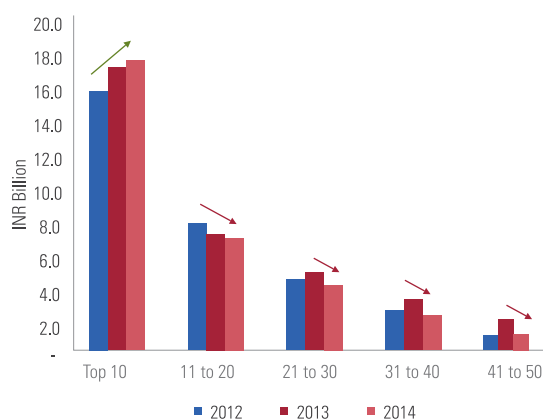
The industry is estimated to be worth INR126.4 billion in 2014. Though the share of other revenue streams is on the rise, domestic theatricals is expected to continue to dominate for the next five years.²¹

The gross box office collections of top 10 Hindi films in 2014 grew by 2.4 per cent over 2013 collections and 11.7 per cent over 2012 collections. However, for the next 10 films the box office collections dropped by 3 per cent in comparison to 2013 collections and 11.3 per cent for 2012 collections. The trend has continued across the board with box office collections of films ranking 21 to 50 sliding further compared to previous years (2012 and 2013). The drop has been extreme in case of films ranking 41 to

50 where the total box office collections of these films dropped by 48 per cent in 2014 as compared to 2013.²²

While 2014 has been a lack-lustre year due to the poor performance of content, 2015 could also witness similar muted growth due to the uncertainty around content which is already in the pipeline and the slow rate of real estate growth which is expected to impact the delivery of new screens. Additionally, since the next phase of screen growth is being delivered by tier 2 and tier 3 cities, the ATP growth might be a bit slower than historical growth. However, from 2016 onwards the industry expects to get back on its growth trajectory. Taking the above factors into consideration, the domestic theatrical segment is expected to touch INR204 billion by end of 2019 and grow at a CAGR of 10 per cent during 2014-2019.²¹

Box office performance of Top 50 Hindi films (2012-2014)



Source: Boxofficeindia.com and KPMG in India Analysis



The film fraternity & the government need to work together to unleash the soft power of Indian films. The film industry defines the popular culture of our country & needs to be nurtured so that it remains viable. Specifically, the entertainment tax needs to be subsumed into GST & incentives need to be given to promote the setup of more multiplexes as our screen density remains very low. We need to improve the ease of doing business and provide incentives to film makers like other countries such as South Africa, UAE etc. At the same time the industry needs to identify the gaps and opportunities to produce quality films which are driven not only by star power but by strong differentiated content.

- Vijay Singh
Chief Executive Officer,
Fox Star Studios

21. KPMG in India analysis
22. Boxofficeindia.com



PK

'PK', produced by Vinod Chopra Films and Rajkumar Hirani Films in association with UTV Motion Pictures, was the top performing movie of 2014- INR3.39 billion gross box office collections. The movie was released across 5,200 screens in India. The movie was made with the entire family in mind, with youth (15-24 years of age) forming one of the major segments of the audience. Thus, the studio focussed its promotions and advertising more on digital (online), mobile, and in-cinema advertising (Point of sale) to touch upon the target audience without much effort.

The first look of the movie comprising the poster design of Aamir Khan holding the transistor was released on 31 July 2014. Given the nature of the poster, it led to a lot of curiosity and engagement across digital, mobile, print and TV platforms, and created anticipation around the movie in the minds of the audiences. Such posters and motion posters were released every two-three weeks to keep the excitement alive. Several vehicles were used to spread these posters.

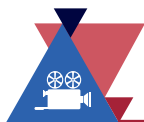
Digital Promotion:

- **First look on WhatsApp** - the motion poster which revealed Anushka's look was launched on Whatsapp on PK's number where once a group of 10 people would add PK's number to their group, they received the Motion Poster before the same went LIVE on any other digital platform.
- **Chota PK**- released Aamir Khan's childhood image in a PKfied way on the occasion of Children's Day.
- **My PK Poster**- A special app was launched that gave the audience a chance to create their version of the PK Motion Poster, and have their creative become a part of PK's official communication.
- **BookMyShow takeover**: For the first 4 days of launch, the 'PK' trailer was the first thing every individual user would see if they visited Bookmyshow.com.
- **YouTube masthead** - 'PK' became visible on the YouTube desktop masthead.
- **Twitter Audio Card** - Launched the Twitter functionality of Audio Card in India.
- **PK funnies** - Behind-the-scenes clips were posted on Facebook.
- **#PKkiKhabar** - Twitter signature selfies were used to put out exclusive images from PK's 'maha' (Grand) journey across India starting from Patna, Varanasi to Delhi, Jaipur, etc.
- **Pan-India penetration**: A non-conventional media plan with a pan India penetration approach was opted, where instead of the regular newspaper jacket covers and gatefolds, every regional and main line print publication was covered.
- **City-wide tours**: Since the lead protagonist of the movie PK speaks Bhojpuri, the star cast visited Bhojpur in Bihar for a press conference along with tasting the PK paan in the city of Varanasi. Similar thematic elements were incorporated in each

city including a press conference in Sambhar in Japiur where the movie was shot.

- **Song launches/activations**: The music was launched in five different phases. It started with the launch of first song 'Tharki Chokro' in a press conference in Delhi, while the second song was released by Aamir Khan from his digital platform and the third song was released exclusively at all the PVR Cinemas properties.





Regional Markets

2014 was a landmark year for regional cinema as the number of regional movies produced reached an all-time high - around 287 Tamil language movies were released in 2014, the number stood at 255 for Telugu movies compared to 216 Hindi movies.²³ At the same time, other regional industries also saw a steep increase in the production of movies. While the four South Indian markets, Tamil, Telugu, Kannada, and Malayalam, still lead the pack, the Marathi and Punjabi film industries undoubtedly left their mark at the box office in 2014. While the Marathi film 'Lai Bhaari' made with a budget of INR80 million had a box office collection of more than INR350 million,²⁴ the animated Punjabi movie 'Chaar Saahibzaade' made with an investment of INR200 million generated INR700 million at total box office.²⁵ The Bengali film industry did not have a great year as the few category-A films failed to attract audiences to theatres.²³



What has been impressive is the resilience with which the South Indian cinema has performed in the last year. Even with restricted access to organised funding there was growth in the number of movies produced, BO collection, both overseas and domestically as well as increase in the C&S prices.

- Shibaish Sarkar
Chief Financial Officer,
Reliance Entertainment

Many domestic exhibitors are now willing to give more screen space to regional cinema and sometimes even prefer a good regional movie over a Hindi movie. 'Lingaa' became the first Tamil movie to enjoy the widest release across 5,000 screens worldwide.²⁶ Besides cashing in big at the ticket counter, the Tamil film industry also stood out for its proclivity to produce experimental films such as 'I'. The impressive growth of the Tamil industry can be partially attributed to a number of small budget movies with good and fresh content, which performed exceptionally well at the box office.

The Telugu film industry, which is similar to the Hindi film industry for its dependence on star power, had a softer year compared to its neighbours. While the number of movies produced during the year increased, the highest grossing Telugu movie 'Race Gurram' in 2014 collected just INR570 million²⁷ at the box office compared to the highest grossing movie in 2013 which ended by collecting INR1.81 billion.²⁸ The movies 'Minugurulu' and 'Manam' scored high on the critics list and were amongst the 30 films shortlisted by the Film Federation of India (FFI) for the 87th Oscar Awards.²⁹



Box office performance of select regional films

Movie	Language	Budget	Gross Box Office
Lingaa	Tamil	800	1480
Kaththi	Tamil	700	1240
Aranmanai	Tamil	120	220
Vella Illa Pattathari	Tamil	80	530
Bangalore Days	Malayalam	90	500
Lai Bhaari	Marathi	80	350
Chaar Sahibzaade	Punjabi	200	700
Veeram	Tamil	400	1300

Source: Hindustan Times, 19 December 2014, '2014: When little gems outclassed big guns in southern cinema'

In INR millions

23. Industry discussions conducted by KPMG in India

24. Times of India, 8 February 2015, 'Top grosser Marathi films in 2014'

25. Business Standard, 9 January 2015, 'Harry Baweja's Chaar Saahibzaade gives 250 per cent returns'

26. Tamil Star, 8 December 2014, 'Lingaa sets new record - to release in 5000 screens'

27. IBTimes, 28 December 2014, 'Top Grossing Telugu Films of 2014'

28. Showbiztimes.com accessed on 10 February 2014

29. 24Krafts, 17 September 2014, 'Manam and Minugurulu Nominated for OSCAR'



Bengali cinema is appreciated for its niche and literature based content however economics of film making in the Bengali industry needs to be re-evaluated. The future of the INR2 billion Bengali cinema industry largely depends upon entry of some serious producers and development of satellite market.

- Arijit Dutta
Managing Director,
Priya Entertainments

Individually, the Tamil industry needs to find a workaround to be able to offer enough cinema screens to a movie, considering on an average four to five Tamil films get released every week; the Telugu industry which is primarily dominated by a few top actors needs to widen its portfolio to involve new talent. Kannada and Malayalam films still lag behind in terms of content and production values, albeit the rise in number of productions in a year. Bengali films on the other hand need to cope up with the lack of serious players in the production space, limited cable and satellite options, very few stars and most importantly limited multiplex screening infrastructure. The emergence of successful movies from smaller industries is a positive sign; however the challenge ahead would be to sustain this growth.

Hollywood

2014 was a good year for Hollywood films in India, the gross box office collections of top 10 films increased from INR3.2 billion (2013) to INR4.2 billion (2014).³⁰ The consumption of Hollywood content in India is rapidly changing amongst the audience driven by the youth and emergence of new centres in tier2 and tier 3 cities where largely dubbed content performs well. In 2014, franchise movies such as 'Amazing Spider Man 2', 'Transformers 4: Age of Extinction', and 'X-Men: Days of Future Past' continued to perform well at the box office and generated close to INR2.1 billion³⁰ in gross box-office collections in India.

Top 10 Hollywood films in India (2014)

Titles	Total GBO (INR million)
Amazing Spider Man 2	875
Transformers 4: Age Of Extinction	630
X-Men: Days Of Future Past	566
Interstellar	432
300: Rise Of An Empire	401
Godzilla	340
Captain America: The Winter Soldier	310
Hercules	290
Dawn Of The Planet Of The Apes	224
Exodus: Gods And Kings	189

Source: Kinematograph Renters Society

Though franchise and superhero movies draw wider audience, small budget movies with stronger scripts have also performed well. 'Fault in Our Stars' (83 screens)³¹ and 'Gone Girl' (155 screens)³², while competing with big budget Bollywood movies, reported INR52.9 million and INR34.9 million gross box-office collections in their respective opening weekends.

Initially aimed at the English speaking Indian audience, film studios are now realising the potential and popularity of Hollywood movies amongst the non-English speaking audience as well. Today, Hollywood movies are being dubbed in various Indian regional languages apart from Hindi.



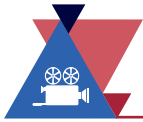
With the proliferation in the number of movies the right release date has become critical. The lifetime box office business of a film is dependent on what the first weekend delivers hence we are seeing a trend of tentpole Hollywood and Bollywood films pre-booking the important weekends (holidays/festivals) even two years in advance.

- Vivek Krishnani
SVP, Revenues and Marketing,
MSM Motion Pictures

30. Kinematograph Renters Society, 2014

31. Bollywoodviewz.com, 7 July 2014, 'The Fault in Our Stars India Box Office Collection'

32. Bollywoodviewz.com, 8 November 2014, 'Gone Girl India Box Office Collection: Average Start'



Overseas theatricals

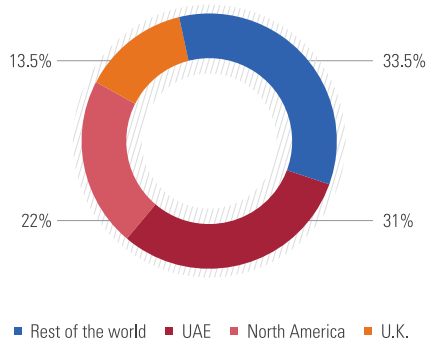
Overseas theatricals witnessed a 3.5 per cent increase from INR8.3 billion in 2013 to INR8.6 billion in 2014, while the overall contribution stood at 7 per cent of the total revenue. Currently, on an average only 10-25 per cent of the total gross collections of an Indian movie is collected from overseas theatrical compared to 60 per cent for Hollywood industry.³³

In 2014 Indian films further increased their reach. Hindi films 'Bang Bang'³⁴ and 'PK'³⁵ were released across 800 plus and 6000 screens worldwide in the overseas market. Besides, increasing the number of prints in 2014, the industry also added new geographies to its distribution portfolio: newer markets included geographies such as Lebanon, Iraq and Burma.³⁴

Filmmakers and production houses seem to be looking at overseas theatrical beyond just an ancillary revenue stream. Premieres at international locations, and tie-ups with international agencies have all been exercises to increase traction in foreign countries and promote Indian films.

Middle East, North America and U.K. are the key markets, and together they continue to contribute about 70 per cent to the total overseas revenues.³³

'Happy New Year': Split of overseas revenues



Source: Industry discussions conducted by KPMG in India

The Middle East market has showcased an impressive Y-o-Y growth of 25-30 per cent while the U.S. market grew at ~5-10 per cent.³³ In U.K., Indian movies are struggling to connect with the third generation of Indian diaspora leading to a decline in collections from the region. The industry is experiencing mushrooming demand from new markets such as Japan, China, South Korea and Peru where films are distributed with subtitles in the native language of those markets. Movies with strong content such as 'PK', 'Haider', '2 States' are performing well with non-Hindi speaking audiences as well.

Regional cinema is also now able to make bigger inroads in the overseas market, growing in both traditional markets such as the US, Gulf and non-traditional markets such as Japan, France, Denmark, Taiwan, Korea and China. The trend of opening up new markets applied to regional films as well. 'Kaka Muttai' and 'Char Sahibzaade' performed extremely well in non-traditional markets such as Canada and New Zealand.

Tamil films derive 90 per cent of their overseas demand from four key markets - U.S., Malaysia, UAE and Singapore.³³ 'Lingaa', 'Kaththi', 'Jilla', 'Kochadaiyaan' performed well among the Tamil movies in the US and U.K. markets. 'Lingaa' was released across 200 screens in the US, 85 in England, 50 in France, 20 in Denmark, 16 in Germany, 9 in Holland and on few screens in Switzerland, Norway, Belgium, and Sweden³⁶ while the Tamil film 'I' was released across 5,000 screens in China alone.³⁷

The Punjabi film industry is facing challenging times due to drop in demand from U.K. However, as an exceptional case, 'Chaar Saahibzaade' earned nearly 60 per cent of its total revenue from overseas markets including North America, U.K., Australia, and Europe.³⁸

Bengali films are still restricted to film festivals and art house circuit. Overseas markets together contribute less than 5 per cent to the total theatricals. Bangladesh market is considered as a potentially big market for the industry however, cracking the market is proving to be a challenge for the industry.³³

Overall though, Indian cinema is still reliant on diaspora audiences with limited crossover appeal.



Internationally Bengali cinemas has a huge audience in Bangladesh, U.K., US, Malaysia, Middle East and few European countries. There is still a huge opportunity in overseas market as apart from West Bengal and Bangladesh there are around 100 million Bengalis present globally.

- Himanshu Dhanuka
Director,
Eskay Video Pvt. Ltd.

33. Industry discussions conducted by KPMG in India

34. Indian Express, 24 October 2014, 'Fox Star bang on with marketing moves, festive release'

35. Koimoi, 15 December 2014, 'Aamir's PK To Release In 6000 Screens Worldwide'

36. Tamilstar.com, 8 December 2014, 'Lingaa sets new record - to release in 5000 screens'

37. First Post, 23 January 2015, 'Vikram starrer I likely to release in nearly 5000 screens in China'

38. Business Standard, 9 January 2015, 'Harry Baweja's Chaar Saahibzaade gives 250 per cent returns'



Cable & Satellite

With a share of 12 per cent in 2014, Cable & Satellite (C&S) rights continued to be the second largest contributor to the overall industry's revenue. The film revenues from sale of C&S rights de-grew by 2.7 per cent to INR1,470 million in 2014.³⁹



Correction in satellite prices has been a wake-up call (I hope!) for the industry that we cannot treat a Broadcaster as a hedging fund to recover the entire film's production cost. We must assess the viability of films on the basis of its potential at the box office & not satellite before green lighting them. Films should be made for theatres not TV!!

- Sneha Rajani
Dy. President and Head Marketing,
MSM Motion Pictures

In 2014, the broadcasters were more careful when acquiring movies compared to previous years. While filmmakers demanded a higher price in order to recoup the ever increasing production costs, broadcasters took a stand against rising movie acquisition costs.⁴⁰ The C&S prices are a function of many factors such as cast, genre, box office performance, ability to attract viewership on television, etc. In 2014, 'PK' with the largest box office collections for 2014 remained unsold at the time of writing this report. External reports suggest that the producers expected INR850 million for the C&S rights⁴¹, whereas average C&S rights for high budget Bollywood movies were sold at an average of INR400-500 million in 2013.⁴²

Due to the ongoing tussle between broadcasters and filmmakers, a number of movies either had to do away with television premieres or had to sell C&S rights at a distress price, including movies which crossed INR1 billion at the box office.⁴² In some cases, the prices of non-category A actors softened by 40-50 per cent. Broadcasters are now avoiding bundled deals and hence many smaller budget films have not been able to find a buyer yet. This has sent most producers back to drawing board to reassess their costs and revenue projections.⁴²

There are several reasons which can be attributed to this situation:

Decline in viewership of TV premieres: The viewership of TV premieres of big budget films has shrunk by almost 50 per cent in the last three to four years,⁴³ and the Hindi movie genre held a flat 17 per cent share in the viewership pie like in 2013.⁴⁴

12 minutes ad cap ruling: With stiff competition amongst broadcasters and from alternate platforms such

as digital, increasing advertisement rates beyond a certain limit is challenging for the broadcasters, thus making return on investment unattractive for high priced C&S rights.

Increased emphasis on non-film content: TV networks have developed strong weekend programming including fiction shows for their GEC channels. Star Plus and Zee TV have both extended their fiction programming to Saturday.

Strong existing movie pipeline: Many broadcasters have inked multi-year deals with production houses and actors. Star India has sealed deals worth INR5 billion⁴⁵ and INR4 billion⁴⁶ with Salman Khan and Ajay Devgan respectively for C&S rights of all their films released between January 2013 and December 2017. Viacom 18's (Colors) has a multi-layered, performance linked agreement with Dharma Productions for 12 films to be released between 2013 and 2016.⁴⁷

Low priced dubbed movie content: Many television channels are shifting to dubbed version of regional films to be telecast in prime time as they are comparatively cost effective. The cost of acquiring leading high budget South Indian films in their respective languages lies in the range of INR130-320 million. 'Lingaa' was acquired by Jaya TV for INR320 million, which was a record high price. Almost 25-30 per cent of the movies content now comprises South Indian dubbed movies.⁴⁸

Home video segment

With the rapid migration to digital platforms, downslide in the home video segment continued in the year 2014 as well. The industry shrunk further from INR1,400 million (2013) to INR1,200 million (2014). Key players like Pen India and Moser Baer have already ceased their physical home video operations due to lack of financial feasibility⁴⁹ and have instead grabbed the opportunity to partner with different online streaming websites to download their movies.⁴⁹ Shemaroo Entertainment has shifted its focus to digital platforms to include the sale of its content on YouTube, mobile streaming, WAP business, iTunes and Google Play besides other online and mobile platforms.⁵⁰

Content consumption habits have seen a tremendous shift from home video to video on-the-go. Convenience, availability of newer digital platforms and large-screen mobility devices are key factors contributing to the decline of home video market.

The direct digital availability of the movies at a minimal rent (as low as INR25 per movie)⁵¹ coupled with multiple payment options are not helping the home video segment either. Further, the content partnerships with DTH players for movies-on-demand is gaining its feet among the audience. Indian filmmakers are mirroring international technology trends and are repurposing content from its original DVD/VCD form to online/VOD form.

39. KPMG in India analysis

40. Industry discussions conducted by KPMG in India with Television Broadcasters

41. Bollywood Hungama, 18 September 2014, 'Aamir Khan's PK to fetch Rs. 85 crores from satellite rights sale'

42. Industry discussions conducted by KPMG in India

43. Television Post, 11 January 2015, 'Hindi movie channels revisit acquisition strategy in 2014'

44. Indian Television, 10 January 2015, '2014: the year of fatigue for Hindi movie acquisition'

45. India Today, 22 January 2013, Salman Khan signs 500 crore deal with TV channel

46. India Today, 5 March 2013, 'Money matters! After Salman Khan, Ajay Devgn clinches Rs.400 crore deal with a TV channel'

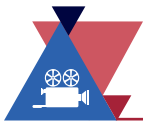
47. Economic Times, 16 December 2013, 'Colors, Karan Johar sign 12 film deal for next 4 years'

48. Indian Television, 28 February 2014, 'The whole movie acquisition game has gone for a toss'

49. Financial Express, 16 July 2014, 'Home video market: The digital effect'

50. Money Control, 12 November 2014, 'Betting on digital biz growth for margin push: Shemaroo'

51. Kabhi Kabhie, Google Play, accessed on 28 January 2015



Amidst the changing ecosystem, some players maintain their stand on the profitability of home video segment based on their niche audience. Sony DADC India, part of Sony's CD manufacturing network still relies on its niche audience that prefers to own titles owing to the large screen experience.⁵² The company has come up with various initiatives such as weekend screening of the movies at clubs, customised Hollywood movies for regional markets to engage audience and motivate them to buy titles. Tamil film director Cheran launched a new venture 'Cinema to Home (C2H)' in 2014 to facilitate filmmakers to simultaneously release their films on home video and cinema halls.⁵³

Ancillary revenue streams

Ancillary revenue streams are increasing their share in the overall revenue pie. This segment witnessed 19.7 per cent increase from INR7 billion in 2013 to INR8.4 billion in 2014.⁵⁴ Internationally, digital revenues play a significant role in regions where films do not witness a theatrical release. Revenue sharing between content providers and platforms stands at 70:30 in most scenarios.⁵⁵ Music rights contribute 2 per cent to the total film industry's revenues with big budget films selling their music rights for a massive INR100-150 million.⁵⁵



The film entertainment space is bound to see a substantial increase in non-theatrical revenues. TV Digitisation is already facilitating the increase in subscription revenue & launch of niche channels which is further spurring up the content demand. Also, the entertainment consumption is no more restricted to traditional media. Consumers are present on multiple devices like smart phones, tablets and laptops. With better broadband connectivity and the advent of 4G, video content on digital platforms will get the required push and benefit the content owners.

- Hiren Gada
Director,
Shemaroo Entertainment Ltd.

Digital platforms

With greater adoption of digital content by audiences, a major challenge has been to find the right way to monetise content on such platforms along with providing the right content to the right audience. Currently, different video-on-demand (VOD) platforms have adopted either freemium or advertisement driven models. The growth in the digital ad industry has been impressive growing at a CAGR of 41.4 per cent between 2011 and 2014 and is expected to further grow to a market size of INR162.5 billion in FY19.⁵⁴ However the video ad market constitutes

a small per cent today standing at INR3.3 billion⁵⁶ and of which the per cent of video ad market accruing to the movie industry is a further smaller percentage. Though, advertisers are now flocking towards digital platforms, the content producers are still looking for ways to reduce their dependency on advertisement revenues.

Many filmmakers are also exploring the option of releasing their movies on the digital format at the same time as theatrical release. To facilitate the simultaneous release of Bollywood movies in international markets, a global multi-platform entertainment service provider, Mela, has launched the 'First Day First Show' initiative as a part of which films are being released globally on the same day on all Mela platforms.

Subscription Video on Demand (SVoD) which allows the audience access to a wide range of content for monthly fees has been on the rise globally. Today 40 per cent of U.S. homes have access to SVoD services,⁵⁷ while the SVoD market in China is expected to reach USD 1.6 billion by 2016.⁵⁸ Compared to these mature markets demand for SVoD service in India is miniscule. Though there has been an introduction of such services in India in the last year, be it Disney tying up with AirtelTV⁵⁹ or NFDC with Visual Unity,⁶⁰ but the base remains small.

Learning from more mature markets such as the U.S., where subscription streaming revenues for film industry have grown at a healthy rate of almost 30 per cent⁶¹ in the last two years and now forms a major portion of the total entertainment spending, is that with the influx of affordable smartphones, greater access to internet and improved telecom infrastructure, Indian consumption might eventually tilt towards SVOD models.

As the affinity of the Indian audience towards the digital platform for their entertainment needs increases, filmmakers too may start looking beyond traditional revenue streams and partnerships could be formed for monetisation of online and mobile viewing through a combination of pay-per-view, video on demand and live streaming payment models.



Movie marketing and buzz is so much about social media engagement whether it be PR or releasing assets from the movie or finally booking tickets. Social media following has become an important currency in movie promotions. The early screenings and the positive word of mouth wave on social media on movies like Haider have been an important marketing tool.

- Amrita Pandey
VP and Head of Marketing and Distribution,
Studios, Disney India

52. Medianama, accessed on 28 January 2015, 'Shemaroo signs video content deal with video platform 123on'

53. Hindu, 1 January 2015, 'Will Tamil cinema warm up to new content distribution model?'

54. KPMG in India analysis

55. Industry discussions conducted by KPMG in India

56. IAMA – IMRB, Digital Advertising Industry in India 2014

57. Nielsen, The Total Audience Report, December 2014

58. Ooyala.com, 12 March 2015, China SVOD market to surpass \$1.2B by 2016 as sports take center stage

59. Indiantelevison.com, 28 May 2014, Airtel digital TV provides SVOD to Disney India

60. Digitalfacility.com, 32 February 2015, Visual Unity to Bring Video on Demand to Viewers in India

61. The Digital Entertainment Group, December 2014, US Consumer spending by format



In-cinema advertising

The revenues from in-cinema advertising are growing at a steady pace in India, and are estimated to have reached INR4.9 billion at the end of 2014.⁶² Over the years, proliferation of multiplexes and digitisation of screens has led to the audience going back to theatres. This has sparked considerable excitement for in-cinema advertising among advertisers. While on-screen advertising can guarantee undivided attention of captive audiences, off-screen promotions allow brands to leverage walls, seats, doors, lobby floor, corridors, ticketing counters, security check points, food and beverages counters, lifts, kiosks, product display, staircase, washrooms, ticket jackets, interactive/entertainment zones, poster box, etc. within the theatre premises.

Digital cinema, with its number of benefits: (i) simultaneous screening in hundreds of theatres without physical prints (ii) allows broadcast of geo-targeted ads, (iii) provides transparent electronic logs, and (iv) minimal impact of re-runs on quality of ads has established cinema as a credible source of advertising and an intrinsic part of many campaigns. In addition, it enables advertisers to monitor the quality and frequency (slots played) for their respective commercials. Several companies such as GroupM, Rentrak have also launched cinema advertising monitoring tools.⁶³

Considering the fact that major exhibitors have announced their expansion plans in India, the growth is expected to continue over the next five years, second only to digital advertising.^{62 63} The size of the in-cinema advertising market is projected to reach to INR13.82 billion by the end of 2019.⁶²

Major spenders include sectors such as FMCG, banking, automobile, local real estate and local retail. While the telecom sector has witnessed a dip in its in-cinema spends, ecommerce has compensated for this.⁶⁴ The lower ad rates and flexibility to extend ad duration to 30-60 seconds provides the much required edge to cinema advertising over other platforms especially TV. Blockbuster weekends attract a premium pricing where the premium can be in the range of 25-30 per cent on the average ad-rate.⁶⁴



We are witnessing shift in In-cinema advertisement business models from lump sum contracts to offering advertisers the option of opting for 'pay per contact'. The audience measurement metrics are now much more evolved & it has become a risk free medium to advertise with Cinema throughout the year.

- Devang Sampat
Business Head-Strategic Initiatives,
Cinepolis India



While in-cinema advertising has grown and is showing a healthy trend, in absolute numbers it lags way behind even Radio for such an impactful medium! We strongly believe that development of a common metric, to be reported by an independent third party, is needed to garner a fair share of advertising spends. This has been the focus of our development efforts, beyond just ticket sales, and we are in the process of test deployment already.

- Arvind Ranganathan
Chief Executive Officer,
Real Image

Music rights

Sale of music rights might be a small revenue stream for the film industry, however, it continues to perform strongly. Many production houses have set up their own music labels.⁶⁵ 2014 did see a rise in the price of music rights. Category A films sold the music rights for INR100-150 million while Category B films ranged from INR30 to 50 million.⁶⁴

In 2014, while broadcasters slowed their acquisitions of C&S rights, music labels continued to acquire the music rights much before the theatrical release of those movies. The trend is expected to continue going forward. For Rajshri's under-production Salman Khan movie 'Prem Ratan Dhan Payo' due for November 2015 release, the production house has already sold the music rights for reported INR180 million.⁶⁶ Sony Music has signed direct deals with three production houses – Dharma Productions, Vishesh Films and Fox Star Studios India to acquire the complete music rights for their upcoming films. In addition, the label has also acquired music rights for 40 Tamil films.⁶⁵

In order to increase their library and continue to offer variety to consumers, the music labels are now exploring the possibility of strategic alliances with other counterparts. In 2014, Sony music tied up with Zee Music Company for the international music rights of seven Bollywood movies including 'Bang Bang', 'Holiday: A Soldier Is Never off Duty', 'Humshakal', 'Hawa Hawaii', and 'Bombay Velvet'.⁶⁷

62. KPMG in India analysis

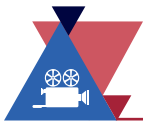
63. Business Standard, 2 February 2015, 'Cinema advertising on the fast track: Group M'

64. Industry discussions conducted by KPMG in India

65. Business Standard, 21 April 2014, 'Sony Music eye numero uno position in India'

66. NDTV, 28 May 2014, 'Salman Khan's Prem Ratan Dhan Payo Music Sold for 18 Crores'

67. Business Standard, 21 April 2014, 'Sony Music eye numero uno position in India'

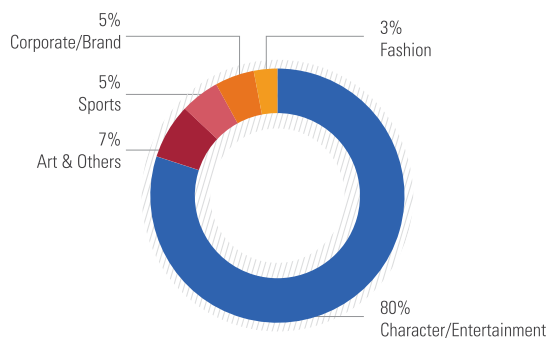


Licensing and merchandising

India's licensing & merchandising (L&M) industry is still at a nascent stage and accounts for only 0.4 per cent of the global industry. The industry is dominated by character and entertainment licensing which contributes an estimated 80 per cent to India's licensed product market. Films merchandising is still a very small portion of the INR40 billion (USD 37 million in retail sales) India L&M industry.⁶⁸

With changing cinema viewing habits and the success of licensing and merchandising of movies such as 'Dhoom 3' and 'Krrish 3' in 2013, the market has started seeing an upswing in terms of strategic alliances between filmmakers and merchandising partners.

India L&M industry segmentation by genre



Source: Industry MPA, analysis

Factors such as pre-release interest, social media penetration, growing e-commerce and m-commerce, movie franchises, personalised and targeted marketing initiatives, consumer awareness, wide-spread distribution networks and ease of access are providing the required impetus to licensed merchandising in India. The film industry is moving beyond traditional merchandise and has started exploring other avenues of merchandising. Reliance Entertainment had partnered with Vishal Fashions for the movie 'Holiday: A Soldier Is Never off Duty' ⁶⁹ to design an exclusive range of ethnic wear inspired by the movie. Fox Star Studios had collaborated with Mitashi Edutainment Pvt. Ltd., a leading Indian player in the electronics, kids & gaming industry for launching 'Bang Bang' merchandise. PVR Cinemas has launched a new venture to introduce an exclusive range of merchandise integrated with its Food & Beverages service. The cinema chain launched 'Singham Returns' inspired popcorn bags, lunchboxes and sippers that could be carried by the audiences back home as souvenirs.⁷⁰ Similarly, Yash Raj became the first ever Indian film studio to launch its own e-commerce store www.yrfstore.com to sell merchandise.⁷¹ However, In India, licensing and

merchandising continues to be seen as a part of the film promotions rather than a separate revenue source. Even though India produces close to 1,500 movies each year, the revenue share of licensing and merchandising is miniscule – a stark contrast to global trend.⁷²



Movie merchandising in India has grown in the last five years, however it is still a nascent market. Movie merchandising is difficult from a retail execution standpoint as the theatrical time window is very limited. Furthermore, most studios still think of merchandising only as a marketing tool rather than an opportunity to develop a movie into a franchise. To grow the market, local studios need to develop characters and stories that are able to form an emotional connect with the audience and thus able to transcend the original medium of storytelling and become a franchise.

- Abhishek Maheshwari
VP and Head, Consumer Products,
Disney India



68. Media Partner Asia, Dec 2014

69. Indian Express, 24 October 2014, 'Money Spinners'

70. Business of cinema, 31 July 2014, 'Ajay Devgn, Kareena Kapoor Launch Merchandise For Singham Returns'

71. Business Today, 1 January 2014, 'Yash Raj Films launches e-commerce site to sell merchandise'

72. PR Newswire, 16 May 2014, 'Warner Bros. Consumer Products Announces Godzilla Global Licensing And Merchandising Program As The Highly Anticipated Film Stomps Closer To Theatres'



Building a profitable film business

The backdrop of a multi-billion dollar media and entertainment sector with prolific double digit growth rate, a highly underserved market with just 7 cinema screens to a million people (less than a 12th of developed countries), increasing screen count, rising ticket prices and a growing middle class. Building a profitable film business in India should be easy.

As they say, films rarely fail, their budgets do. The industry must concentrate on building business models which not only identify the underlying opportunity but are also scalable and sustainable in the long term.

Having built a successful business over the last 35 years through the changing landscape of Indian film entertainment, Eros International is a unique case study. From an international distributor of Indian films to a leading global studio listed on NYSE was not an overnight journey.

At Eros our business model mainly revolved around co-production and acquisition for new release content supported by monetization of our large library of 2300+ films. The co-production model allows for a more equitable distribution of risk and reward across the value chain where talent are incentivised to participate in profits rather than charge their entire fee upfront.

Hollywood currently makes only one third of their revenues domestically in the US and two-thirds of their revenues come from international markets. For Bollywood the ratios are exactly the reverse. And therein lays the opportunity. Eros has opened up several new markets in the last 30 years where our films now travel to over 50 countries and are dubbed and subtitled in over 25 different languages. South Korea, Taiwan, Japan, Germany, Poland, Peru, etc. are examples of markets that have embraced Bollywood. At Eros, Trinity Pictures is our film production label that will focus on conceptualising and producing franchises across several genres where intellectual property will be 100 per cent owned by Eros. We hope to create merchandising and ancillary revenues out of these franchises which will be a new revenue stream for our industry.

The television industry is going through a paradigm shift post digitisation and as a content studio we see this as a huge opportunity, especially when we compare it to the developed markets. Essentially in India, films are only monetized in what is considered the basic cable window internationally, where a movie premiere is watched with a lot of advertising breaks. We believe that in the not so distant future the concept of more sophisticated content windowing will fall in place in India; with films going to DTH and digital cable Pay Per View window after theatrical, followed by the premium television (ad-free) window (both of which are currently non-existent) and then make its way to the basic cable and satellite window. And within all this is there an opportunity for a disruptive OTT window as well? The sum of the parts will end up being greater than the whole. It requires a concerted effort from all the film studios to introduce game-changing economics into the business and as always, we are not afraid to be pioneers in this regard.

There is also an opportunity to work with brands in a far more meaningful, engaging and mutually beneficial way for the film industry. All large advertisers are now look at their brand communication as a form of entertainment and there can be a definite synergy and integration of a brand and a film at a 360 degree level as the film goes through its various windows of monetization.

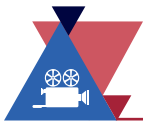
The digital revenues of a film used to be a rounding error, but with ErosNow we have taken the OTT opportunity by storm with over 14 million registered users where over 10 million are from India, whether accessing the service through a WAP portal or the APP. India is a young, rapidly growing digital nation that is slated to skip several stages of technology as it leapfrogs into the future. Content consumption on smart-phones, on tablets, anywhere, anytime is the new mantra and appointment viewing is bound to diminish. The sure-shot way to combat the piracy menace is to give content officially to consumers at the convenience of their fingertips. If the content is free, the advertisers pay for the reach and if the customer wants ad-free on demand experience then the customer pays for the premium features. We see the lines between TV and online channels blurring sooner rather than later and we are in a state of readiness to capitalise when that happens.

Growth is about reinventing oneself every few years. It is about seeing the opportunity in a problem. Being part of a paradigm shift and driving it actively is what game-changers are all about.

Jyoti Deshpande
Group CEO & MD
Eros International



Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Jyoti Deshpande. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.



Key themes

2014: Year of remakes

It would not be wrong to classify 2014 as the 'Year of Remakes'. The year started with the release of 'Jai Ho', remake of Telugu film 'Stalin' and drew to a close with the release of 'Action Jackson', a remake of another Telugu film 'Dookudu'. Several top performing high budgets films such as 'Kick', 'Bang Bang', 'Holiday: A Soldier is Never Off Duty' and 'Heropanti' were remakes of either South Indian or Hollywood films, however not restricted to these two industries. 'Citylights' was an official remake of a Filipino movie 'Metro Manila' ⁷³ and 'Total Siyappa' was a remake of the Spanish movie 'Only Human'. The trend of remakes gained momentum in the regional film industry too. The Kannada film industry witnessed around 20 remakes including 'Maanikya', 'Drishya', 'Power' and 'Super Ranga'. ⁷⁴

In 2014, two prominent remakes 'Khoobsurat' and 'The Shaukeens' were inspired from old movies with similar names. However, the filmmakers didn't simply recreate the older version; efforts were put in to make the script more relevant in the current scenario and suitable for today's audience. There are several old time blockbusters which are under production and is expected to be due for release in the next couple of years. Remakes of films such as 'Ram Lakhan', 'Katha', 'Nagin', 'Khalnayak', and 'Hero' have already been announced. ⁷⁵

With the increasing awareness and growing corporatisation, many producers now prefer to officially acquire rights for movies in order to avoid any legal issues at a later stage. ⁷⁶ The Industry has shown interest in remaking as many as seven international projects, including Hollywood films 'Oculus' (2013), 'Warrior' (2011), 'The Fault in our Stars' (2014) and 'Buried' (2010), French films 'Intouchables' (2011), 'Beautiful Lies' (2010) and 'Priceless' (2006), and South Korean film 'The Man from Nowhere' (2010). ⁷⁶

National Film Development Corporation (NFDC) in collaboration with Deborah Benattar of La Fabrique Films launched a new initiative 'Available for Remake' during International Film Festival of India (IFFI) 2014. The initiative offers a platform to filmmakers of both Indian and foreign languages films to make their films available for remake in Indian languages. ⁷⁷



2014 saw the right metrics come forward for the business of films. The shift in the trend and taste of audience is being led by the youth who reject substandard products. The industry will need to identify the various specific audience segments and will need to make efforts to remain relevant to the changing preference of these audience segments while remaining commercially viable at the same time. ▲▲

- **Vikram Malhotra**
Founder and Chief Executive Officer,
Abundantia

Conversion of Single Screens to Multiplexes

With increasing competition from multiplexes, huge entertainment taxes, low occupancy, piracy and high operational costs single screen theatres in the tier 2 and tier 3 cities are converting their 1,000 seater single screens into multiplexes with 2 to 3 screens with seating capacity of around 300 or less. This is likely to reduce the operational cost per show and will allow a greater programming flexibility to the screen owners, thus ensuring better in USD44 million in wages to local residents, USD1.9 million for catering, USD4 million for site fees, USD5.7 million for hotels, and USD4.5 million in taxes to the state. ⁷⁸

With a small investment on renovation, the exhibitors would also have the flexibility to increase the average ticket price and charge a premium for certain shows thus making them more economically viable. For instance, Eylex Films Pvt. Ltd. acquired single screen theatres in Ranchi (Jharkand) and Katra (Jammu and Kashmir) and renovated the two theatres including reducing the number of seats from 800 to 530. Post renovation, the average ticket price was doubled to INR40 and premium shows were priced at INR140. Consequentially, the earnings per month grew 25 times to INR2.5 million for a theatre. ⁷⁹ To this effect, certain states such as Uttar Pradesh government are mulling over the proposal to support the conversion of single screen spaces to multiplex complexes by offering grants. ⁸⁰

73. Daily Mail, 8 August 2014, 'Why buying rights to remake films is now a must for Bollywood'

74. Times of India, 29 December 2014, 'Sandalwood saw many firsts in 2014'

75. Times of India, 21 October 2014, 'Bollywood continues to count on remakes'

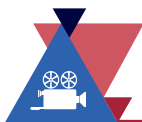
76. Hindustan Times, 29 January 2015, 'No copies please: These Bollywood films are certified remakes'

77. Hindu, 13 November 2014, 'Film Bazaar 2014 to focus on romantic scripts'

78. Live Mint, 20 September 2014, 'Strong production tax regime will help Indian film industry: report'

79. Business Today, 13 April 2014, 'Two screen movie theatres in India'

80. Business Standard, 18 June 2014, 'UP moots reviving defunct cinema halls as multiplexes'



There is no doubt that there is incredible demand and immense potential to increase the number of screens in India, given that we are both a movie crazy nation, and are significantly under-screened as compared to western and international benchmarks. Dramatically widening the net of real retail revenues via box office receipts is what we should target. What is required is a change in approach—by replacing inefficient single screen theatres and large expensive multiplexes, the industry should consider 50-100 seater miniplexes, an upgrade of the video-parlour of yore, in the smallest towns. Digital distribution simplifies the process completely, and we can learn a lot from the F&B industry, where Quick Service Restaurants (QSRs) are fast expanding in these regions – they face similar legal and competitive hurdles, and yet are successfully managing to physically distribute and sell perishable edible items. For the movie industry, its digital distribution of a non-physical, non-perishable, non-edible product via satellite...how hard can that be?

- Sameer Nair
Group CEO,
Balaji Telefilms Limited

attractive filming destination. Incentives ranging from tax concessions to facilitation of film shooting are also being offered by the state governments to film makers for shooting films in their respective states.



Films help promote cultural and technological exchanges and also play an important role in influencing people's decision to travel to a destination to experience the screened locations firsthand. Film commissions across the world help attract productions to the country, create direct employment in the film and television industry, boost consumption of local good and services and play an important role in encouraging tourism. India needs to take advantage of these benefits and set plans to exploit Film Tourism by instituting a film commission at both national and state levels.

- Uday Singh
Managing Director
Motion Picture Dist.
Association (India) Pvt. Ltd.

Films industry intertwined with Tourism: A win-win situation for both

The film industry acts as an important partner to promote tourism in the locations where films are shot. The audience is captivated by various aspects of the locations showcased in films and are motivated to travel to such destinations. The benefits of film shooting are not limited to tourism alone, it helps in boosting the overall economy. The film industry has a lot of potential to create jobs for local residents, and thereby, ensure additional income tax and higher disposable income eventually bringing in more money into the economy. For instance, the production of 'The Amazing Spider-Man 2' in New York resulted in USD44 million in wages to local residents, USD1.9 million for catering, USD4 million for site fees, USD5.7 million for hotels, and USD4.5 million in taxes to the state.⁸¹

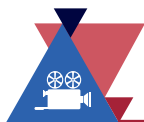
The Indian tourism industry has emerged as one of the key drivers of growth among the services sector in India. Pegged at around USD150 billion in 2013, the industry is expected to reach nearly USD419 billion by 2022.⁸² With an investment of USD7.4 billion during April 2000 to April 2014, it is also one of the top 10 sectors attracting the highest FDI.⁸³ In view of the enhanced exposure and tourist demands, the state governments are making investments in regional infrastructure, hotels, connectivity, safety, etc. to increase tourism in their respective states and help position India as an



81. Live Mint, 20 September 2014, 'Strong production tax regime will help Indian film industry: report'

82. Ministry of External Affairs Website, <http://www.mea.gov.in/>, accessed in November 2014

83. Department of Industrial Planning and Promotion, accessed in November 2014



Key initiatives of some of the states are listed below:

State Name	Fiscal Benefits
Maharashtra	<ul style="list-style-type: none"> The state government has drafted an AVGC policy in order to attract investors and provide employment in the state opening with various initiatives such as creating skill labor via training institutes and providing various tax incentives. The government also plans to set up an AVGC Centre of Excellence and encourage establishment of Fine Art Schools.⁸⁴ The Maharashtra Tourism Development Corporation (MTDC) has introduced a Bollywood tourism plan which allows tourists, both Indian and foreign, to take guided tours of film studios and sets while having a firsthand experience of film shooting.⁸⁵ The state government has announced its plan to refurbish Goregaon Film City as an ultra-modern shoot destination like Hollywood, at an estimated cost of about INR300 billion.⁸⁶
Uttar Pradesh ⁸⁷	<ul style="list-style-type: none"> Hindi films which are shot more than 50 per cent in Uttar Pradesh would be eligible to receive a grant of 25 per cent of its production cost or INR20 million (whichever is less). Films in the local dialects of Awadhi, Braj, Bundeli and Bhojpuri to be extended the sops as above, with an exception of grant, subject to a ceiling of 50 per cent of the film's production cost. Film directors would be eligible for a grant of INR20 million, INR25 million, INR27.5 million if they produce their second, third, fourth venture in UP. The grant will be increased to INR30 million for any subsequent film. Filmmakers will be awarded a grant of INR2.5 million if five main lead actors belong to the state and INR5 million if all actors belong to the state.
Punjab	<ul style="list-style-type: none"> The Punjab Heritage and Tourism Promotion Board, in collaboration with the National Film Development Corporation (NFDC) has devised the Film Tourism Policy to establish Punjab as a film shooting destination.⁸⁸ The state government provides a rebate of 5 per cent of the entertainment tax to Punjabi film makers provided 75 per cent of the dialogues are in Punjabi.⁸⁹
Andhra Pradesh	<ul style="list-style-type: none"> The state government plans to develop Visakhapatnam as a film industry related activity hub to promote the film industry.⁹⁰ The state government provides entertainment tax concession of 7 per cent for low budget Telugu films and 15 per cent for high budget Telugu films. Andhra Pradesh has earmarked 7 per cent of the entertainment tax collected for the development of cinematograph films and arts in the state.
West Bengal	<ul style="list-style-type: none"> The West Bengal government is planning to introduce a single clearance window which will process requests for films to be shot in the state.⁹¹ The West Bengal government provides various subsidies for cinemas/multiplexes: <ul style="list-style-type: none"> — New cinema halls – entertainment taxes subsidy up to 2 years — New multiplexes – entertainment taxes subsidy up to 4 years.⁹²
Jammu & Kashmir	<ul style="list-style-type: none"> The state government plans to award one film every year that promotes tourism with a grant of up to 30 per cent of the total budget or INR3 million (whichever is less).⁹³ The state government has decided to come up with single window clearance to provide hassle free approvals procedure for the filmmakers.⁹⁴ The state government has waived off taxes accrued on film makers during the days spent shooting in Kashmir.⁹⁵
Rajasthan	<ul style="list-style-type: none"> The state government has doubled the aid for Rajasthani language films with a 'U' certificate to INR1 million from INR500,000 if they are shot extensively in Rajasthan.⁹⁶ Films which have been shot (75 per cent) in Rajasthan and have a 'U' certificate are 100 per cent exempted from entertainment tax for one year.⁹⁷ New cinema halls and drive in theatres are given breaks in entertainment tax for 3 years – 75 per cent in the first year, 50 per cent in the second year and 25 per cent in the third year.

84. Business Standard, 15 January 2015, 'Draft policy aims to make Maharashtra animation, gaming hub'

85. www.maharashtratourism.gov.in, accessed on 12 February 2015

86. Economic Times, 2 February 2014, 'Facing competition, Maharashtra has big plans for Film City'

87. Business Standard, 21 October 2014, 'UP wooes filmmakers with new film policy'

88. Daily Pioneer, 18 September 2014, 'Soon, policy for promoting film tourism in Punjab'

89. Times of India, 8 October 2013, 'Debt ridden Punjab to end 10-yr waiver of entertainment tax'

90. India.com, 5 August 2014, 'Andhra Pradesh government keen on developing film industry in Vizag'

91. NDTV, 13 August 2013, 'West Bengal plans to make it easier for films to be shot'

92. www.westbengal.gov.in, accessed on 12 February 2015

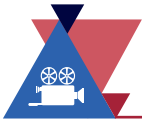
93. Zee News, 10 January 2015, 'Kashmir targets Mumbai corporates for meetings in Ladakh'

94. Kashmir Monitor, 2 June 2014, 'Govt. woos film makers with single window clearance'

95. Daily Kashmir Images, 13 January 2014, 'Govt goes all out to woo film makers'

96. Times of India, 12 October 2015, 'Govt doubles grant for Rajasthani films from 5L to 10L'

97. www.rajtourism.in



State Name	Fiscal Benefits
Uttarakhand	<ul style="list-style-type: none"> Uttarakhand's tourism minister is in process of preparing the Film Promotion Policy (FPP) including single window clearance, rebate in entertainment tax, and concession in hotels to attract film-makers and revive tourism in the region.⁹⁸
Goa	<ul style="list-style-type: none"> The Goa Tourism Development Corporation Limited (GTDC) joined hands with the film 'Finding Fanny', which was predominantly shot in Goa, to promote brand Goa.⁹⁹ The state government has announced awards of INR500,000 and INR300,000 for the best two feature films in Konkani or Marathi languages. The winning films will be announced during the Goa State Film Festival held once in every two years.¹⁰⁰

Word of Mouth (WOM): an effective marketing online tool

Word-of-Mouth is one of the oldest promotional phenomena in the world, and with the highly connected nature of people today, its magnitude and importance has seen a significant rise in film promotions. Information is disseminated at lightning speed today, establishing WOM as one of the most effective marketing tools available. In 2014, box office business of several movies was impacted purely due to WOM publicity. 'Queen', which was initially released in 400 screens, doubled its number of screens in the subsequent week basis the positive viral buzz created post-release. It turned out to be one of the best performing movies in 2014. The makers of the movie had strategically kept a part of the budget for post release promotions and amplifying the impact of positive WOM.¹⁰¹ For 'Haider', UTV Motion Pictures organised early screenings 5 days before the release with industry fraternity, critics and influencers to garner positive WOM prior to its release, which worked extremely well for the film in the long run. On the contrary, business was adversely impacted for films with weak concepts owing to negative WOM.¹⁰²



The content wave reached its peak in 2013, but witnessed a reversal in 2014, where only two films— PK and Queen – crossed a WOM (word of mouth) score of 68, vis-à-vis 7 in 2013.

- Shailesh Kapoor
Co-Founder and Chief Executive Officer,
Ormax Media Pvt. Ltd.



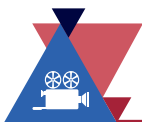
98. Times of India, 21 January 2014, 'U'khand woos film-makers to revive tourism'

99. State of Kerala, 8 September 2014, 'Goa tourism to tie-up with 'Finding Fanny' producers'

100. Times of India, 16 January 2014, 'State govt gives shot in the arm to Goan film producers'

101. Reuters, 2 April 2014, 'Post-release marketing helps 'Queen' rule box office'

102. IBTimes, 21 November 2014, 'Kill Dil' Earns ₹29 Crore in 7 Days; SRK's 'Happy New Year' Completes 4 Weeks in India'



Digital Marketing Campaign of 'Haider'¹⁰³

UTV Motion Pictures designed its digital marketing campaign to connect with the youth who are present largely on this platform. Some of the key initiatives included:

- Launch of the campaign with YouTakeOver - generated a lot of buzz for the film and was the best performing TakeOver for YouTube during this campaign - created 1.1 million touch points for the film across Google India and YouTube India.
- 'Haider LiveStream' was supported by Facebook- reached 3 million people within the day of announcement with over 1,900 people watching the live interaction.
- All behind the scenes (BTS) were created to build buzz around the main campaign. Each BTS unit was first released on Facebook as a native video - generated over a million views and 26,000 shares.
- Used dialogues & lyrics as central pillars of all social media communication - built a lot of online chatter around key concepts like 'Chutzpah' and 'Hai ke hai nahin'.
- Carousal on Google was used to drive home the intensity of the dialogues of the film.
- Actively engaged with various fan clubs post release of the movie.



103. Industry discussions conducted by KPMG in India



Sequels: How much is too much?

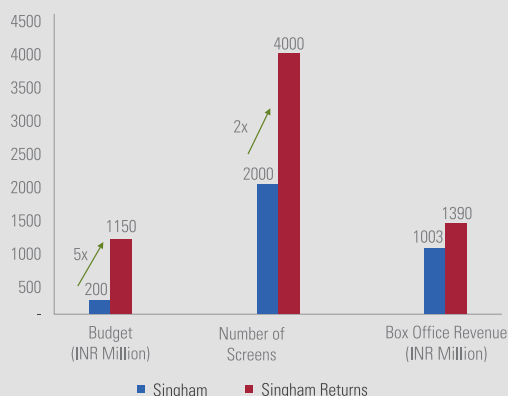
With 24 sequels, 2012 was stated as 'Year of Sequels' for the Hindi film industry. Though the trend continued in the succeeding years, it witnessed a downward trajectory in 2014. While 2013 saw the theatrical release of 9 sequels, the number fell to a mere 6 in 2014. A number of announcements such as 'Ghayal 2', 'Dostana 2', 'Kahani 2', 'Rock On 2', 'Housefull 3'¹⁰⁴ were made in previous years, however many of these projects have either got shelved or delayed due to unknown reasons. Not just the number of sequels has seen a downward trend but the profitability quotient of sequels has also reduced. Many sequels were unable to garner the kind of return on investments (ROI) generated by their original movies.

Similarly, films such as 'Bhootnath' and 'Ragini MMS' delivered better returns to the producers as compared to their sequels 'Bhootnath Returns' and 'Ragini MMS -2' respectively, even though sequels received a wider nationwide release.

A billion, but not enough!

'Singham Returns' was one of the highest earning sequels of 2014. Though Rohit Shetty's movie managed to cross INR1.3 billion at the box office, the movie is said to have delivered a much lower return. The reason for the same being the high production budget of the sequel compared to the first edition. The sequel was produced with a total budget of INR1.15 billion (including production and marketing costs). On the contrary, the first edition 'Singham' was produced with a budget of INR0.2 billion and collected more than INR1 billion in the year of its release.

Performance Comparison of Singham and Singham Returns



Source: DNA, 14 Oct 2014, Will Hrithik Roshan's 'Bang Bang' surpass Ajay Devgn's 'Singham Returns' collections at the box office?, Hindustan Times, 16 August 2014, Singham Returns is 2014's biggest opener, earns Rs 30 crore on day one, www.bollywoodhungama.com

Growing reach of sequels

First Edition	Year of release	Number of screens
Ragini MMS	2011	600
Ishqiya	2010	522
Singham	2011	2000
Sequel	Year of release	Number of screens
Ragini MMS -2	2014	2300
Dedh Ishqiya	2014	1900
Singham Returns	2014	4000

Source: Boxofficeindia.com

The number of screens has almost doubled (even quadrupled in some cases) for some sequels as against the first edition reflecting the receding audience interest in sequels.

Indie Films continue to travel

The success of movies such as 'The Lunchbox', 'Qissa', 'Char Sahibzaade', etc. has made the world stand and take notice of Indian cinema beyond Bollywood. 'Qissa' won the Netpac Award at the Toronto Film Festival,¹⁰⁵ 'Court' won the Lion of the Future award at the Venice Film Festival¹⁰⁶ and emergence of world class talent such as Anand Gandhi and Aditya Vikram Sengupta (winner of Best Director at Venice Film Festival¹⁰⁷ and Marrakech Film Festival¹⁰⁸ for his film 'Asha Jaoar Majhe') point to the fact that the independent film circuit of India today is much better placed than what it was a few years ago.



The Indian audience today is much more receptive to diversity in cinema. Thus it has become imperative for the industry to not only produce authentic movies with strong story lines but also focus on building stronger distribution platforms, improving the craft which is at par with international standards and investing in setting industry best practices.

- Nina Lath Gupta
Managing Director,
NFDC

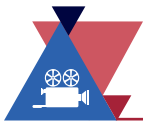
104. NDTV, 20 April 2014, 'Meet the stars of Housefull 3'

105. Thestar.com, 2014, 'TIFF 2013: 12 Years a Slave wins film fest's top prize'

106. Business Standard, 7 September 2014, 'Indian movie 'Court' bags best debut award at Venice Film Fest'

107. Mid-day, 21 September 2014, 'Bengali movie bags award at Venice film festival'

108. IMDB, 14 December 2014, 'Aditya Vikram Sengupta named Best Director for "Labour of Love" at Marrakech'



The increasing number of film festivals across the globe embracing Indian movies indicate the growing interest in Indian cinema. The participation and acceptance of Indian films in these forums increased accessibility and availability of Indian content worldwide. Besides showcasing Indian talent to worldwide audiences, these festivals also provide an attractive platform for emerging film makers. The Indian Film Festival of Los Angeles, New York Indian Film Festival and Indian Film Festival of Melbourne have been widely successful. Domestically, Indian Film Festival of India held in Goa has also been attracting higher footfalls every year. NFDC's Film Bazaar¹⁰⁹ provides budding film makers a platform to collaborate and showcase their work to various distributors, production houses and sales agents. With a modest beginning in 2007 (204 guests from 18 countries), Film Bazaar has become a focal point for South Asian filmmakers to present their stories to the international film fraternity. In 2014, 1042 delegates from 38 countries attended Film Bazaar. Increasingly filmmakers and talent view Film Bazaar as a principal platform for launching, funding, co-producing, distributing films (including festival participation).¹¹⁰



Today, the industry is in a very different space, producers and directors are partnering with each other to create rights that can be licensed, sold, and leveraged over different platforms. In this context, Indian Cinema has come of age, as the director has become the epicentre and the script the king. The industry is adapting to this changing environment through increased collaboration right from developing the script to distribution and exhibition.

- Vikramjit Roy

GM-Executive Producer and Head Marketing,
NFDC

While the future outlook of the independent film industry looks promising, the industry has its work cut out. The industry realizes that in order to achieve its full potential, it would have to work towards commercial viability while also focussing on improving their product to compete at a global level. The industry also needs to work in tandem with the government to establish quality training institutes such as Film and Television Institute of India across the country that will help amateur and budding film makers to excel. To grow beyond the Tier 1 cities, indie film makers need to tap the immense opportunity present in smaller cities by focussing on audience evolution, which may provide the independent cinema industry a much needed boost.

While content is king in independent cinema, there is a dire need to set aside a minimum budget for marketing and promotional activities to generate enough buzz amongst the target audience. Digital media can play a major role in the growth of the independent film industry. Several movies in western countries, which were directly released on home video or VoD platforms after a small theatrical release, have done extremely well. A small, independent film can make an impact and find a larger audience if strategically released across traditional media and digital platforms.

'Qissa': Case study¹¹¹

NFDC's acclaimed international co-production 'Qissa' which won critics accolades and hearts of the audience globally specially in countries such as Germany, France, Netherlands was released in India across select theatres. NFDC released the DVD and made the movie available on its VoD website www.cinemasofindia.com on the same day as its theatrical release. This Day-And-Date release marked the first time that a feature film of such international acclaim was being distributed in theatres and simultaneously on home viewing and on pay-per-view, in India. Such a release helped the film to cut through the clutter and allowed the audience to watch the movie whenever and wherever they wanted. Shifting from the traditional distribution model which is driven by windows between each media platform, NFDC leveraged India's growing digital footprint to make a Punjabi language film accessible to a pan India audience. They also plan to release the movie on NFDC's YouTube channel and also on NetFlix.



109. <http://filmbazaarindia.com/>

110. Industry discussions conducted by KPMG in India

111. National Film Development Corporation



Co-production Treaties

In an effort to promote the Indian film industry beyond the country's borders and to boost film influenced tourism, India has, from time to time, signed movie co-production treaties with various countries such as Italy (2005), Germany and Brazil (2007), the U.K. (2008), France (2010), New Zealand (2011), Poland and Spain (2012) and Japan (2013). In 2014, India signed co-production treaties with Canada¹¹² and China.¹¹³ Such treaties not only enable Indian film makers to leverage tax rebates but also benefit from relatively relaxed visa norms in partner countries. Other benefits include:

- Access to a common pool of creative, artistic, technical, financial and marketing resources
- National films status to such co-produced films in both countries and their participation in the film festivals as domestic productions of both countries
- Incentive for carrying out production and post-production work in the participating country
- Access to resources through co-production country which may otherwise may not be available in the home country.

South East Asia, Middle East, Latin America and South Africa are some of the locations that have consistently figured on a producer's list in the recent past. For instance, 'Kick', 'Bang Bang' and 'Happy New Year' were shot in Poland, Abu Dhabi and Dubai respectively.¹¹⁴ Regional cinema is also leveraging on this opportunity, Tamil director Hari Gopalakrishnan shot extensively in Kenya, South Africa and Tanzania for 'Singam 2'. More recently Velli Vechathil's 'Silver Light' became the first Indian movie to be shot entirely in Oman.¹¹⁵

Women centric films

A positive development observed has been that the Indian film industry has displayed its willingness to invest in women-oriented movies. Nearly a dozen of women-centric movies were released during 2014 – one of the highest in the past decade – generating high returns, – a reported average of 50 per cent.¹¹⁶ While, a female-lead requires an average investment of INR250-INR270 million, the male-lead costs a nearly quadrupled investment of INR1,000-INR1,100 million. The success of women-centric movies can be gauged from the fact that movies 'Mary Kom', 'Queen', 'Highway', 'Mardaani', and 'Ragini MMS' delivered an average return on investment of 71 per cent.¹¹⁶

Successful women centric films (2014)

Film	Return on Investment (%)
Mary Kom	96.7
Queen	92.8
Highway	92.0
Mardaani	50.7
Ragini MMS	23.5

Source: Business Standard, 13 September 2014, 'Woman-centric movies rule the roost at box office this year'

Note: The RoI is calculated by taking into account the producer's share in domestic box-office collections and his income from sale of satellite and music rights.

Key Challenges

Piracy

Piracy has been one of the biggest thorns in the flesh for the industry: from tackling VHS and video cassettes during the 1980s to illegal downloading of content through Peer to Peer (P2P) networks today. With increased penetration of technology and internet in India, piracy through online distribution is expected to continue to be a major source of revenue leakage if adequate steps are not taken immediately and by all stakeholders.

For the first time in 2014, India was included in the International Piracy Watch List by the US, a list of four countries where piracy is rampant.¹¹⁷ While the report praised India for its efforts to combat piracy in the recent past, it also noted that the piracy, copyright laws of the country were not only lagging in terms of coverage but also in terms of implementation. Nehru Place and Gaffar Market in New Delhi, Manish Market and Lamington Road in Mumbai and Chenoy Trade Centre and Hong Kong Bazaar in Hyderabad were identified as "notorious markets" for global piracy.¹¹⁸

Cam-cording is one of the most common ways of piracy, where pirates illegally record the movie in the theatres and release it online as well as make duplicated DVDs and sell it on the black market. The pirated versions of the movies are released within a day or two of the release of the movie and the DVDs are available the next day in the market.

2014 also saw increased cooperation between the industry and the government to tackle the issue of piracy on a larger scale. The number of piracy cases registered in India reduced by 10 per cent this year as compared to a 16 per cent drop in the entire Asia Pacific region.¹¹⁹ Industry is now leveraging technology to track the culprits in an effort to curb piracy. Tamil actor-filmmaker Radhakrishnan Parthiban used Cube technology to nail the film exhibitor who allegedly produced pirated versions of his latest directorial venture "Kathai Thirakathai Vasanam Iyakkam".¹²⁰ Arrests of criminal camcorder piracy syndicates Yamraaj and NickkkDoN was also one of the major breakthroughs this year.¹²¹

112. Canada International, 24 February 2014, 'Canada and India Sign Audiovisual Coproduction Agreement'

113. The Hollywood Reporter, 18 September 2014, 'India, China Sign Film Co-Production Treaty'

114. Indian Express, 1 August 2014, 'Shooting Stars'

115. Times of Oman, 18 February 2014, 'A Malayali film made in Oman'

116. Business Standard, 13 September 2014, 'Woman-centric movies rule the roost at box office this year'; KPMG in India analysis

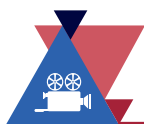
117. The Hollywood Reporter, 24 June 2014, 'India Joins China, Russia, Switzerland On Piracy Watch List'

118. Indian Express, 13 February 2014, 'Nehru Place, Gaffar Market notorious markets for piracy: US'

119. Business Insider, 22 December 2014, 'Camcorder Video Piracy In India And Who It Affects The Most'

120. Indiawest.com, 26 August 2014, 'Tamil Actor Uses Technology to Crack Down on Film Piracy'

121. The Hollywood Reporter, 8 December 2014, 'CineAsia: India, China the Problem Areas in Camcorder Piracy Cases'



Some of the major driving forces behind piracy in a country like India are poor payment gateways, poor IP laws, weak enforcement, lack of awareness among the youth, and ubiquity of pirated content. While the multiplex ticket of a legitimate recently released movie costs around INR150-200, the pirated DVD of the same movie can be purchased for as low as INR30-40 or can even be downloaded for free within hours of its release,¹²² thus making illegal downloads increasingly commonplace.¹²³ Part of the issue is that legitimate means of digital viewing are still emerging in India. Improvements in technology, business models and payment mechanisms need to evolve urgently to compete effectively with the 'free' illegal option. Implementation of existing anti-piracy rules also needs to be more stringent.

The industry will need to walk together and combine their resources to combat piracy and this would include producing quality content which entices the audience to watch the movie in the theatre, optimising the release window, and making it available across platforms. Filmmakers can also need to encourage adoption of legitimate options such as ErosNow, HotStar, Spuul, Hungama, etc. On its part, the government needs to ensure that regulations related to IPR, anti-piracy, copyright infringement are addressed and implemented fully, audience are made aware of the risks involved in piracy.

In 2014, the Film and Television Producers Guild of India (FTPGI) in association with the Motion Picture Dist. Association, India launched a new website 'www.findanymovie.in' that aims to serve as a resource for online audiences to access movies and television shows legally.



We believe that India is now mature as a digital cinema market and the trend to global conformity with DCI standards will be the way forward. At the minimum, we believe that the industry should announce immediately, giving reasonable time for integration, to standardise piracy deterrent technology features in the cinema servers to the DCI requirements. This would mean that there can be an independent body, which could be the anti-piracy cells themselves, that can secure the required licences and monitor directly instead of having to depend on respective companies and their technologies for detection assistance.

- Senthil Kumar
Founder Director,
Real Image

The website features top content delivery platforms in the country, which collectively offer access to over 4,000 movie titles with an average price of less than a dollar per movie for select titles. Over time, other legitimate content delivery platforms including mobile apps is also expected to be added with a focus to promote online content protection and increase consumer awareness.¹²⁴

Managing costs

Movie budgets are consistently increasing with greater proportion being spent on talent cost and promotion and advertising of the film. The Indian Film Industry is marked by a star system in which top actors command disproportionately high fees compared to other artistes and technicians involved. An A-List star, besides getting a hefty fixed fee which can be up to almost 35 per cent of the total budget,¹²⁵ also commands a share in the IPR which ranges from 0-50 per cent depending on the star power. This tends to severely affect the return for the producers. With the focus shifting slowly and steadily towards content rather than star power, emergence of new talent and top actors starting their own production houses, rationalisation of talent costs is the need of the hour.

The trend of increased promotion and advertising budget continued in 2014 with almost 15-20 per cent of the total budget being spent on marketing activities.¹²⁴ Small budget movies are among the most affected by the increasing P&A costs as they do have relatively smaller marketing budgets. With diminishing returns, production houses need to keep a sharp focus on P&A costs to ensure spend is justified and is within limits.

The industry is working towards building the next generation of stars. In the recent years, the industry has witnessed emergence of young crop of actors such as Varun Dhawan, Siddharth Malhotra, Aditya Roy Kapur, Tiger Shroff, Arjun Kapoor, Alia Bhatt, Shraddha Kapoor and Kriti Sanon to name a few which is likely to drive efficiency in cost structures.



While greater access to organised capital will definitely provide the impetus to the industry growth, all stakeholders need to do their bit ranging from the government introducing uniform tax rates, to greater unity at the producer level to be able to say 'no' to paid content for film promotion at all levels, to rationalisation in cost structures with talent and digital service providers for distribution. These steps in turn will ensure sustainable growth in the industry as well as make it a level playing field for people to invest in this business.

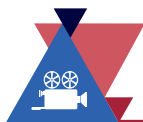
- Mohit Mehra
Cinema Capital Venture Fund

122. Pluggedindia.com, 'Pricing Piracy Out Of India Film and Music'

123. NDTV Gadgets, 19 March 2014, 'To pay or steal: How piracy is offering a better TV and movie viewing experience'

124. Industry discussions conducted by KPMG in India

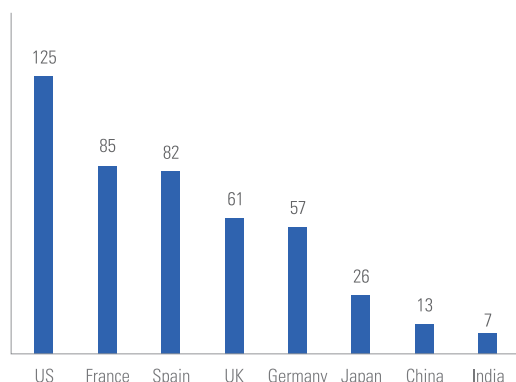
125. Forbes India, 23 December 2014, 'Actor's Cut: Income From Film Profits'



Infrastructure and regulatory framework

Though the India film industry is the largest film industry worldwide in terms of number of films produced, it stands nowhere close to being a world leader in terms of infrastructure. The under penetration of screens in India is a major cause of worry for the industry. There are just 7 screens per million population in India compared to the US which has around 125 screens. UNESCO Institute of Statistics ranked India among the top 10 countries with lowest screens per capita.¹²⁶

Number of screens per million population



Source: OBC, MPA, UNESCO, US Census, KPMG in India Analysis

Emergence of multiplex screens in the last decade has dramatically changed the film exhibition space in India, however there is still a huge opportunity to rapidly increase the number of cinema screens in the next decade without causing oversupply.¹²⁷ Lessons could be learnt from China which has overtaken India in terms of domestic box office revenue since 2009. China is adding 18 screens per day and at this rate it is expected to be at par with U.S. in terms of screen count in the next 3 years.¹²⁸

Consolidation in the exhibition industry and a positive outlook in the economic and social conditions of the country could see investments being made to improve the infrastructure and increase screen density, but it would be important for both central and state governments to update and amend the regulations on priority. Currently, it would be easier to open a mall than it is to open a cinema hall, the licenses required to open a cinema hall are complex and time consuming and often discourage an investor.¹²⁹

Current licenses and approvals required:¹²⁷

- Location No Objection Certificate (NOC) from the licensing authority
- NOCs from Executive Engineer from Public Works Department, health officer, character verification from police, traffic NOC, etc.

- NOC from people living within a distance of 63 meters from the proposed land
- Additional licenses to operate the theatre such as cinema license, completion certificate, electrical inspector's certificate, fire and safety certificate and parking certificate, etc.

Currently there are only 4 film cities in the country,¹²⁹ located in Mumbai, Hyderabad, Noida and Chennai. New film cities will not only help increase employment and tax revenue, but can also ease the strong pressure on the existing film cities.



In 2014 we added 24 screens out of the target of 50 screens, at the same time 26 screen are ready with fit out. While the real estate supply is now steadier due to entry of organised players, multiplicity of licenses is a major concern which is hampering the execution of screen additions.

- Devang Sampat
Business Head-Strategic Initiatives,
Cinepolis India

Training and Development

Another key challenge hampering the growth of the industry is the shortage of talent. Infrastructure development will be required to create more schools such Film and Television Institute of India across India, enabling talent to receive world class formal training in various disciplines which will help the industry grow in the long run.



The talent potential in India is immense, what is lacking is good quality film institutes for them to hone their skills. The time has come to give equal importance to media education – we can begin by introducing it at primary education level and establishing world class higher technical training institutes. The government and private players will need to collaborate to provide the right infrastructure and opportunities to the budding talent.

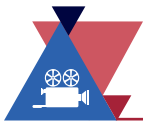
- Rahul Puri
Managing Director,
Mukta Arts Ltd.

126. KPMG in India, Increasing Screen Density Whitepaper

127. Film and TV Producers Guild, Make in Maharashtra Report

128. LATimes, 1 July 2014, 'China box office grows 22 per cent in first half of 2014'

129. Indiamarks.com, 'Indian Film Cities'



Tax and Regulatory Framework

The proposed introduction of GST is a step in the right direction, however a key challenge is how GST could be used to integrate the large number of taxes and provide a simpler tax regime which is beneficial to both the industry and the government. Under the current consideration, while entertainment tax is being subsumed within GST local body taxes have been kept out. Even though local body taxes form a small part of the overall taxes (INR18.5 crores in 2014),¹³⁰ keeping it out of GST leaves room for uncertainty in taxation even after a uniform tax structure.

While the immediate challenge for the government is to provide a better and easier tax regime for the industry, it would also have to address the challenges which the industry faces to get clearances in the long run. Currently there is no system which allows film makers to get all clearances at a single window. A point in case is the low number of international films shot in a country as vast and diverse as India. Countries such as South Africa, UAE, have started providing a more conducive environment for the film makers to shoot movies in their countries¹³⁰ and going forward the Indian government will need to address the challenges related to tax structure, clearance windows and incentives to make the Indian film industry lucrative.



The biggest challenge the film industry needs to tackle is that of 'perception'. Unless the film industry is treated and taxed like the other industries the growth will be checkered. What is required is an array of reforms – from having an industry friendly Cinematograph Act, a stable and simplified tax structure, single window clearances to the creation of an anti-piracy organisation.

- Kulmeet Makkar
Chief Executive Officer,
The Film and Television Producer
Guild of India Ltd.

Differential Pricing

There is a growing demand for differential ticket pricing depending on the star cast, content and scale of the movie. Today a tent pole movie such as 'PK' can be sold out at INR500 per ticket, however the hit is taken by smaller movies which do not get premium screening slots due to potentially poor occupancy. While differential pricing is increasingly being used by the larger exhibitors across their networks, a broader adoption will encourage smaller movies to release at the time when larger films are in the theatres.

Implementation of Cinematography Act

The Cinematograph Act 2013, which aims to replace the existing 1952 act to be more in tune with the changing landscape of the Indian film industry, will play an important role in the growth of the industry. The new Act will alter the guidelines for selection criteria for the advisory panel. In addition, single board certification could be implemented which would expedite the certification process along with an expanded classification of films. On the piracy front, stricter penalties is expected to be implemented for unauthorised duplication of content.



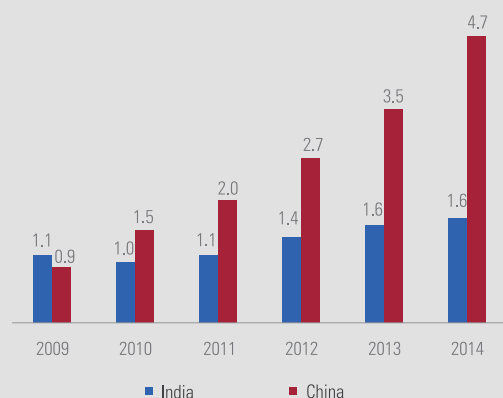
130. Industry discussions conducted by KPMG in India



Case Study - Lessons from China's film industry

China's film industry has emerged as one of the largest in the world accounting for over 10 per cent of global box office,^{131 132} second only to U.S. What is interesting to note is the growth which the industry has shown in the last five years. It has grown from being a smaller industry compared to the Indian film industry in 2009, to being over two times the size of the latter^{133 134} in terms of box office collections. In a bid to increase the contribution of cultural and creative industries (including film industry) to its national GDP both, central and local governments have mapped out their goals in order to achieve the set target of output of the industry accounting for 5 per cent of China's GDP by 2016. Thanks to the growing focus of the government on the cultural industries, China recorded a y-o-y growth rate of 32 per cent in cinema admissions to reach 612 million in 2013.

Domestic Box Office revenue – India, China (in USD billion)



Source: Ent Group report, China film industry report 2013-2014, KPMG in India analysis

A few years back, China had less than half the number of theatre screens in India; however with an addition of almost 18 screens a day, it has left India way behind. 2014 saw India's first USD 100 million film 'PK'¹³⁵, while the highest grossing Chinese Film 'Lost in Thailand' had collected upward of USD200 million in 2012.¹³⁶

Hollywood, the biggest film industry of the world, now recognises China as one of the strategic markets contributing the second highest revenues after the US.¹³⁷ The reason for Hollywood to now look even more closely at China are the sheer growth numbers – while box office collections fell by 20 per cent in the US in 2013, the collections in China grew by 33 per cent during the same year.¹³⁸ Considering the fact that the Chinese government allows screening of only 34 foreign films in a year,¹³⁹ the business which Hollywood does there is indeed noteworthy. In 2010, James Cameron's 'Avatar' made USD222 million in China; however, the real game changer turned out to be 'Transformers: Age of Extinction' that grossed over USD300 million in China¹⁴⁰ while it collected just USD241 million in the US.¹³⁸

Top 10 highest grossing Hollywood movies in China (2014)

Name	Collection (in USD million)	Share of GBO
Transformers 4: Age of Extinction	320	29.4%
Interstellar	122	18.1%
X-Men: Days of Future Past	118	15.9%
Captain America: The Winter Soldier	116	16.2%
Dawn of Planet of Apes	108	15.3%
The Amazing Spider-Man 2	96	13.5%
Guardians of the Galaxy	93	12.0%
Godzilla	79	14.9%
The Hobbit: The Desolation of Smaug	75	7.8%
Need for Speed	67	33.1%

Source: The Hollywood Reporter, 16 December 2014, 'China Box Office: Foreign Quota Movies Saw Revenue Rise 60 Per cent in 2014'

This has only become possible through support extended by the Chinese government. Realising the benefits which a flourishing film industry can provide both in terms of soft power and in helping the economy grow, the government has been taking aggressive steps. Besides limiting the number of foreign movies which can be screened in the country to promote local talent, the Chinese government has proactively announced several policies to boost the growth of the overall film industry. Some of the key initiatives are:

- In November 2009, the Chinese government announced subsidies of up to USD7,300 (RMB 50,000) from the state's film fund for the faster development of digital screens. This led to an impressive y-o-y growth of 156 per cent in the number of digital screens in 2010 (the number rose to ~4,100).
- In January 2010, the office of the State Council elevated the film industry to the status of a strategic industry. This encouraged financial institutions, including banks and funds, to expand financing channels to film industry players and widen the number of collaterals that the players can use against loans.
- In April 2010, nine ministries jointly issued guidelines on financial support for the promotion and development of cultural industries including China's film industry.

131. BBC, 30 October 2014, 'Is it a golden age for Chinese cinema?'

132. Ent Group, China Film Industry Report 2014

133. Business Standard, 30 January 2015, 'PK gets widest Bollywood release in China'

134. University of Southern California News, 5 February 2015, 'Hollywood sets out to claim a film foothold in China'

135. Times of India, 3 January 2015, 'PK may stagger past \$100 million milestone at boxoffice'

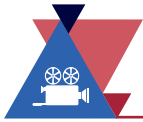
136. LA Times, 7 February 2013, 'China blockbuster 'Lost in Thailand' takes a chance on U.S. screens'

137. University of Southern California News, 5 February 2015, 'Hollywood sets out to claim a film foothold in China'

138. Yahoo.com, 4 August 2014, 'Why China, not the U.S., is the audience Hollywood wants'

139. The Hollywood Reporter, 16 December 2014, 'China Box Office: Foreign Quota Movies Saw Revenue Rise 60 Per cent in 2014'

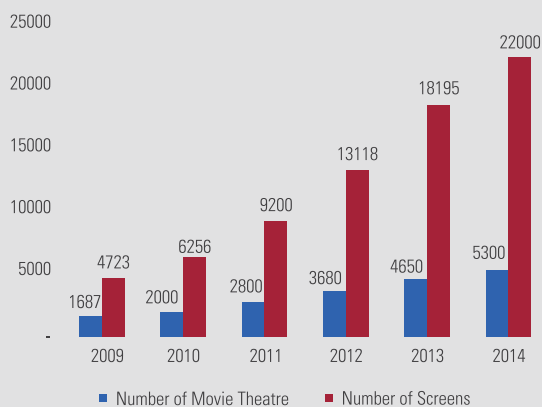
140. Entgroup, China Film Industry Report 2013-2014



- Effective 1 January 2014, the Chinese government has exempted VAT on income obtained from sale of film copies, transfer of copyrights, film distribution, and exhibition of films in rural areas to the end of 2018.
- In July 2014, the Ministry of Finance (MOF) and the National Development and Reform Commission announced their plan to spend USD16 million (Yuan1 billion) annually to support the domestic film industry, particularly the film production business and construction of digital cinemas.

The government has also signed co-production treaties with a few countries, the latest addition being India. Most importantly, the tax collected from the film industry is completely ploughed back by government for the development and growth of the film industry.¹⁴¹ Owing to favourable policies, the film exhibition industry in China has witnessed an upsurge in the number of screens, and the number of feature films produced.

Growth in numbers of Movie theaters and screens in China 2009-2014



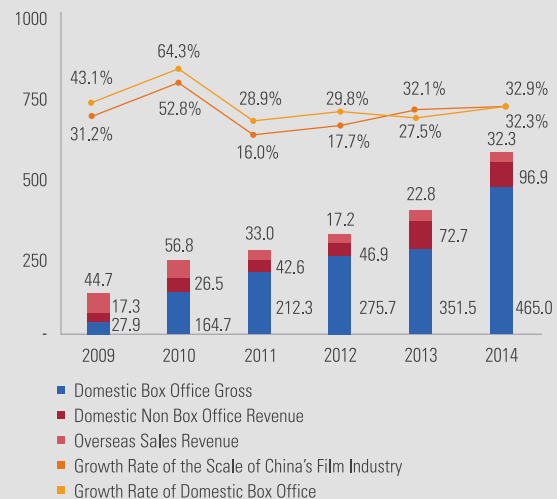
Source: Ent Group report, China film industry report 2013-2014

In terms of box office collection, domestic Chinese movies have been performing very well with 7 out of the 10 highest grossing movies of 2014 crossing USD100 million. Like Indian movies, overseas revenues form a small percentage of the total revenue for the Chinese movies and stand at 6.5 per cent of the total gross revenue.

Online video, which is off to a slow start in India, has a significant presence in China. In fact almost 1 in 2 Chinese users are now willing to pay for content online.¹⁴² According to a survey, there were 439 million users in China at the end of June 2014 who were accessing content online.¹⁴³ The popular online video streaming websites collaborate with Hollywood studios to offer pre-release marketing campaign services besides post-release ancillary services.



The scale of China's film industry in 2009-2014



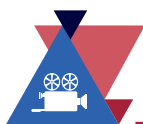
Source: Ent Group report, China film industry report 2013-2014

Even with over 22,000 screens it is under screened and to reach its true potential it will likely have to at least triple the number. China has seen a tremendous growth in its film industry in the last decade growing at a healthy rate of 30 per cent, it is poised to take over from the US as the leading country for box office collection by 2020. There are many lessons to be learnt from this growth story, China leapfrogged India and Japan in a matter of few years due to concentrated efforts of its government. The boom in the number of screens and quick adaption of digitisation and the latest technology has allowed the Chinese filmmakers to improve their craft. Further penetration of technology and digitisation will help it further break boundaries beyond the traditional platforms.

141. Industry discussions conducted by KPMG in India

142. Entgroup, China Film Industry Report 2013-2014

143. Variety, 3 February 2014, 'China Rising: How Four Giants Are Revolutionizing the Film Industry'



Key Future Themes

Box office monitoring and tracking

The need for robust monitoring and tracking tools has been felt in the Indian film industry for some time now. In the past, there have been several instances of disagreements between the production houses and distributors over the revenue generated by a movie. Several producers and actors have openly expressed their concern over the absence of revenue tracking tools in the industry.¹⁴⁴

In 2014, the film industry took a step forward towards creating a common ground for tracking the box office performance of a movie. With the number of digital theatres on the rise in India, systematic tracking can be accomplished. The companies offering monitoring and tracking solutions ink deals with the production houses for their movies and further, sign pacts with the cinema chains to collect data pertaining to audience behaviour during those movies. Companies such as Rentrak have a network of theatres in various countries enabling them to track domestic business, international performance, effectiveness of promotional campaigns, and viewers spending at the food counter during the course of a movie.

Though box office analytics is still at a nascent stage in India, international production houses have been utilising these services globally for quite some time now. In order to ensure transparency, major players will likely need to encourage the adoption of such services.

And the counting begins...

The 100 year old Indian film industry has evolved across various phases in the life of a film: from pre-release audience testing to simultaneous digital distribution of films across thousands of screens. As the industry strides towards reaching out to global audiences and attracting international partnerships – both on creative front and for funding, one of the biggest challenges which it needs to address is that of greater transparency and efficiency. To this date the Indian film industry does not have a transparent real time box office data measurement mechanism.

The direct result of the absence of such a system is the inaccuracy of the data being reported. Currently, the reported box office collection of a movie is just a fair estimate and often leads to various arbitrary decisions by the stakeholders of a movie including the talent, producers, distributors, exhibitors, etc. As a result, the inaccuracy of data impacts policy, tax structures, appropriate assessment of associated revenue streams.

Some of the more mature film industries have realised the potential and value of implementing data analytics, and hence are investing heavily in film making. With systems in place which allows tracking data on real time basis, film makers can now perform analytics which adds value to the overall development of the movie including programming, research, release planning and optimisation of potential revenue streams for distributors and exhibitors.

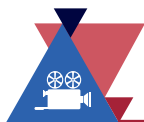
However, the Indian Film Industry is marked with distinct characteristics which make adoption of such technologies and practices harder compared to that in other markets. Most prominently, sheer size, diversity and fragmentation of the Indian market present complexities leading to slower adoption. Even though in the last decade India saw a burgeoning number of multiplex screens, a majority of theatres are single screens which do not have the inclination to invest in such advanced technologies. In addition to this, some industry resistance is a hindrance. While there are industry players who support the move ahead, few still fail to see the benefit of introducing greater transparency in the industry.

Thanks to ~100 per cent digitisation of the exhibition sector, 2014 is much different than few years before, when the Indian market was not adequately ready for solutions such as the one provided by Rentrak. Today, most industry participants – both studios and exhibitors understand the importance of tracking real time information. In many cases they are willing to understand how technology can bring value to their business.

Rentrak's endeavor to partner with the Indian industry to demystify the Indian film business and bring to the fore its true potential commenced with its tie-up with the producers of 'PK'. The arrangement enabled Rentrak to engage with a large number of cinemas in an effective manner. Overall the exercise had a positive impact on the industry with more and more stakeholders understanding the importance of a ticket tracking service.



144. DNA, 18 December 2014, 'Aamir Khan's 'PK' box office collections to be tracked by Rentrak'



A fair, unbiased and real time box office tracking service has the potential to go a long way in advancing the industry. In conjunction with other evolving scientific methods, the Indian film industry will be better able to market and monetise their content. The onus to bring about this positive change lies completely with the industry. In order to ensure transparency, major players will need to encourage the adoption of such services to bring about a faster change. With the rapid changes in both the external and internal factors of the industry whether it be in terms superior techniques being used in film making or evolving audience preference and major Hollywood studios entering the Indian market, the industry is bound to enter an era of greater transparency and scientific way of making films fuelled by usage of systems such as the box office tracking system.

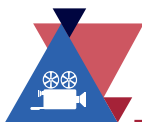
Rajkumar Akella
Managing Director – India,
Rentrak



Disclaimer: Unless otherwise noted, all information included in this column/ article was provided by Rajkumar Akella. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.



26. Indian Express, 29 January 2015, 'Fox Star bang on with marketing moves, festive release'
27. Koimoi, 15 December 2014, 'Aamir's PK To Release In 6000 Screens Worldwide'
28. Bollywoodreviewz.com, 7 July 2014, 'The Fault in Our Stars India Box Office Collection'
29. Industry discussions conducted by KPMG in India
30. First Post, 23 January 2015, 'Vikram starrer I likely to release in nearly 5000 screens in China'
31. Business Standard, 9 January 2015, 'Harry Baweja's Chaar Saahibzaade gives 250 per cent returns'



Offline VOD: Possible resolution to bandwidth woes

Video-on-demand (VoD) is the future for viewing content, however the Indian growth of online viewing is hampered by bandwidth constraints and high cost of accessing internet on-the-go. Realising the market potential and in order to turn these challenges into opportunities, players such as Google (via YouTube), Star India (via Hotstar), Twitter have launched services which are being categorised under 'Offline Internet'. As the name suggests, it is an additional feature which allows end users to watch high quality HD video content even when they are not hooked to any internet connection.

In 2014, Google added the offline viewing option in their YouTube mobile application, which is expected to allow viewers to save and watch the video in offline mode for the next 48 hours from the time of downloading the video. Considering, YouTube primarily is a collection of user generated content, it has given the flexibility to content creators/distributors to disable the offline option for their respective videos. Shemaroo, T-Series, Saregama and Yashraj Films have already tied-up with YouTube for offline usage.¹⁴⁵ Similarly, the Hotstar mobile app allows video downloads for offline viewing. Offline VOD feature is likely to increase consumers' overall video viewing

experience, as they can simply do away with buffering by downloading the video when connected to a high bandwidth and economical network and then view it while on-the-move.

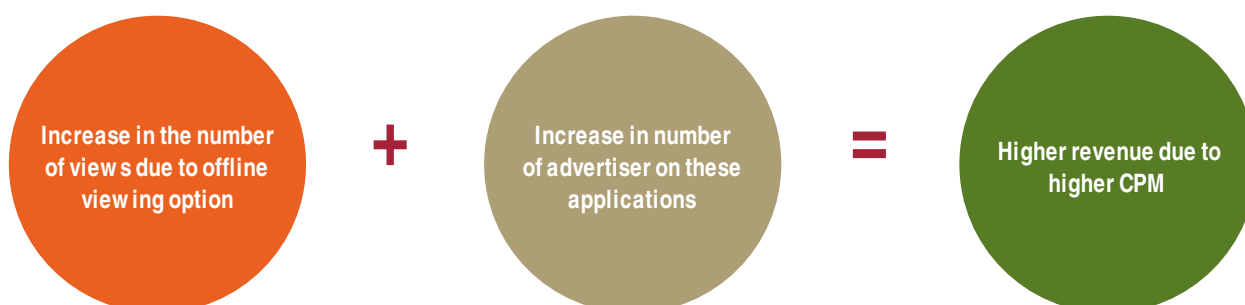
Required precautions have been taken by these players to ensure that this feature doesn't add to the already existing threat of piracy. Mobile apps store the video at multiple locations in the device which makes it unfeasible for users to transfer it to an alternate device, reducing the risk of piracy to minimal. The advertisements are also downloaded, and hence when the offline content is re-synced to the device, the service provider receives the data regarding the number of views and visits for that particular video. This move is expected to avoid any leakage in advertisement revenue.

In the Indian market, while a few players (such as Ditto TV, BigFlix) follow a subscription model, others (such as Hotstar) rely solely on advertisement revenue.



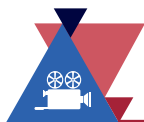
Indian film industry has embraced technology advancements across its value chain. Digital technology is increasingly being used in production, marketing and distribution - to bring efficiency in film production, and exhibition - to reach out to audiences far and wide. We expect technological advancement playing a far greater role in the way the industry functions and early adopters will stay ahead of the curve in this highly competitive environment.

- Aashish Singh
Vice President- Production,
Yash Raj Films



Source: Industry discussions conducted by KPMG in India

145. The Hindu Business Line, 11 December 2014, 'Now, you can watch YouTube videos offline'



Offline viewing is expected to benefit from the fact that there are over 0.5 million advertisers on digital platform compared to a total of 20,000 advertisers on Television, which accounts for the major chunk of the advertising pie.¹⁴⁶ In addition, public hotspots are expected to further facilitate non-internet users to access content on their devices. Ozone Networks has already established 6,500 hotspots across the country, including 1,300 public hotspots at places such as McDonald's, KFC outlets and Mumbai Airport.¹⁴⁷ Public hotspots allow users to access the first 30 minutes of high-speed internet for free of cost. Given government emphasis on Digital India programme, the number of hotspots is expected to bolster in the next five years.

Tapping unexplored revenue streams

There exist revenue sources that are yet to be explored for their economic potential in India, even though they might be fairly popular and are being used by major studios across the world. Production companies can evaluate an option to either extend their movies to TV screens through TV mini-series or by selling rights for developing TV shows, animated versions based on movies' concept, especially in the case of franchise based movies. In India, though 'Khichdi: The Movie' (2010) was based on the popular TV series 'Khichdi'; a TV series inspired by any movie is yet to be seen. Also, with the growing popularity of stage shows like Kingdom of Dreams, the producers can also explore showcasing their movies through musical stage shows – similar to Broadway productions.

Walt Disney Company has been the frontrunner in successful execution of resorts and theme parks through its popular brand Disneyland. Its portfolio includes several popular characters such as Mickey Mouse and friends, Aladdin, Alice in Wonderland, The Little Mermaid, The Jungle Book, Hercules, Frozen etc., making Disneyland a popular and financially feasible business. Though franchise based movies such as 'Krrish', 'Dhoom', and cartoons such as 'Chhota Bheem' and 'Krishna' have grown to become popular, India is yet to see its first movie-themed resort or theme park.



In last 20 years, little has changed in relation to the potential of the industry. On infrastructure side, we continue to be an under screened nation while on the content side we have not been able to market our films beyond the traditional (overseas) markets. It is the right time for the industry to pause and contemplate the road map for next 10 years.

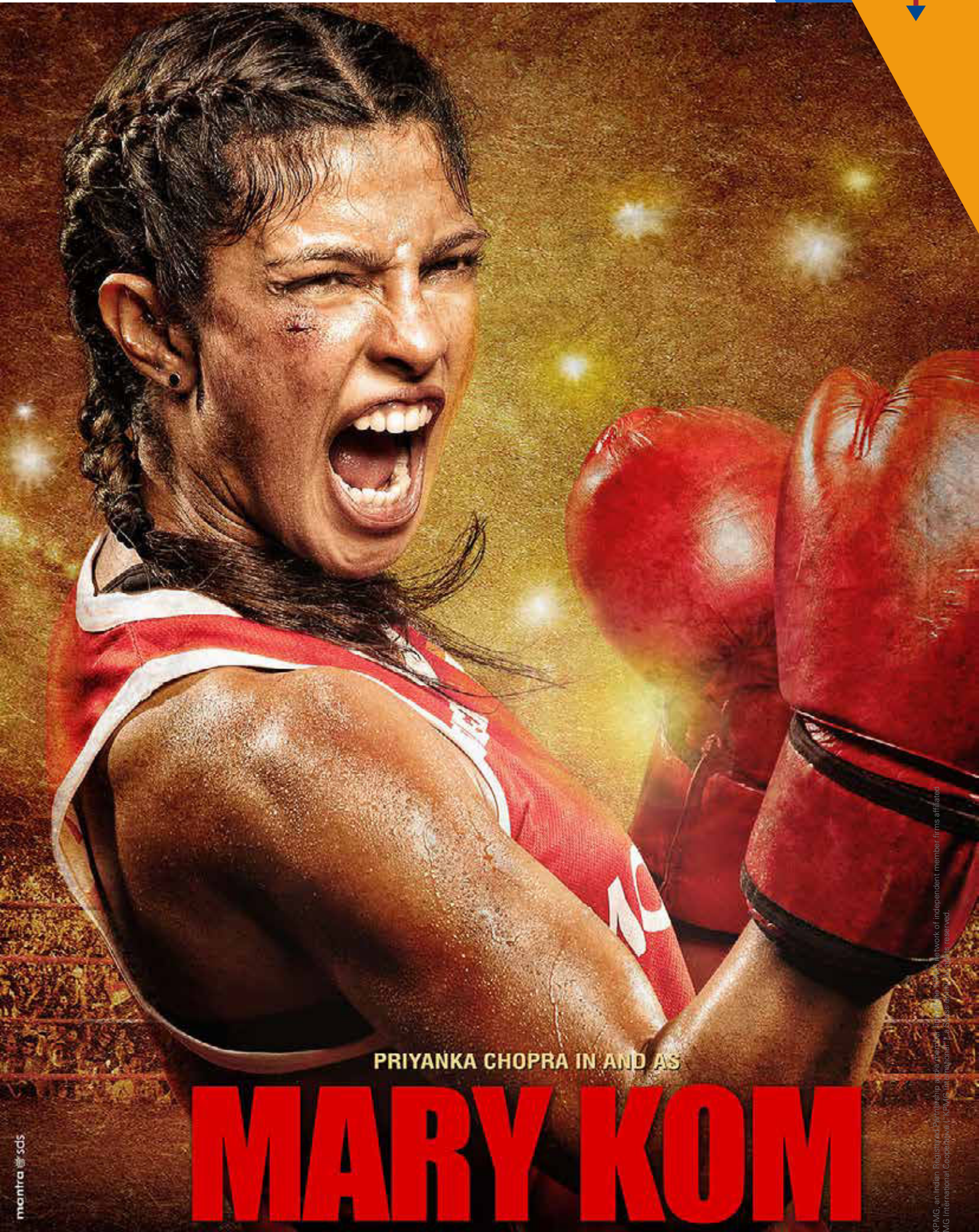
- Amit Khanna
Writer, Film Maker,
Media Guru

Conclusion

The failures and successes of 2014 are bound to be important lessons for the Indian Film Industry. During the year the industry saw many big budget movies fail but at the same time also saw the release of the highest grossing Indian movie of all time. While star power may provide a mega opening but to sustain the momentum, strong content has become a necessity. At the same time, there is an urgent need for the film industry, especially the Hindi film industry to look at the sustainability of their business practices which will include more rational and sustainable talent cost and C&S prices. Regional cinema has started coming of age and is now producing movies which are almost at par or in some cases above par with Hindi movies. As these regional industries, especially Tamil and Telugu, continue to evolve, they are expected to account for a far greater share in the total size of India's film industry. Further, with the increasing number of multiplex screens and better internet penetration and bandwidth, Tier 2 and Tier 3 cities may soon hold the prime focus of the industry. Digital as a medium has the potential to bring a disruptive change in the industry which could completely alter the path and the outlook of the industry provided the industry is able to leverage and monetise it to suit the Indian audience.

¹⁴⁶ Live Mint, 11 February 2015, 'With Hotstar, Star India aims to change the way content is consumed in India'

¹⁴⁷ Economic Times, 3 February 2015, 'How offline internet could make the web more accessible to India's telecom user base'



PRIYANKA CHOPRA IN AND AS

MARY KOM



Digital Media
#Arrived



To greater heights

The growth in popularity of the new/digital media continued its steady run in 2014. Several records were broken and new ones were set. Propelled by the 'Mobile-First' phenomenon of internet adoption and innovative business models with 'Mobile-First' strategies, India became the second largest country in terms of number of internet users⁰¹. The advent of 4G services, healthy growth in number of 3G subscribers, continued adoption of 2G by masses in the hinterland and concerted efforts by various digital ecosystem players under the Digital India Programme have played a major role to make this possible. TV, print and other traditional media were considered indispensable to capture the mindshare and timeshare of customers till not a very long time ago. However, the customers are now spending more and more time and money online. Consequently, capturing their attention on digital media has become a subject of boardroom conversations thereby encouraging marketers to focus on digital-led 360-degree strategies. Availability of affordable smartphones and tablets has fuelled the 'second screen' phenomenon that cannot be ignored by content creators, curators and advertisers alike.

Digital ad spends accounted for 10.5 per cent of the total ad spends of INR414 billion in India in 2014⁰². Digital media advertising in India grew around 45 per cent in 2014, and continues to grow at a faster rate than any other ad category. Fuelled by the availability of low-cost smartphones and dropping data plan tariffs the absolute number of internet connections is at a record high but the internet penetration stands at about 19 per cent⁰³, which is still lower compared to internet penetration across other countries. The launch of 4G services across India, and strengthening of the internet infrastructure powered by the Digital India initiative hold the country in good stead as it gears itself for the next phase of digital growth.

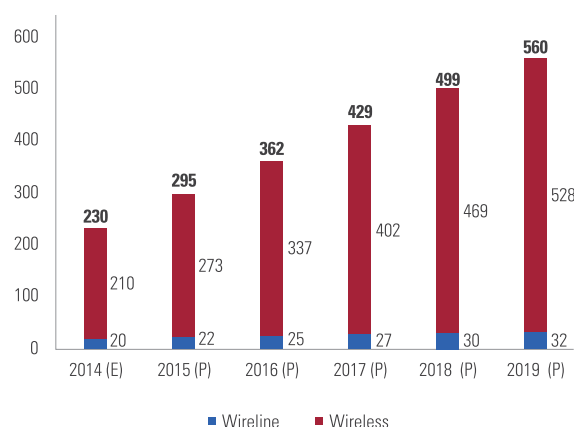
India trumps USA with close to 300 million internet users

The number of internet users in India is on its way to breach 300 million, dethroning USA as the second largest internet-enabled market, the largest market being China. The year-on-year growth rate stands at 31 per cent⁰². This wave of growth has been primarily been led by the growing penetration of internet enabled smartphones in the rural areas. The availability of low-cost smartphones in sub INR5000 range offered by Indian handset manufacturers continue to introduce first time users to the internet.

The total number of wired internet connections stands at 20 million, whereas there are 210 million wireless

internet connections in the country⁰². Smartphone penetration in India is around 10 per cent⁰⁴. This is much lower than average global Smartphone penetration of 25 per cent⁰⁴, allowing for a considerable upside. Driven by the reduction in tariffs of 2G and 3G data services and the introduction of 4G services, the number of wireless internet connections is estimated to reach 402 million by 2017 and 528 million by 2019⁰². While 3G is being widely accepted as an urban phenomenon, the adoption of internet in rural areas, however, would be driven by 2G.

India internet connections, 2014(E) – 2019 (P)



Source: KPMG in India analysis

Note: TRAI restated the numbers for broadband and wired internet subscribers last year. In line with this we have restated our projections.

It is estimated that 52 million new internet users will login to the digital world by mid-2015⁰⁵. India is expected to reach 640 million internet users by 2019⁰².

Notwithstanding the hype around smartphone adoption and growth, it is worth noting that 66 per cent of the urban traffic continues to come from desktop PCs and laptops⁰⁶. However, mobile phones are gradually catching up, with 55 per cent of active urban internet users using them for internet access. It is noteworthy that 42 per cent of the mobile internet users in urban areas consider the phone as their primary device for internet access⁰⁶. This is further proof that India is giving birth to a new generation of netizens whose first interaction with the internet happens through their mobile screens. Further, 11 per cent of active urban users use tablets to access the internet, of which 16 per cent consider tablets as their primary device for internet access⁰⁶.

01. IAMAI-IMRB Internet in India report, 2014

02. KPMG in India analysis

03. eMarketer newsletters, KPMG in India analysis, Internetlivestats.com

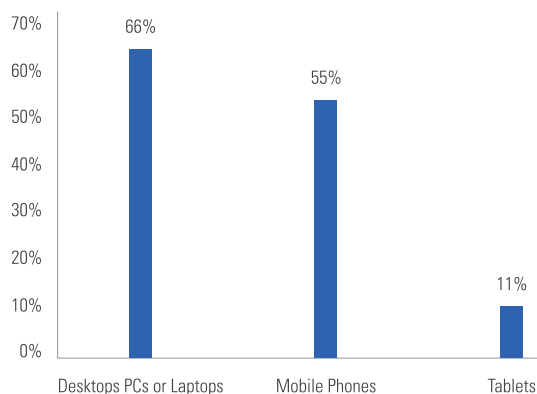
04. KPCB Internet Trends report, 2014

05. Trak.in, 19 November 2014, India Crosses 300M Internet Users Milestone: IAMAI

06. IAMAI-IMRB Internet in India report, 2014



Devices used for accessing internet in urban cities



Source: IAMAI-IMRB Internet in India report, 2014

As mentioned earlier, although India's internet user base in terms of sheer numbers is commendable, the internet penetration as a percentage of the population continues to be low. Even as developed economies like USA and U.K. inch closer towards achieving 90 per cent internet penetration, India still lags behind by a significant margin with less than 20 per cent of its population having access to the internet which is least among major Asian countries⁰⁸.

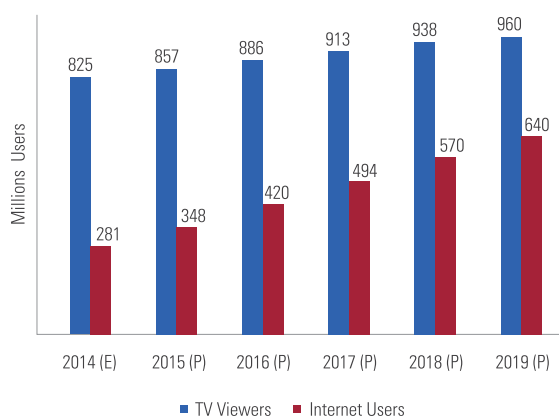
	India	Brazil	China	Russia	USA	U.K.	Japan
Internet Penetration (%)	19%	53%	46%	60%	87%	90%	86%

Source: eMarketer newsletters, KPMG in India analysis, Internetlivestats.com, 29 February 2015

Number of Internet users are expected to grow much faster than TV viewers in the next five years

Even as the number of TV viewers and penetration continue to increase⁰⁷, thanks to electrification of rural India, the internet penetration is growing at a much faster rate. In 2014, the number of television viewers in India is 825 million, as compared to the 'number of' internet users at 281 million⁰⁹. The CAGR for TV viewership is estimated to be around 3 per cent from 2014 to 2019, whereas it is envisioned that the number of internet users would grow by CAGR 18 per cent⁰⁹ during the same period.

India internet vs. TV penetration, 2014 (E) – 2019 (P)



07. Industry discussions conducted by KPMG in India, KPMG in India analysis

08. eMarketer newsletter, 20 November 2014, KPMG in India analysis

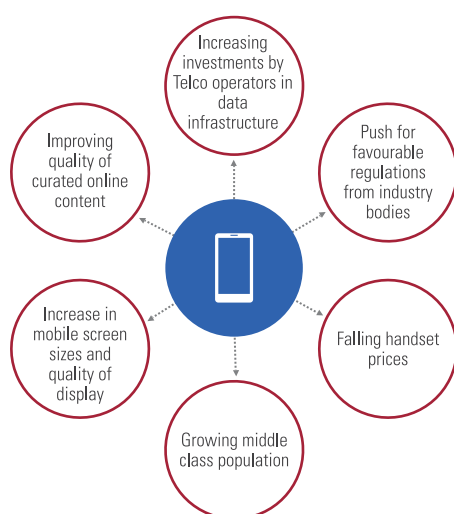
09. KPMG in India analysis



Internet penetration in India is being driven by mobile internet usage

Currently, the mobile phone subscriber base is almost nine times the installed base for PCs in India¹⁰. Going by that logic, the next wave of internet growth in India should come from mobile internet usage. The Indian telecom operators are offering the lowest voice and data rates as compared to their Asian counterparts and the difference between voice rates per minute and data rate per MB is becoming much narrower¹¹. This has given birth to 'data first' generation of mobile users.

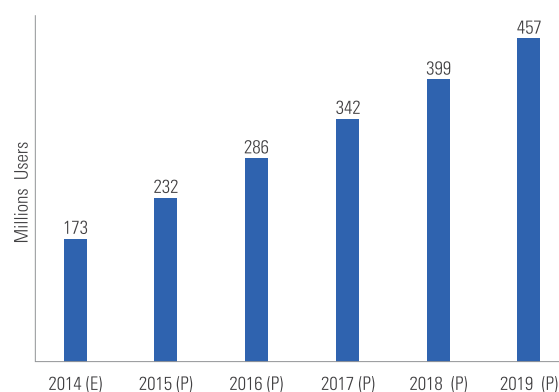
As of December 2014, there were about 173 million¹² mobile internet users in India. This figure has grown by 33 per cent as compared to 2013¹². The total number of mobile internet users is expected to grow by CAGR 21 per cent from 2014 to 2019¹². Some of the key drivers for this growth are:



Source: KPMG in India analysis

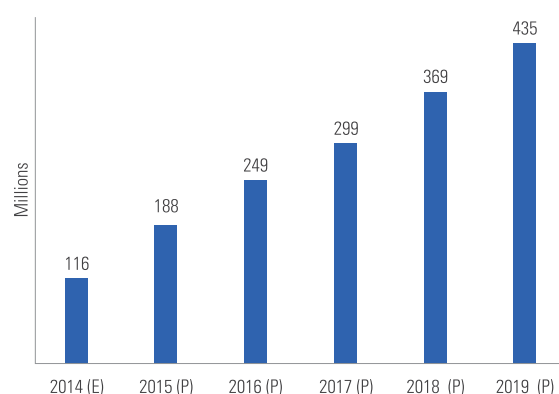
The number of internet enabled smartphones in India is also increasing and expected to grow at a CAGR of 30 per cent¹². By the end of 2014, India had around 116 million internet enabled smartphones and the number is expected to reach 435 million by the year 2019¹². This growth presents a good opportunity for digital content aggregators, advertisers, app developers and online streaming companies to engage users through relevant mobile-led strategies.

Mobile internet users in India, 2014(E) – 2019(P)



Source: KPMG in India analysis

Internet enabled smartphones in India, 2014(E) – 2019(P)



Source: KPMG in India analysis, IDC and eMarketer estimates, 2014



10. <http://www.indiatechonline.com/snapshot.php>

11. Morgan Stanley Report: Decoding India's Data Story, June 2014

12. KPMG in India analysis, IDC and eMarketer estimates, 2014



3G services see greater uptake

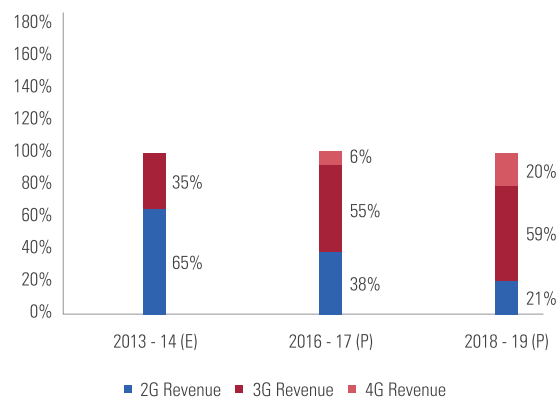
Though the penetration of 2G connections is still greater than 3G, the falling tariffs of 3G plans and better user experience in terms of content consumption have ensured that while 2G data volumes have grown at 90 per cent, 3G data volumes have risen at 440 per cent CAGR¹³. It was also observed that the rate of increase in consumption of data on 3G networks is much higher than on 2G networks. Increase in video access on mobile devices is also driven by 3G adoption and this heralds a continued proliferation of content creators who produce short format mobile video content. The 3G subscriber base in India grew by approximately 98 per cent and touched an estimate of 67 million, in 2014¹⁴. It has been observed that a 3G user consumed three times more data than a 2G user in 2014¹⁵. With a current adoption rate of 7.4 per cent¹⁴, India will have 390 million 3G subscribers by 2020¹⁶. At the same time there will be decline in 2G subscribers from 715 million to 650 million¹⁷. Globally, the number of 2G subscriptions was estimated to be 811 million at the end of 2014, whereas the number of 3G subscriptions stood at 171 million¹⁷. Mobile traffic data is growing at a rate of 81 per cent year-on-year owing to the increasing use of video streaming services online¹⁸.

The eagerly awaited pan-India 4G rollout

As operators like Reliance Jio, Airtel and Aircel planned/continue to rollout their 4G services, India stands at the brink of an internet revolution. Currently, India has around 5.5 million 4G capable devices but only 2 per cent subscribers are active LTE users¹⁴.

The 4G rollout across the country may take a couple of years to achieve a respectable mass. While India is a late entrant in the 4G market, globally, 4G reaches 26 per cent of the population with 90 per cent reach in developed markets and 15 per cent in the developing world¹⁹. The 4G rollout across the country is expected to take a couple of years to achieve a respectable mass and finally gain momentum beginning 2016-2017 with evolution across other components of the internet ecosystem such as easy availability of LTE (Long-Term Evolution) compatible handsets. Reliance Jio is building a strategy based solely on the strength of its acquired 4G spectrum¹⁴. However, as of now, the lack of adequate number of 4G/LTE enabled phones in the market could pose a major hindrance. Production of cost efficient LTE handsets holds the key to igniting the 4G revolution in a price-sensitive market like India. While 4G is expected to account for 20 per cent of telecom operators' revenue by 2018-2019, the total user base shifting to 4G is not expected to be greater than 12 per cent¹³.

Breakup of data services revenues from 2G, 3G and 4G

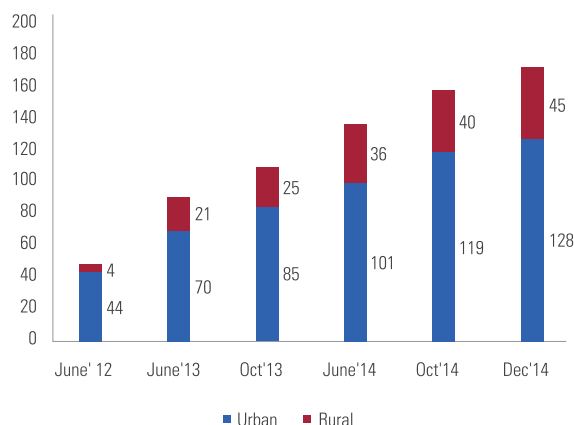


Source: CRISIL Data Services report, 2014

The great Indian urban-rural internet divide

Though India's urban cities are where the bulk of internet users live, it is the rural areas that are showing a gradual and steady growth in internet adoption. The next wave of growth in internet penetration is expected to be driven by adoption of internet in the rural areas. Rural India is an increasingly significant contributor to the mobile internet growth story.

Mobile Internet Users- Urban, Rural split (in millions)



Source: IAMAI-IMRB Internet in India report, 2014

There are 152 million active internet users in urban India. Mumbai leads the pack with 16 million users, followed by Delhi at 12 million netizens²⁰.

13. CRISIL Data Services report, 2014

14. <http://computer.financialexpress.com/features/can-4g-be-a-game-changer/4965/>

15. Nokia press release, 18th February 2015

16. <http://www.telecomlead.com/4g-lte/ericsson-predicts-105-mn-4g-390-mn-3g-650-mn-2g-users-2020-india-13518-50660>

17. <http://tech.firstpost.com/news-analysis/what-mary-meekers-2014-trends-report-says-about-india-internet-usage-224686.html>

18. KPCB Internet trends report, 2014

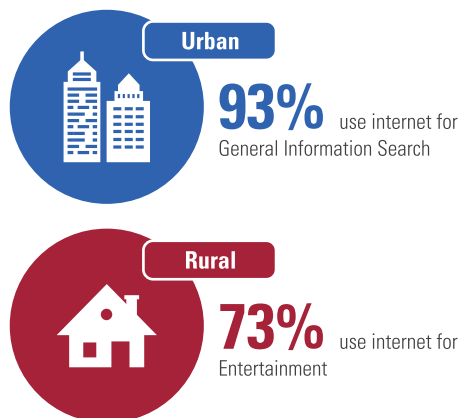
19. GSMA - The Mobile Economy 2015 report

20. IAMAI-IMRB Internet in India report, 2014



The number of active internet users in rural India is 61 million²¹. The penetration of active internet users in rural India grew from 3.7 per cent in 2012 to 4.6 per cent in 2013. In 2014, this figure stood at a modest 7 per cent²¹.

Internet usage patterns

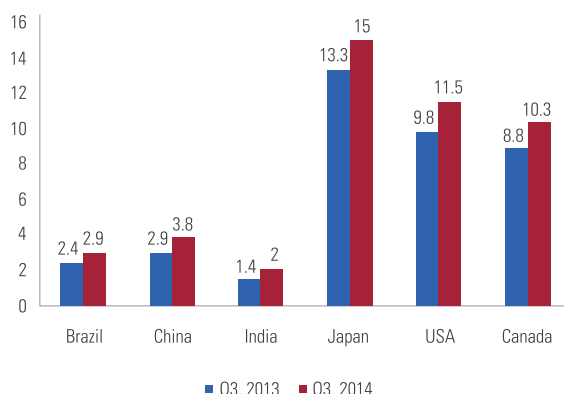


Source: IAMAI-IMRB Internet in India report, 2014

But low internet speeds still plague the country

India witnessed a 29 per cent year on year increase in internet speed as it reached an average of 2Mbps²². This growth pales in comparison to Indonesia's 149 per cent growth²². A look at the adjoining graphs shows that India has a lot of catching up to do in terms of improvement in internet connection speeds.

Average Connection Speeds (Mbps)



Source: AKAMAI – State of the Internet Reports q3-2013 and q3-2014

The internet speeds would continue to inch-up but has a long way to go. All the components of the internet ecosystem would have to work in unison to iron out the challenges in the way of internet penetration growth. Growth in internet penetration and adoption is expected to enhance data and media consumption. It is expected that the Prime Minister's Digital India Initiative would provide the required impetus to improve the internet speeds in the country. By way of this initiative, the government would endeavour to provide high speed internet connectivity that links the smallest of villages and is expected to be executed even at the Gram Panchayat level.

The 'offline' internet

The availability of online content on offline platforms has engendered a new phenomenon which someone may call the 'offline internet'. This innovation in technology allows users to access content while they are offline; by using SMS or by accessing content cached when connected. In December 2014, YouTube began allowing users to not only access videos while they were connected to the internet but also view these videos later, even when they were not connected.

The offline internet service is empowering low-income users in India and in other developing nations such as Indonesia and Brazil, by providing access to information such as deals, coupons, news on social network and more via SMS, without actually using mobile data. This has allowed brands to involve offline users through missed call support. Users can obtain real time information like cricket scores or election updates without being connected to the internet. This service fits in well with the growing prepaid population, which limit their mobile usage to call and SMS only.

The mushrooming of public internet hotspots has allowed users to download content free of cost for a limited amount of time which they can later view offline. Ozone Networks has set up 6,500 hotspots across the country and expects this number to reach one million hotspots by 2020²³. Offline internet could help provide access (though limited) to newer audience, who are dissuaded from using high speed internet access due to high cost.

ZipDial which was acquired by Twitter, already offers tweets through SMS in response to missed calls. ZipDial's service allows feature phone users to make a missed call to a pre-designated number in return for SMS updates²³. Twitter is now using this technology to send tweets about important news events and happenings when users give a missed call on a specific phone number. The innovative use of offline technology to provide online content is expected to empower a large number of Indians who still use feature phones and/or are not connected through internet.

21. IAMAI-IMRB Internet in India report, 2014

22. AKAMAI – State of the Internet Reports q3-2013 and q3-2014

23. The EconomicTimes, 3 February 2015, How offline internet could make the web more accessible to India's telecom user base

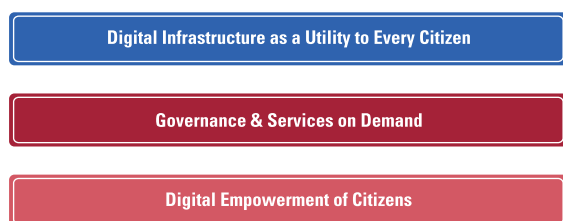


Internet in India: Outlook 2015

Digital India Initiative to drive growth in internet penetration growth

One of the major highlights of the transformative plans announced by the new government at the centre has been the much touted Digital India Initiative. The Initiative pulls together many existing schemes and also makes way for new ones to strengthen India's technological infrastructure across various sectors such as education, finance, healthcare, agriculture and governance by way of better connectivity. The Digital India Initiative is pivoted on three key focus areas: digital infrastructure as a utility to every citizen; governance and services on demand; and the digital empowerment of citizens.

Vision of Digital India initiative



Source: Government of India, Department of Electronics and Information Technology

Nine pillars have been identified to achieve the targets set for Digital India Initiative. These include the creation of broadband highways by providing high speed internet access across the country. The plan aims to cover 250,000 Gram Panchayats by December 2016²⁴. The plan also aims to empower Indians with universal access to phones. This focus is expected to be on roughly 42,300 villages that were devoid of mobile connectivity previously²⁴. The Initiative also attempts to provide an easy access to Common Service Centres (CSCs) and shareable private space on a public cloud.

The overall cost for the Digital India Initiative is estimated to be around INR100,000 Cr for the existing schemes and an additional INR13,000 Cr for new activities. The initiative is likely to bring broadband connectivity to 2.5

lakh villages and aims to achieve net zero imports by the year 2020. As per the plan, 400,000 public internet access points will be provided and 1.7 Cr Indians will be trained for IT, telecom and electronics jobs²⁴.

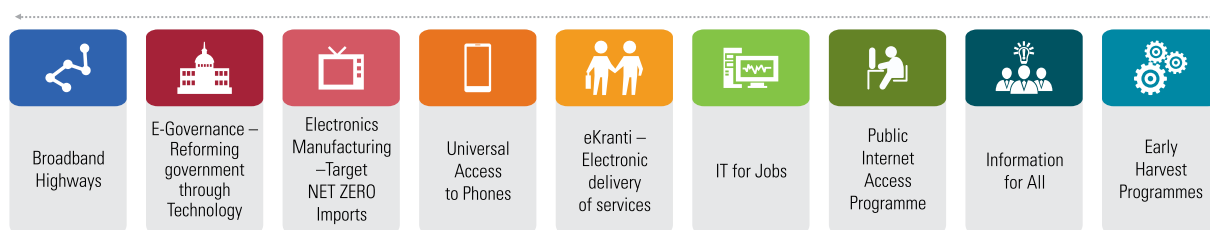
High speed internet connectivity across the length and breadth of the country is expected to enable more Indians to join the e-commerce and social media bandwagon and create a positive network effect for further growth. mGovernance and mHealthcare services proposed to be implemented by the state and central Governments with an objective to empower rural Indians could further aid in increasing the share of rural India in the overall internet pie. It is envisaged that government services would be made available in real time through the online and mobile platform.

The initiative cannot be made successful without universal digital literacy. This would be made possible with the help of universally accessible digital resources. The availability of these resources and services in Indian vernacular languages would allow for the digital empowerment of all citizens. Collaborative digital platforms for participative governance and the portability of all entitlements through the cloud are also a part of the plan.

Google's balloons or Facebook's drones or Microsoft's white spaces- take your pick for high speed internet access!

Some of the world's biggest tech giants are gearing up to capitalise on the Digital India Initiative. These private players are showcasing their support to increase 'digitally connected' quotient of the country in their own audaciously innovative ways. Google, Microsoft and Facebook have expressed their interest in providing high-speed internet access technologies that promise to bring lightning fast connectivity across India's hinterland²⁵. Google's 'Project Loom' aims to provide a network of helium-filled balloons to achieve this dream while Facebook plans internet transmission through solar powered drones. Microsoft has planned to introduce its innovative 'white space' technology to provide high speed internet access. It involves the use of unused TV spectrum²⁵.

Nine Pillars of Digital India initiative



Source: Government of India, Department of Electronics and Information Technology

24. Government of India, Department of Electronics and Information Technology

25. The Economic Times, 10 November, 2014, Google in race with Facebook, Microsoft for a slice of digital India



Maturity of Indian Market

India is one of the first countries to jump the internet wagon to directly consume mobile internet unlike Western countries. The rush of affordable range of smartphone devices in the country which escalated the overall mobile penetration helped in the early education in mobile internet. As of June 2014, the total internet subscriber base in India was around 260 million of which over 92 per cent users access it on mobile devices. India is also considered one of the fastest growing consumption market as it saw a 74 per cent increase in mobile data traffic generated between 2G and 3G mobile broadband services within the year 2014.

India's population size lends it an added advantage. With a population of just over 1.2 billion, India has nearly as many people as China and one of the world's fastest-emerging economies. According to consulting giants, India is the third largest base in the world of internet usage. This makes India the second largest and fastest growing smartphone marketplace in the world after China. Further, smartphone users in India are aware of their device's features, can browse and navigate to reach their desired destination of content, all in the local languages.

Regional and local content has always been more acceptable by the Indian users. If one is to recall the era of caller tunes, along with popular Bollywood music, regional film music and content dominated this product. It was the same when regional television channels were introduced with local language programming for different states. Localisation of international format programs like KBC and dubbed versions of foreign serials gave momentum to the current improved industry. This television consumer's profile and taste does not change when it comes to mobile and will still look for similar content for their device. The screen size is irrelevant.

Further emphasising on the type of content that is consumed in India, Bollywood or film content trumps the list followed closely by regional film. Why regional content? The number of regional films put together will always be almost 7-8 times higher than Hindi language films in any given year. In 2014 itself, the three most viewed language films of Tamil (202 films), Telugu (113 films) and Bhojpuri (64 films) together were thrice the number of Hindi films (180 films) released that year. Similarly, Aadiyam Music, a local Telugu

language music label generates revenues at par with a Bollywood music label. The range of content is, of course, not limited to films. This is evident with the success of apps such as PayTM, WYNK, Newshunt, Viber, TrueCaller, Zomato, etc. who have catered to the regional palate of the Indian users. These apps have at least 50 per cent of their user base here and just show that India is the next game changing destination.

This combination of reach, language and localisation, opens up the marketplace for the success of a range of products. We have personally seen this great trend when we launched the region-specific video product of Malayalam content for the state of Kerala. We saw the product doing exceptionally well generating a business of INR5 million in revenue within its launch year itself.

In light of this, it is quite unfair to term India as an immature market. India is the only country with such huge language diversity providing an opportunity for a range of regional and local content. Despite the disparity of urban and rural market, users here are evolved in the way they interact with their mobile. The Indian sub-continent provides a sustainable user base to any developer and do not need to chase global markets. Further, the Indian government has shown support by heavily investing in broadband connectivity with their Digital India initiative where 2500 cities and towns are set to receive free high-speed Wi-Fi. With the right product, content and marketing mix, India sports the potential to be the future for content development and consumption.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Niyati Shah. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

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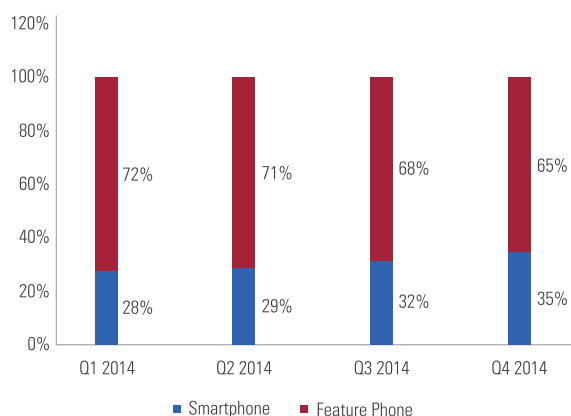


Mobile phones continue to witness strong growth in India

2014 saw a 10.7 per cent growth in mobile phone usage²⁶. While the smartphones shipments are growing faster compared to feature phones shipments, India essentially is still a feature phone market purely by virtue of the overall installed base. The smartphone penetration in India still hovers around a modest 10 per cent²⁷.

Even as smartphones see a steady growth in numbers, feature phones constitute 65 per cent of the market share²⁸. Thus, as advertisers increase their mobile ad spends, they must realise that not all Indians have access to smartphones and hence in-app display ads for this major chunk of population would be ineffective. This insight will likely continue to hold good until a sizeable number of the country's population migrates to smartphones.

Market Share: Smartphone vs Feature Phone



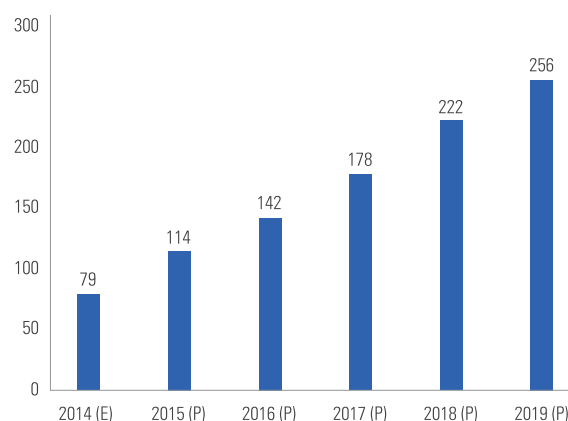
Source: IDC Asia Pacific Quarterly Mobile Phone Tracker Q4 2014

India topped as the world's fastest growing smartphone market

Even as India continues to remain the world's second largest mobile phone market and ranks third in terms of smartphone users, it comes as no surprise that it also boasts the fastest growing smartphone user base in the world²⁹. This growth can be attributed to the slew of low cost entry level smartphones flooding the markets. The role of low-cost Indian handset manufacturers is commendable given that global giants started out as frontrunners in this space.

The worldwide smartphone market witnessed a growth of 27.6 per cent in 2014, increasing to 1.3 billion units from one billion units shipped in 2013³⁰. This number is estimated to reach 1.4 billion units in 2015, implying an annual growth rate of 7.7 per cent³¹. Having reached its peak in 2013, the growth rate is expected to slow down year on year, right through to 2019 as the smartphone user base reaches critical mass³¹.

Projected smartphone sales in India, 2014 (E) - 2019 (P) (in millions)

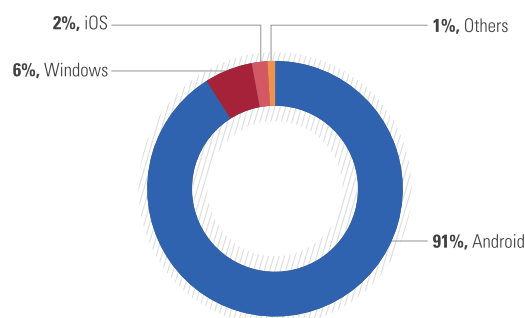


Source: KPMG in India analysis

In 2015, more than 25 per cent of the world's population will use smartphones. India is expected to reach a milestone in 2016, when the numbers of smartphone users exceed 200 million, beating USA as the second largest smartphone market³². By that time, the world is estimated to have two billion smartphone users³². This spurt in smartphone usage is expected to allow for healthier adoption of m-banking/mFinance services and robust m-commerce technologies, thereby accelerating growth in diverse business areas.

Smartphones have already become the device of choice for consumers across the country. While an average Indian allocates 96 minutes a day to TV viewing, the time spent on a smartphone is much greater, at 162 minutes per day²⁷. The challenge for marketers is in finding newer, more engaging means to monetise this avenue.

Market share of mobile platforms in India, 2014



Source: Industry discussions conducted by KPMG in India

26. eMarketer newsletter, 29 December 2014

27. KPCB Internet Trends Report, 2014

28. IDC Asia Pacific Quarterly Mobile Phone Tracker Q4 2014

29. eMarketer newsletter, 30 December 2014

30. IDC press release, 29 January 2015

31. IDC Worldwide Mobile Phone Tracker

32. eMarketer newsletter, 11 December 2014



Tablet sales flattening out due to stiff competition from phablets

The worldwide tablet market witnessed a decline in 2014, with year on year growth slowing down to 7.2 per cent, from 52.5 per cent in 2013³³. A major reason for this has been the availability of a large number of phablets (smartphones between the screen size 5.5 inches to 6.99 inches), that are feature rich and competitively priced. Device manufacturers expected tablets to follow a 2-3 year lifecycle, similar to smartphones. However, it is observed that tablets are following lifecycles upwards of three years. This is another reason for reduced demand. Category pioneer and bellwether Apple's iPad also recorded its first year of growth decline³⁴.

Declining tablet growth rates for top manufacturers

Company	Year-over-Year Growth
Apple	-17.8%
Samsung	-18.4%
Lenovo	9.1%
ASUS	-24.9%
Amazon.com	-69.9%
Others	36.2%
Total	-3.2%

Source: IDC Worldwide Quarterly Tablet Tracker, 2 February 2015

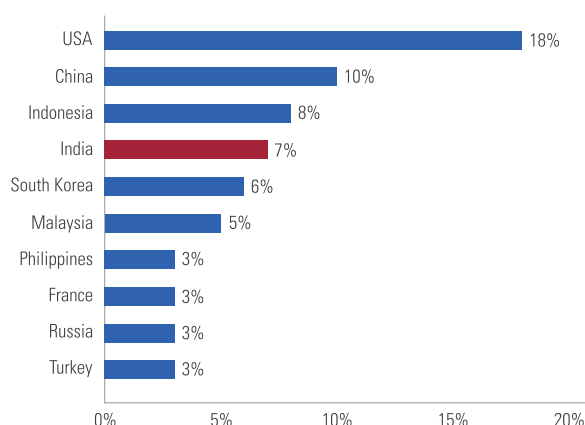
In spite of these trends, India is still counted among the fastest growing tablet markets in the world³⁵. In the Asia-Pacific region, it is behind only Indonesia in terms of tablet usage growth. The number of tablet users in the country is expected to hit 40.4 million this year³⁵. These numbers may not look as impressive if put into perspective. Only 3.2 per cent of India's population is expected to use tablets this year, as compared to over 45 per cent in Australia, 24.1 per cent in China and 20.1 per cent in South Korea³⁵. Even as more than one billion people will likely use a tablet worldwide in 2015, the device is still perceived as a luxury, with their usage not being clear in markets where smartphones and phablets dominate.

The 2-in-1, or detachable product category saw many new entrants entering the Indian market from the stables of HP, Lenovo and Dell. Devices supporting this form factor have grown slimmer, less expensive than before and with better choice in terms of number of models. However, worldwide shipments in this category reached an estimated 8.7 million units in 2014, which is just 4 per cent of the total tablet plus 2-in-1 market³³. It remains to be seen how brands position this category to new buyers, given that average consumers spend just about half an hour with their tablet each day³⁶.

Mobile apps continue their dream run

In the year gone by, users showed interest in a wide variety of mobile app categories. These included social networking, online games, OTT (over the top) messaging platforms, cloud computing services, Voice-over-IP (VoIP), video conferencing and location based services. Most popular amongst them was WhatsApp, which was reported to have gained over 30 million active monthly users in 2014³⁷. With increasing internet penetration, active adoption of new app technologies and budding app development companies, 2015 promises to be an exciting year for mobile app market.

Share of global app downloads: Top 10 Nations



Source: InMobi-The State of Mobile App Downloads, 2014

India contributed to 7 per cent of global app downloads, ranking fourth, behind Indonesia (8 per cent), China (10 per cent) and the US (18 per cent)³⁸. In 2015, 9 billion apps are estimated to be downloaded in India, more than 5 times the number of apps downloaded in 2012 (1.56 billion) at a CAGR of 79 per cent³⁹. This is an average of 17 apps per person, out of which 4 were paid apps compared to a global average of 26 apps with 5 paid apps³⁹. Per capita app downloads (number of apps downloaded per 100 users) in India stood at 1.9 versus a global average of 1.7³⁹.

33. IDC press release, 25 November 2014

34. IDC Worldwide Quarterly Tablet Tracker, February 2, 2015

35. eMarketer newsletter, 15 January 2015

36. KPCB Internet Trends Report, 2014

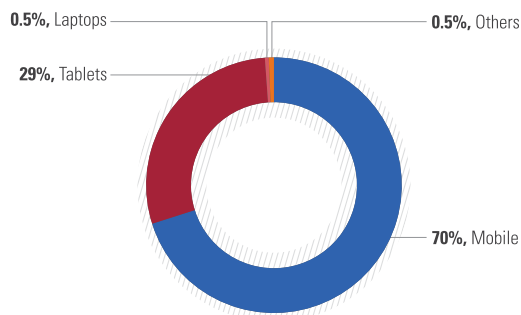
37. Infinitemonkeys, 4 June 2014, The Exploding Indian App Market

38. InMobi-The State of Mobile App Downloads, 2014

39. Vserv data insights, 2014



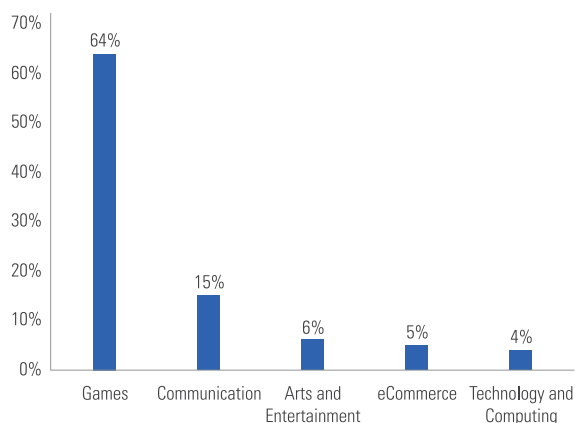
Devices used to access apps in India



Source: Industry discussions conducted by KPMG in India

90 per cent of the app downloaded in India are free apps⁴⁰. Games apps were the most popular category among paid apps, closely followed by instant messaging and music streaming. Popular free app categories include social networking, games, news, photo and video apps. Lifestyle applications that help people find restaurants, book a movie or show tickets, or find friends are also gaining popularity⁴⁰.

Share of app downloads globally by app categories



Source: InMobi-The State of Mobile App Downloads, 2014

Google Play dominates the Indian mobile app market

Economical pricing, easy availability and innumerable options for every price segment especially low-to mid-range have made Android based phones popular. The scaling mobile internet penetration, with the aggressive adoption of 2G/3G services, in addition to the availability of low cost Android smartphones have contributed

towards Google Play becoming the most preferred app store. This is clearly reflected in the global app downloads in Q2 2014, wherein number of apps downloaded from Google Play was nearly 60 per cent higher compared to those downloaded from the iOS App Store. But on comparing the revenues for Apple's App Store with revenue from downloads from Google Play in 2014, the equation reverses with App Store recording 70 per cent more revenue than Google Play⁴¹. This phenomenon is observed due to the growing popularity of low and mid-range Android devices in the Indian market, with their users hesitant to spend money on paid apps⁴¹.

India maintains its number three spot in most downloads on Google Play 'in' 2014

India has been the fastest growing mobile app market since 2013 and it continues to be so in 2014. It is forecasted that mobile app downloads will globally triple and grow six folds in India by 2015⁴¹. Nearly 98 per cent of Google Play's global revenue from apps and games is coming from the 'freemium' apps⁴². These apps allow free access for limited services or a 'lite' version of the app. Users are expected to pay for additional services or a premium version.

Even though there has been a growth in the number of applications developed and downloaded, companies are still finding it difficult to encourage users to switch to paid versions. To distinguish the premium offerings, few companies now have started launching two application formats instead of developing a single app with an option to upgrade. Apart from the regular in-app purchase, the application developers have created newer means of in-app promotions with the most popular (and most intrusive) among them being the 10 to 30 second video promos that mostly feature during application usage⁴².

Made in India apps with million+ downloads on Android

Category	Apps
Travel	redBus, ixigo, MakeMyTrip, Cleartrip, Goibibo
Entertainment	BookMyShow, Saavn, Gaana, Hungama
News	Newshunt, Cricbuzz, Cricinfo, NDTV
Payment	Paytm, Mobikwik, FreeCharge
Gaming	Teen Patti, Parking Frenzy, Car Run, Dhoom3, Fun ways to think
mCommerce	Flipkart, Snapdeal
Utility	Hike, JustDial, Quikr, SMS Blocker, m-Indicator

Source: Yourstory, July 2014, <http://yourstory.com/2014/07/india-apps-android-million-downloads/>

40. Appszoom, The Growth Of The Smartphone And App Market In India, November 2014

41. App Annie Index, 2014 Retrospective, 2014

42. Marketing Land, 24 June 2014, Nearly 90 Percent Of Google Apps Revenue Coming From "Freemium" Games



Hotstar breaks all Cricket records

When India beat Pakistan in their first cricket match of the ICC World Cup 2015, not only did they maintain their unbeaten World Cup record against their nemesis, but the match also recorded more than 25 million views on the digital platform in the country⁴³. This is one of the highest recorded numbers for a single game in a sporting event across the globe in one country. This was achieved on STAR India's digital properties- Hotstar and STARSports. The average user spent 10-12 minutes on the platform⁴³. These numbers are further proof of the promising demand for video content consumption through the mobile app platform. Media houses and brands could consider experimenting with the medium in the year ahead.

App Market in India: Outlook 2015

The app economy will continue to strengthen

There has been a considerable reduction in the usage of on-deck services offered through the telecom operator portals due to variety of reasons. The user experience offered by off-deck services/apps by virtue of tighter integration with hardware and operating system of the smartphone devices as well as wider range of curated content along with ever-increasing consumer demand for content would continue to strengthen the app economy. With an increase in number of avenues to target consumers, the content creators and advertisers stand to gain from this phenomenon. Marketers will likely continue to discover new and more innovative ways to reach out to their target audience.

The apps have become the centre of the consumers' universe and their interaction with apps is generating vast amounts of data. The key to crack changing consumer behaviour/needs and tweaking marketing strategies would be in decoding the secrets held in this precious data. Marketers need to acknowledge this shift towards an app-based economy and gear up for winds of change.

E-commerce would increasingly shift to mobile app platforms

Move over e-commerce; if online shopping trends are anything to go by, m-commerce is the new buzzword. With online shopping platforms seeing an impressive growth in the number of transactions executed through mobile apps, it is not surprising that major e-commerce portals are contemplating discontinuing their full-version websites altogether, to focus solely on the mobile platform. A major lifestyle e-commerce company draws close to 80 per cent of its traffic and 60 per cent of its sales through its mobile app⁴⁴. By the end of the year, it expects this number to reach 90 per cent, post which it is expected that its web portal may cease to exist⁴⁵. If such a development does take place, it could be the first time that an e-tailer would completely go mobile.



43. Business Standard, 18 February 2015, At 25 mn, Indo-Pak match viewership creates history

44. The Times of India, 7 February 2015, Myntra and Flipkart's fashion sales hit \$1bn

45. Industry discussions conducted by KPMG in India



Emerging Trends in the Indian Mobile App Economy

India is all set to be the world's second largest smartphone market by 2016. According to an IDC report, India was the highest growing market in Asia Pacific with a year-on-year smartphone shipment growth of over 82 per cent in Q3 2014. Smartphone penetration in India still hovers at 10 per cent and it is expected to grow owing to greater availability of low-cost devices and additional sales emphasis by top-flight vendors in less populous parts of the country. The surge in smartphone usage has led to a corresponding increase in the number of internet users in India. Currently, India has the third largest internet user base in the world but it is estimated that soon, India will overtake the US as the second largest mobile internet user base in the world, according to an IAMAI study. Interestingly, of the total Indian population, one in every 10 are mobile internet users and 95 per cent of smartphone users search for local information through their phone.

Over the past year, the spectrum of apps has become wider, ranging from apps to remind you to drink water to apps to pay your bills. Consumers are increasingly moving away from merely using phones for entertainment to apps and commerce. Apps are also preferred as they are easily accessible, convenient to use and are now seen as a means of receiving insightful and meaningful information. From a global perspective, India has generously contributed to the global app ecosystem and ranks 3rd with respect to app downloads from Google Play. To put a number to this phenomenon, an average Indian has about 17 apps on his phone which is close to the global average of 25 apps. The manifold growth of apps has led to the government of India acknowledging the use of apps by introducing a set of 'm-governance' apps for android and java-based phones through its own app store. If we look at what Indians do on their phone, 203 per cent use it for messaging and social media purposes, utilities and productivity use stands at 149 per cent, overall app usage is 115 per cent. Furthermore, 78 per cent use it for music, media, and entertainment, 77 per cent for lifestyle and shopping, 66 per cent for games, 49 per cent for sports, health and fitness and 31 per cent for news and magazines.

Amongst the entire app usage, shopping is one of the toppers. While e-commerce continues to be the buzzword, it will soon lose out to m-commerce as the de facto mode of online transactions. This m-commerce trend will gain steam owing to multiple factors. One of the foremost reasons being infrastructure – India is a mobile first country, serving data to almost one billion mobile phones in not just urban, but also tier 2, 3 cities and rural areas. Secondly, smartphones are more affordable in current times and are used as internet devices. This also makes it geography-agnostic, enabling access to multiple choices, which has been additionally aided by a cash-on-delivery option instead of only credit card payments. Based on data from

mobile analytics firm Flurry charted by BI Intelligence, shopping apps had the highest growth last year - a 174 per cent jump year-over-year, followed by productivity apps. In fact, 54 per cent users have made a purchase on their smartphone and there has been a significant rise in the use of mobile phones for shopping from 77 per cent in 2013 to 174 per cent in 2014.

Realising the immense value of m-commerce, of the 100 most valuable brands, 89 per cent of them have launched an app, some of those even have more than one app. Also, 99 per cent online phone searches lead to action and 50 per cent lead to purchase. Observing this level of consumer behaviour, marketers have aggressively opened their doors to targeting consumers through their smartphones. One of the by-products of this focus, is the increase in penetration of shopping apps, which in turn has worked as a catalyst in changing dimensions for the Indian mobile advertising ecosystem. Affordable smartphones are creating new opportunities for marketing and commerce in emerging markets where many consumers previously had no access to the Internet and are new customers. Additionally though, marketers are also re-targeting today's always connected multi-screen users by serving them relevant ads on mobile apps and sites.

Owing to phenomenal growth in the Indian app economy, the mobile marketing industry is expected to witness certain key trends. With the increase in the number of consumers on apps, their interactions are generating petabytes of big data. Hence, there is a significant need to convert this large pool of big data to smart data which will enable marketers to target consumers based on several parameters, and not just their demographics. Some of the other key trends that we will see apart from smart data led targeting is an increase in native advertising, marketers moving beyond traditional means of CRM like SMS and email and consumer engagement with brand campaigns being incentivised leading to the emergence of a new mobile media currency.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Dippak Khurana. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

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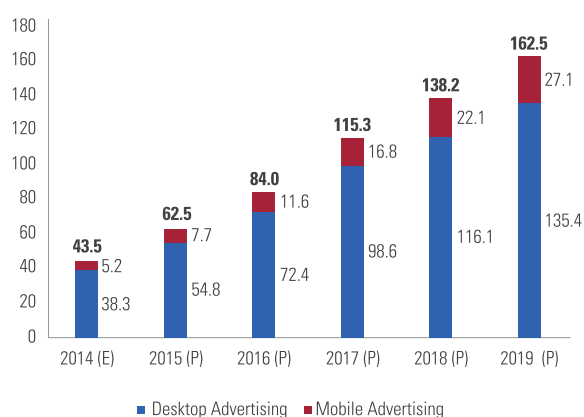


Steady increase in overall digital ad spends

As can be expected, as the eye-balls have shifted into the digital world, the media spend has been following suit. The digital advertising industry grew from INR30.1 billion in 2013 to INR43.5 billion in 2014, a growth of around 45 per cent⁴⁶, driven by a steady growth in ad spends across most digital platforms. It is noteworthy that these figures exclude the spending on developing and maintaining their on-line presence (web-sites, e-com stores, mobile app development) as these numbers tend to get subsumed in marketing and IT budgets of companies⁴⁶.

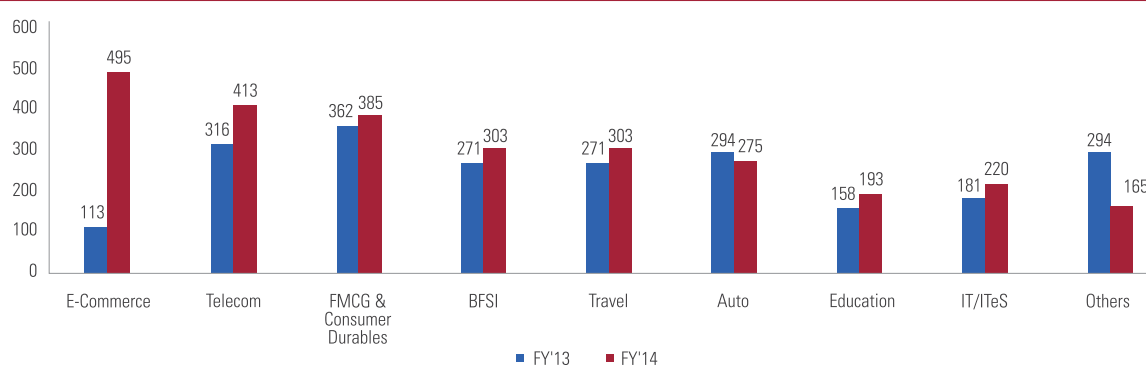
Digital ad spend itself is a collection of multiple marketing strategies ranging from search and display advertising, to e-mail, mobile and video ads, social, sponsored content and more recently SMS based advertising. As marketers continue to increase the focus on technologies to effectively reach the customer through a mix of these online platforms, digital spends are projected to increase to INR62.5 billion by the end of 2015 at a YoY rate of 44 per cent⁴⁶.

Digital advertising market in India, 2014 (E) – 2019 (P) (in INR billions)



Source: KPMG in India Analysis

Industry wise Ad spends (INR Cr)



Source: IMAI Digital Advertising in India report, 2014

46. KPMG in India analysis, Industry discussions conducted by KPMG in India

47. IMAI Digital Advertising in India report, 2014



While several marketers are still investing heavily on TV and print, integration of these media with elements of digital marketing, such as mobile integration through QR codes, SMS, apps, coupons, referrals; social media through tweets, posts, image sharing; and video through short format clips is gaining traction which cannot be ignored.

It is projected that the share of digital ad spends is going to be around 20 per cent of the total media ad spending in India by 2019 and mobile ad spends will contribute around 3 per cent of the total media spend⁴⁶.

The eCommerce industry has posted a growth of 338 per cent in ad spending, making it the top digital ad spender in 2014 with INR495 Cr, ahead of last year's top spender, the telecom sector⁴⁷. The reason for the exponential jump in spends by eCommerce companies is their realisation ROI using digital marketing techniques such as interest based targeting, mobile ads, native advertising and retargeting/remarketing. This ad spend figure is estimated to grow further, with an increasing number of customers migrating to e-tail and m-commerce.



India's digital ad spends still a long way from global averages

India was the fastest growing ad market in 2014 in the world. But it is projected to slip behind China in 2015, which is expected to grow at 0.7 percentage points higher than India. Within the global advertising market, India has maintained its twelfth spot contributing about 1.5 per cent⁴⁸. The overall digital ad spend within the APAC nations has increased by 12.8 per cent from 2013 to 2014, of which India contributes only 1.4 per cent⁴⁹. Among the APAC nations, China continues to maintain its lead with INR113,760 Cr in digital spends; which is around two times the corresponding figure of INR 55,140 Cr for its closest competitor i.e. Japan⁴⁹. But the country that has outperformed all the APAC nations, and most of the countries worldwide with its high growth in digital ad spends is Indonesia. It grew at a year on year rate of 75 per cent in 2014⁴⁹.

Digital Ad Spend - Comparison in APAC region

Countries	Overall Ad Spend (INR Cr)	
	2013	2014
China	93,240	113,760
Japan	51,300	55,140
Australia	22,980	27,120
Brazil	13,500	17,280
South Korea	12,480	13,680
Indonesia	1,440	2,520

Source: IMAI Digital Advertising in India report, 2014, eMarketer.com

The share of mobile internet ad spending worldwide has increased to 23.3 per cent of the overall digital ad spend⁵⁰. Even though India is growing at a steady pace, there is still a lot of catching up to do in terms of mobile ad spend as part of overall digital spend. While lagging in terms of mobile ad spends, Indian advertisers seem to be spending far more on social media ads as compared to their global counterparts.

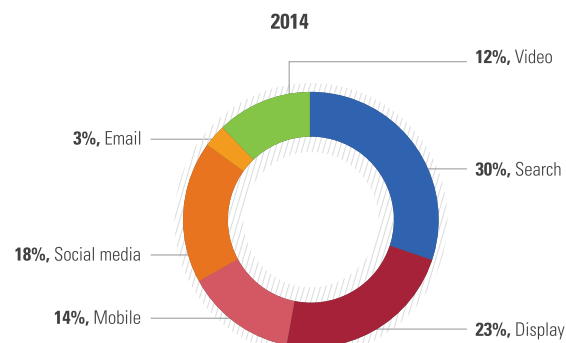
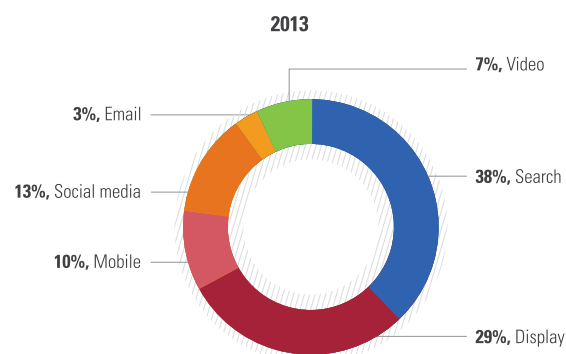
India is projected to be amongst the top three countries in the APAC region as regards its CAGR (2012- 2016) in digital media ad spend⁵¹. As Indian marketers continue to find their feet in the digital advertising space, it is expected that digital ad spend numbers will match global levels at a faster rate in the years ahead.

Digital ad spend mix in India

Traditionally, search and display advertising have dominated the digital ad spends. However, in 2014, while both search and display continued to maintain their lead, the percentage share of spend on these media dropped.

The spending on search dropped from 38 per cent of the total digital ad spend in 2013 to 30 per cent in 2014 whereas spending on display slipped from 29 per cent in 2013 to 23 per cent in 2014⁴⁹. On the other hand, better ad performance and greater scope of reach and engagement on mobile, social and video has been instrumental in improving their share to 14 per cent, 18 per cent and 12 per cent respectively in 2014⁴⁹.

Digital Ad Spend Mix



Source: IMAI Digital Advertising in India report, 2013 and 2014

The percentage contribution of search has reduced because of shift in preferences for devices accounting for web traffic. The web page views through laptop and desktops are declining at 13 per cent year on year and the views on mobile and tablets are increasing at 39 per cent and 7 per cent respectively⁵². Within the display segment, there has been a noticeable shift with the advertisers preferring rich media because of the formats can be visually appealing, engaging and noticeable.

In 2014, USA accounted for almost one third of the global visitor population on Google, whereas India contributed to only 9.1 per cent but far higher than most of the APAC nations⁵³.

48. Pitch: Madison Media Advertising Outlook 2015

49. IMAI Digital Advertising in India report, 2014

50. eMarketer newsletter, June 2014

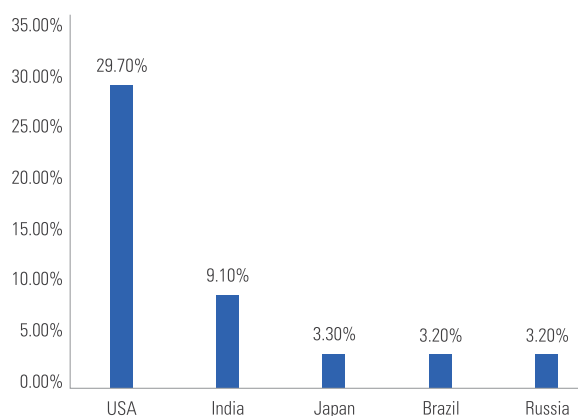
51. eMarketer newsletter, December 2014

52. We are Social, Digital, Social and Mobile in 2015 report

53. statista.com, September 2014, Distribution of global online visitors to Google.com by country



Global visitors to Google.com



Source: Source: <http://www.statista.com>

Video grabbing more eyeballs than ever before

The advertisers are readily opting for forced view format (in-stream) ads which have made the standard in-stream ad format (5 second skippable short ads placed before, in between or post the actual video) the most preferred medium, attracting major share of the overall video ads revenue. For categories like FMCG, consumer durables, electronic gadgets and even Bollywood, releasing only television commercials (TVCs) without anything for digital media has become a thing of the past. Along with mainstream media commercials, short videos are released with a focus on leveraging the popularity of those videos the user intends to watch.

Video has outperformed all the other online ad formats by garnering the highest CAGR of 56 per cent (2012-2014), leading to spend of INR330 Cr in 2014⁵⁴. Globally, the digital video ad spends are also increasing at a rapid rate with a total of USD 8.3 billion in 2014, which is almost 20 per cent higher than in 2013⁵⁵.

Even though the contribution of video ads to the overall ad spends have been comparatively lower, it has posted the fastest growth since 2012 with a CAGR of 56 per cent and it is expected to grow as marketers' sentiment are shifting positively towards online video portals, that give higher engagement, visibility, and add to brands' recall value⁵⁶.

Promoted content on social media gains prominence

Though social media is considered a casual platform to interact with fans, yet it has managed to attract a sizeable amount of revenue through different ad options like sponsored/promoted tweets and posts, text links and videos. The social ads grossly generated INR495 Cr in 2014⁵⁶.

Brands have understood that mastering social media is not only about posting brand updates, but also about driving customer engagement by creating meaningful conversations. Many of them are investing in tools to monitor user behaviour and to manage response on social media platforms. To talk to the users, they are developing customised content which is both, relevant and appealing. Many brands have effectively developed tactics to improve their revenue numbers by investing in promoted posts/tweets which carry targeted information about offers, coupons and contests through custom targeting.

Mobile ad spends growing at record rates

Increased mobile advertising budgets have positioned India as the fastest growing country in the world by mobile advertising volume, with a record 260 per cent climb since July 2013⁵⁷. Currently mobile ads constitute INR5.2 billion, of which in-app advertisements claim the major share, with 40 per cent followed by mobile web ads at 25 per cent and movie video, TV, SMS, MMS advertisements at 35 per cent⁵⁸.

With location based data, past usage behaviour and device information, it has become easier for advertisers to provide users with relevant ads and suggestions. One of the most popular location based suggestion services is offered by Zomato, which features both promotional content and suggestions based on interest. To improve user engagement on mobile, companies have also started launching referral incentive schemes, where users are given credits for future purchases.

The growth in mobile platform usage and reducing cost per acquisition are expected to drive the growth in mobile ad spends at a YoY growth of 48 per cent in 2015 to reach INR7.7 billion⁵⁹. This surge in investment in the mobile medium is expected to be complemented by rapid increase in the number of mobile devices, innovation in mobile technology and improvements in user experience on applications.

Globally, Android devices contributed more to mobile ad traffic compared to iOS. While ad impressions on Android increased to 63 per cent in 2014, ad impressions on iOS fell to 27 per cent⁶⁰. This disparity is largely attributed to the availability of affordable Android phones in developing countries like India. Also, the average conversion on interstitial ads on Android has proven to be almost twice that of the other ad formats. While iOS conversions stand at 1.73 per cent, 3.06 per cent of ads displayed on Android generate conversions⁶¹.

54. statista.com, September 2014, Distribution of global online visitors to Google.com by country

55. statista.com, Worldwide online video advertising spending from 2005 to 2016

56. IMAI Digital Advertising in India report, 2014

57. Opera MediaWorks report 2014

58. KPMG in India analysis, IMAI Digital Advertising in India report, 2014

59. KPMG in India analysis

60. Opera MediaWorks Press Release, 3rd February 2015

61. InMobi App Insight Report 2013



3-4 years ago, advertising on the Digital medium was 'nice to have' for most advertisers. Digital advertising has now become a 'must have' for brands. While the changing content consumption pattern of consumers is driving this shift in advertising dollars, the performance-oriented nature of Digital advertising is another advantage of Digital advertising. Going forward, mobile advertising will likely be a game changer. ▲▲

- **Ranjan Kapur**
Country Manager
WPP India

Native advertising on mobile

The proliferation of native advertising tools for the mobile format is expected to boost engagement and provide a better understanding of the users' demographics, habits and interests. This blending of contextually relevant messages with the mobile app/site content is estimated to result in a 33 per cent increase in engagement time and give 57 per cent higher CTR⁶². By tracking user behaviour with the help of algorithms, advertisers can flash ads that are relevant in context of location purchase behaviour, etc. This may also increase the probability of the ad being watched by the intended recipient. 38 per cent of the mobile consumers believe relevant sponsored content adds value to the app/site experience. For marketers, native advertising formats have also resulted in a 9 per cent higher lift to brand affinity and 18 per cent higher lift for purchase intent response than traditional banner ads. Therefore, marketers focussing on customer acquisition through brand engagement are expected to gradually move to native inclusion as 52 per cent of the mobile consumers are more likely to engage with native ads than regular banner ads⁶³.

Marketers increasingly use retargeting to attract customers

Remarketing helps advertisers target users who have earlier visited the company website or the mobile app. With dynamic remarketing and real-time advertising, the advertiser can now flash the product or service ads across online platforms/websites, after the user has accessed a product from the company website. This has resulted in delivering customised, higher performing ads by adding custom parameters to the advertisers' website⁶⁴. Companies are benefiting by reminding the customers about their pending products in shopping carts abandoned on e-commerce sites. Today algorithms have become smart enough to not only display the product that the user browsed but also show similar products that might catch the user's attention.

Factors that lead to purchase when retargeted/remarketed include:

Reach people when they are most likely to buy

Tailored to advertising goals

Large scale reach

Efficient pricing

Easy ad creation

Know where the ads appear

Source: KPMG in India analysis



62. Vserv estimates, January 2015

63. Sharethrough and IPG Media Lab, Native ad effectiveness study, 2013

64. Google Support, <https://support.google.com/adwords/answer/2453998?hl=en>



Digital Campaign Validation is Foundational for Advertising Impact

Often considered the most measurable of all media, digital suffers from a deluge of data points flowing in from a vast swathe of tools and service providers aiming to help advertisers evaluate digital campaigns. The heterogeneous array of capabilities and metrics available, may become overwhelming.

In a recent whitepaper 'The Value of a Digital Ad', comScore distilled the advertising measurement spectrum into three clear components:

- **Performance:** viewable delivery, to actual humans, within the target audience;
- **Effectiveness:** how a campaign changes attitudes to a brand;
- **ROI:** how a campaign, including the cost of measurement, changes sales.

Performance, effectiveness and ROI have often been measured in isolation, but forward-thinking brands have made substantial gains in all areas by taking a unified view of the findings to inform future activity. If unified and comparable metrics are used at each stage of the campaign, there is greater potential to transfer learnings within a campaign into future activity and more effectively reconcile with the measurement of other media.

'Validation' concerns itself primarily with the performance side of the campaign equation. Performance measurement begins with isolating and filtering a key threat to accurate metrics- Non-Human Traffic (NHT). Activity generated by anything other than a valid person requesting content is, often, for the purposes of fraud and is traditionally not identified at the ad server side. By failing to account for NHT, the campaign metrics become contaminated with invalid impressions which is not only detrimental to gainful insights from other performance metrics but also negatively impact effectiveness and ROI calculations.

The scale of the NHT problem varies by market, publisher and content type - video being more susceptible than display as an example. However, for certain advertisers and publishers, it can be incredibly problematic. Data from US shows that 75 per cent of all campaign NHT came from only 21 per cent of campaigns, suggesting that diligence from a small number of advertisers could make a large difference to market averages. On the publisher side, it is again a small per centage of inventory lowering averages - 15 per cent of observed US publishers experienced sizeable NHT problems. There is a wealth of quality inventory available for informed advertisers but there is a need to accurately and quickly adjust campaigns during planning and even delivery.

Whilst filtering NHT increases the chances of a campaign to be seen by a valid user, the next stage i.e. being able to deliver an actual brand message also poses challenges. Data from US shows that a majority (54 per cent) of impressions are simply not 'viewable' for a plethora of reasons, including duration on screen, location on pages, and increasingly, some nefarious practices. Viewability was found

to be better on inventory bought directly from publishers. It becomes clear that there is a need for advertisers to understand how to make informed choices and benefit from the quality that does exist.

When combining the risks of NHT and poor viewability, it is clear that wastage on a campaign can quickly stack up before even posing the question of whether valid impressions have been delivered to the target audience.

When it comes to demographic targeting comparable to non-digital media, comScore's benchmarks show that the broader the target range, the higher the in-target rate tends to be. This makes sense given that a wider target requires less sophisticated targeting techniques. What also becomes clear, however, is that demographics inferred from online behaviour tend to be significantly weaker than demographics from registration data or offline sources when validated against comScore's panellist profiles.

Using individual solutions for each stage of measurement (NHT filtering, viewability and audience targeting) tends to rely on applying blanket expectations at one level, such as the assumption that an overall viewability rate is consistent across different variables being analysed in a campaign. However, natural variations by category, publisher, media type and demographic target mean that a flat expectation for any of these metrics gives the potential to grossly over or undervalue performance. A single-tag solution that accounts for all three offers the possibility of distilling campaign measurement to a 'Human GRP', accounting for reach and frequency based on real human eyeballs - a crucial foundation for the ensuing effectiveness measures of brand and sales lift, and indeed evaluation against cross-media activity.

Whilst campaign validation metrics are perhaps less glamorous than highly quotable sales/attitudinal uplifts or ROI claims, they are no less important. In fact, they are a crucial and inextricably-linked foundation for these effectiveness measures, and it is virtually impossible to drive the campaign results without first qualifying which impressions actually had the potential to influence consumers' behaviour.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Kedar Gavane. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Kedar Gavane
Vice President,
comScore, Inc.





Online and mobile advertising back under service tax regime

Last year, the re-introduction of service tax on online and mobile publishing and advertising networks was a major dampener for the digital advertising industry. After two years of being included in the 'negative list', the Union Budget 2014 announcement to bring back service tax on the sale of online advertising space came as a surprise for many. This has forced several publishers and ad networks to rethink their pricing strategies after factoring in the implications of this change. Advertisers that are increasingly shifting their ad spends to digital are also expected to be impacted by this move.

Digital Advertising in India: Outlook 2015 and beyond

With growing opportunities to run targeted campaigns on mobile, mobile ads spend in 2015 is expected to be around 12 per cent of total digital ad spends and is expected to reach around 17 per cent in 2019⁶⁵. The overall digital ad spends worldwide are projected to grow at 14.3 per cent in 2015 and reach USD 160.18 billion⁶⁶.

Among the APAC nations, India will remain an underdog with INR62.5 billion⁶⁵ in digital ad spends, whereas the top performer, China will be spending close to USD 22.38 billion in 2015⁶⁶. Among the APAC nations, Indonesia will overtake India in digital ad spends by 2017, pushing India to number six⁶⁶. The digital media spends in India may have greater potential for growth in case investments in this category as a percentage of overall media spend increase in the coming years.

Mobile social media platforms are innovating to widen the scope of advertising

Many of the social media platforms are updating their algorithms and backend technology to widen the scope for advertising on 5 to 6 inch mobile screens and 7 to 11 inch screens on tablets. Advertisers such as BBC Worldwide and Dominos are using cross-platform applications, customised APIs, SMS and OTT messaging platforms to communicate their messages using native ads and contextual targeting. These applications provide chat features and other engagement opportunities that act as data sources for studying the interests, habits and behaviour of users in order to provide hyper targeted ads to users and communities at a particular location.

Broadcasters and content generators betting big on digital video platforms Independent content generators like AIB, ScoopWhoop and TVF, that create engaging content either on display, video or text, have been garnering record views. They post content on their portal as well as use the promotional tools on YouTube and Facebook to get the audience acquainted with their content.

Advertisers are now considering working with these content generators for either building content around their own brand(s) or are including brand symbolism within an engaging story. For example, in TVF's Tech Conversations with Dad, Airtel's ringtone was used to build brand recall within a short video without using any direct brand messages.⁶⁵

Analytics based Programmatic buying

Real time bidding and programmatic buying are becoming hot favorite topics for intense discussions among digital marketers. With the advancement in digital marketing technologies, tools have become smarter and can now learn from the behaviour of the user. Depending on the kind of demand the search generates, the back end software and algorithm alters the investment of advertisers per bid. This results in generating a better return on marketing investment, as well as in giving the advertiser a better picture about the users' interests.

Agency Trading Desks: Their impact on the Indian advertising ecosystem

The Concept of Agency Trading Desks:

The concept of the agency trading desk (ATD) as it has evolved with the Fantastic Four advertising groups in the West (WPP, Omnicom, Publicis and IPG) is to have an entity that would execute programmatic media buying through advertising exchanges.

In an era where clients demand greater transparency and agency margins are being squeezed, agency trading desks are looked upon by these groups as the 'bright spot' that would add a consultative layer within the group and spearhead the push towards programmatic media buying. In other words, ATD's would firstly drive growth, secondly push for more futuristic media buying practices with a real technological edge to them and lastly drive margin expansion.

The "Indian-ised" version of the ATD:

Given the fact that programmatic advertising has not yet taken off in India, the challenge for the ATD entities has been substantial. While some ATD's have chosen to stick with the original mandate, of focussing on growing out the share of programmatic buying within their groups, others (for now) have morphed into demand aggregation engines.

Figure 1 below, depicts how the ATD ecosystem was originally envisaged, with the trading desk expected to fulfil a dual role of a centralised programmatic buying hub and a centre of excellence that would evangelise programmatic buying within the group.

65. KPMG in India analysis

66. eMarketer newsletter, June 2014



The concept of the agency trading desk

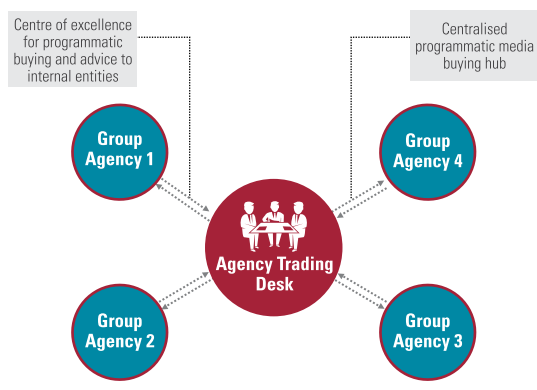
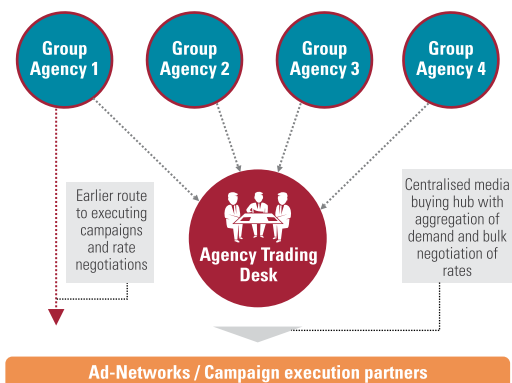


Figure 2, depicts the change we are observing in the Indian implementation of some agency trading desks. The internal communication to all agencies has been clear - the ATD will be the final decision-maker on rates, thus aggregating the buying power across an agency group. The ATD as a result have been mandated to do bulk deals with implementation or execution partners like display and video networks, leverage their 'now augmented' buying power to negotiate the best rates for the group.

The 'Indian-ized' agency trading desk



The Transparent model

Some ATD's have begun by being more client-focused and are attempting to build a truly transparent ecosystem, which will allow clients to have full-visibility of the media buying costs and the pre-negotiated agency margin on top. Some automotive advertisers and e-commerce companies have executed campaigns programmatically early this year.

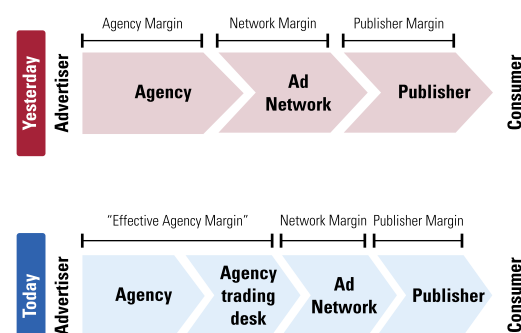
Though in private conversations CMO's have raised concerns about the 'true transparency' of such platforms. Some of their concerns are valid, "How do we know we are seeing the true media costs and they haven't been inflated at the back end?" "How can we be sure that there is no double-dipping?"

There are no easy answers here. Only time will help evolve industry reputations and separate the platforms that deliver the best ROI and offer true transparency compared with others which will have some opacity around margins.

The Arbitrage model

As the name suggests the arbitrage model, works on the basis of a locked in rate with a client and the ATD making an additional margin based on the most-optimal programmatic rates available through platforms. This effectively makes the ATD into profit centre, apart from the agency. This is depicted in Figure 3 below.

The impact on the Indian advertising ecosystem



What does the future hold: Lessons from the rabbit and the hare?

It may be pre-mature to play Nostradamus here, but one can attempt to draw analogies from what has typically happened in the changing profit-pool-shifts across different industries.

What is amply clear is that, in the short run some ATD's that are operating in the arbitrage model, are likely to gain share quicker for a couple of reasons. Firstly, they will not necessarily need client 'buy-in' for every campaign, this will likely allow for a quicker trigger to executing campaigns. Secondly, given their concentrated buying power the ATD will likely identify a few preferred service providers locked-in at bulk contract rates and then execute campaigns relentlessly through these players. These two factors are likely going to get the arbitrage players faster off the block.

In the medium to long run however, advertisers are going to get increasing conscious about the return on ad spend and will begin to separate the ATD's that truly deliver value, transparency and insight from the ones that don't. In an industry as small as ours, the marketing folks move around from company to company every two years and word gets around pretty fast. Reputations once dented take a long time to turn around. That is when the slow but sure-footed mascots of transparency and value-addition will begin to gain share.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Ruksh Chatterji. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Ruksh Chatterji
VP-India Region,
Komli Media

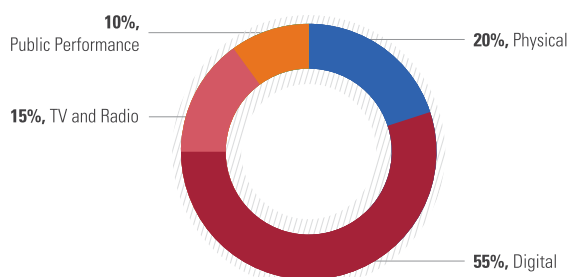




Digital Music

The size of the Indian music industry is estimated to be around INR980 Cr and is expected to grow at a CAGR of 14 per cent from 2014-2019.⁶⁷ The revenue from distribution of music through digital channels or digital music, as it is generally understood, accounts for nearly 55 per cent of the overall size of the music industry⁶⁷. 20 per cent of the revenue comes from physical sales, with TV and radio accounting for 15 per cent and public performances making up the final 10 per cent⁶⁷.

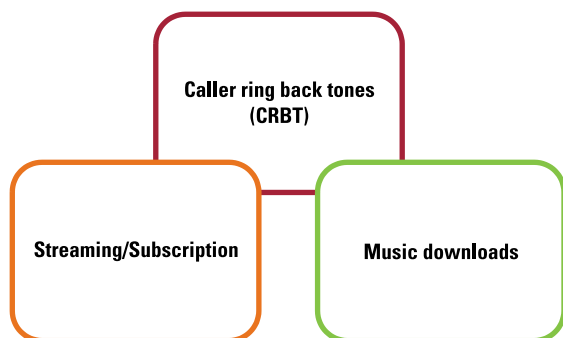
Share of music revenue based on sources of distribution



Source: Industry discussions conducted by KPMG in India

Predominantly, three models of digital distribution music are prevalent. The first is WAP based content delivery by telecom operators for services like caller ring back tones (CRBT). This category continues to account for a big share of digital music. The second most important source is legal download of music from marketplaces such as iTunes and Google Play. Music streaming services such as Saavn and Gaana are the latest destination for consumption of digital music.

Major digital music business models



Source: Industry discussions conducted by KPMG in India

Music streaming has gained immense popularity due to large scale promotions on mass media. Bollywood music dominates the digital music industry in India. Further, the digital music service providers and labels are increasingly going local to include genres such as Bhojpuri, Kannada, Bengali tracks in their catalogue. The domestic music catalogue boasts of around 500 labels in 20 different languages⁶⁸.

2014 broke all records when it came to multi million dollars' investments and acquisitions in the online space. The story for digital music industry was no different. Music streaming is becoming a serious business with the market already heating up due to investments in venture-backed music streaming sites and with big players (such as Rdio) announcing their arrival into India. The telecom operators have further intensified the competition by launching their own music streaming services. Players like Airtel, Vodafone and Idea have broadened their services to make their mark and to leverage their existing data bundling and billing capabilities for competitive advantage.



Digital has transformed the (music) business to essentially one of 'access'. Fuelled by the boom in smart phone sales, India is also moving in this direction. I anticipate India along with the world will continue to evolve to an access model, which will be both- ad supported as well as driven by subscriptions.

- Arjun Sankalia
Director- Publishing & International
Sony Music Entertainment

Regional music rocks!

Regional music is silently making its mark in an otherwise Bollywood dominated music industry. As local artists from across the country are finding sizeable fan base, the consumption of music in regional languages is increasing steadily. As a result, regional record labels such as Aditya Music India have signed deals with various digital music majors for sharing their catalogue across digital platforms internationally⁶⁹. Aditya Music's catalogue includes Telugu, Tamil and Kannada film songs, along with Carnatic classical songs, devotional and folk songs⁶⁹.

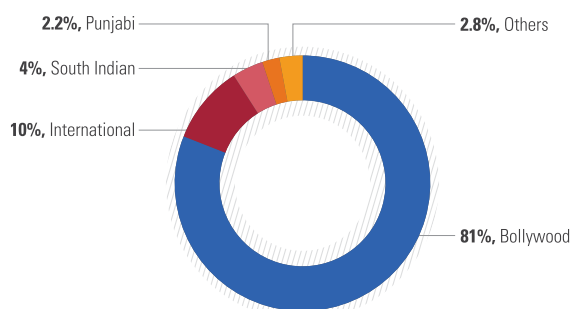
67. KPMG in India analysis, Industry discussions conducted by KPMG in India

68. Medianama, January 2015, #Outlook15

69. IFPI Report, 'India: Nearing an all-time high', 2014



Music consumption breakup by genre



Source: Hungama music trends report, 2014

Overseas markets are becoming significant

As Indian citizens are travelling abroad and settling down in other parts of the world, the pie of revenue from outside India is slowly growing for Indian digital music companies. While OK Listen! claims 10 per cent of its revenue in 2014 came from outside India⁷⁰, another major digital music player, Saavn claims 4 out of its top 5 streamers in 2014 hailed from cities outside India⁷¹. Moreover, Saavn also reported streaming 40 per cent of its total music content in 2014 in international markets⁷¹. Thus, overseas markets are becoming important for music labels and music streaming companies, because of multiple services and a much larger digital economy.

Telco operators seem to have cracked the digital music app economy

Bharti Airtel, India's largest telecom operator entered the digital music market with its app called Wynk. Wynk has crossed more than 5 million downloads, played 100 million songs and got featured in Google Play Store's 'Favourite Apps' within six months of its launch. With over 1.8 million Indian and international songs on the list, Wynk has impressed many Indian music lovers⁷². Airtel has introduced two types of subscription plans for Wynk—Wynk Plus and Wynk Freedom. Both are free to users for the first one month. The Wynk Freedom subscription is open only to Airtel customers who have Android Smartphones and Airtel 3G connection⁷³. Wynk is available for download both on Google Play and iOS App Store.

Wynk Music payment options

Connection	Payment Mode
Airtel and Idea	Prepaid balance/postpaid bill
Non-Airtel	Net banking/credit/debit card/Paytm/iTunes wallet

Source: <http://www.airtel.in/wynkmusic>

Similarly, Vodafone has also launched its own music streaming service – Vodafone Music, in association with Hungama Digital Media Entertainment. Vodafone Music customers can enjoy music on the go by connecting through mobile internet. While audio and video streaming are not charged for, the user has to pay nominal fee for downloading content. Idea launched the Idea MusicHUB, which is an application that allows subscribers to download unlimited music to their devices, stream songs as per their preference, and also create their own personalised playlists in their preferred language⁷⁴.

The fact that customers already have an ongoing billing relationship with telecom operators works in their favour, as compared to other providers of digital music content. This helps telecom operators to monetise their digital music offerings far more easily than other players can. The telecom operators earn not only from increase in data usage but also from the nominal subscription charges for the music streaming services.



Digital music consumption is a mixed bag of various touch points and consumer segments. The “typical Indian mobile consumer” still consumes mobile telco based products like RBT and hence those products will have a long tail still; whilst the “evolved modern Indian consumer” consumes streaming/subscription services, is smartphone heavy usage savvy and will grow the top end of the market. In either case - the preference by the emerging consumer is not of ‘ownership’ but of ‘rental’ Hence the longer term bet is on paid music subscription services, the value they offer, and their faster uptake that will happen with a increasingly younger smartphone ready consumer that pops out every year to consume these digital services.

- M. Andar Thakur
Chief Operating Officer
Times Music

70. Medianama #Outlook 2015 report, 19 January 2015

71. Saavn.com (Saavn data)

72. YourStory, 23 February 2015, Wynk Music app crosses 5 million downloads within six months of its launch

73. <http://www.airtel.in/wynkmusic/>

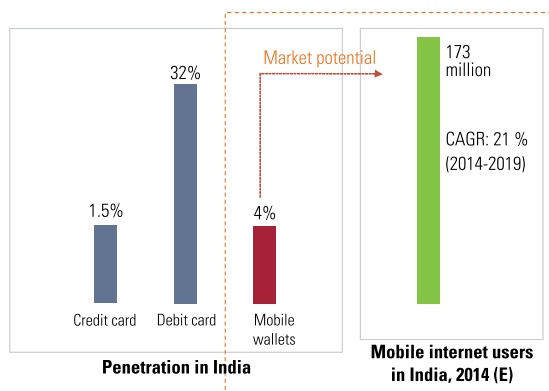
74. India BLOOMS press release, 25 March 2014



Mobile wallets would prove to be a boon for digital music

As more and more customers choose to go mobile for their music need, it has become essential for digital music companies to think beyond credit cards, debit cards and net banking. The credit card and debit card penetration in the country is low. The unbanked population may not have savings accounts for netbanking while the youth, especially the college going crowd, prefer hassle free mobile wallets to credit or debit cards. Well-funded mobile wallet companies are coming up with innovative products to make the payment experience hassle free so it is least surprising that mobile wallets have become the preferred choice for buying music. It is easier to make micro-transactions through pre-loaded mobile wallets compared to entering credit/debit cards details every time a user wants to download a song. Further, with the increasing smartphone penetration, the potential for increase in mobile wallet penetration is high compared to credit and debit card penetration.

Potential of Mobile payments in India



Source: KPMG in India analysis

Offline mode is the 'in thing'

Many leading Indian digital music players are steadily moving towards offering offline modes of music consumption through paid premium services. The offline mode allows users to directly cache songs and videos to their mobile devices to view or listen anywhere, anytime, even in the absence of internet connectivity. It may be worth mentioning here that while such services allow caching of music for consumption later, the music is actually not downloaded on to mobile phones and cannot be transferred to other devices. Recently, Saavn tied up with Amazon to offer this premium service to Amazon app customers free of cost for two months. Similarly, Hungama tied up with Aircel to offer its PRO service to Aircel customers for subscription for two months. Gaana also followed up with its Gaana Plus app for offline listening on iOS and Android platforms⁷⁵.

However, India has, essentially, been and still is a typical market wherein majority of users prefer the services without incurring any cost. It is a tough market too due to rampant piracy. In India, only 1-2 per cent of music is consumed by way of legal purchase whereas 99 per cent of the music consumption is still illegal i.e. pirated⁷⁶. With these numbers, the upside seems high if piracy could be curtailed. The challenge remains in converting non-paying users into paid users through innovative pricing strategies and compelling alternatives to mitigate piracy. With a younger generation that is born in the age of smartphones, and heavily influenced by sources offering pirated content, streaming services should look at ways to catch them young and convert them into paying loyalists.

Investments increasing while new players make entry

Like the other online businesses, digital music industry also witnessed a good deal of buyouts, sell-outs and new entries jockeying for position. Some key highlights for the last year are:

- The US based global music streaming company Rdio entered India. Earlier they had acquired Dhangana, which once boasted of around 10 million subscribers. Dhangana had shut operations in 2013 due to contractual issues with a label. Rdio have launched in India with a library of 32 million songs in their catalogue. Like other players, Rdio also offers free radio app to mobile users and charges the user for the premium service at INR120 per month⁷⁷.
- Australia based music streaming service Guvera was launched in India with a library of 12 million tracks⁷⁸. The ad-supported mobile app service is available both for Android and iOS devices.
- Gaana acquired Tlabs backed independent music streaming portal Musicfellas.com for securing access to independent music to further establish itself as a major player.
- Saavn raised an undisclosed amount from Hong Kong based hedge fund, Steadview Capital.

75. Medianama #iOutlook 2015 report, 19 January 2015

76. Industry discussions conducted by KPMG in India

77. TechCrunch, 15 January 2015, Rdio Brings Its Global Music Streaming Service To India

78. <http://www.billboard.com/articles/business/6311935/guvera-launches-india-streaming-music-service>



The future of the Music business is clearly moving towards streaming services. Local players like Hungama, Gaana and Saavn and international players like Rdio and Guvera who are already here and the certain entry of the other big global players will decide the quantum of the future freemium and paid user base of music listeners in our region. With technology evolving at the pace that it is at and the onset of 4G, the stage is now set for a maturity level in music consumption in South Asia. I truly believe that streaming is the first step to really combat digital music piracy and as an industry we stand firmly behind these services and partners to help grow the overall pie.

- Devraj Sanyal
Managing Director and CEO,
Universal Music Group South Asia,
EMI Music South Asia

Challenges that lie ahead for the digital music industry

2014 was a tough year for the music industry. The industry experienced a decline of around 35 per cent in physical sales, 30-35 per cent⁷⁹ drop in user base for caller ring back tones due to TRAI regulations and the inclusion of regulations like two-step authentication for online transactions⁷⁹. The music streaming players while struggling to monetise their offerings also reported high minimum guarantees from labels putting additional pressure on bottom lines. While digital music players have introduced innovative product offerings, the penetration of these services in hinterlands is limited due to inadequate internet infrastructure in these areas which impacts overall user experience⁷⁹. Stakeholders across the board would need to come together to find solutions to these issues in the year ahead.

Many independent music artists still struggle to make their mark, against the onslaught of popular Bollywood music. Some digital music companies reported inefficiency in managing marketing and advertising activities for new releases due to lack of adequate lead time from labels. A significant part of the overall music catalogue is still missing from the digital stores, and getting this content digitised and distributed will likely be one of the top priorities for 2015.

Apart from these challenges, there seems to be a constant endeavour from digital music companies to make user experience better, understand tastes and provide customised and personalised content to new age subscribers. Moreover, the payment mechanism for digital music content has to be simplified for attracting

young users, senior citizens, illiterate users who wish to try and buy music at one touch.

Digital music in India: Outlook 2015

The digital music industry is all set to come up with surprises in 2015. As digital music companies seem to be trying out different strategies to lure more subscribers, the challenges they are faced with are herculean. From exclusive launching rights, to digitising old content, everything could be a strategic differentiator, as the consumers have a wide array of wallet friendly options to choose from.

Piracy and licensing bottlenecks continue to plague the digital music industry in India, although there have been some improvements in this area in the year that went by. As more and more Indian users have begun paying for music consumption, and labels like T-series, Rajshri and Aditya Music have eased up their licensing policies, these issues are most likely to be addressed in future. However, there could be more challenges that major digital music companies may foresee for the year ahead.

Many top digital players are struggling to chalk out a scalable model, whereby users would see value in paying for listening to music. Though user acquisitions are on the rise, the challenge remains in converting them into loyalists and paying users⁷⁹. How digital music provider would manage to monetise their platforms effectively still remains to be seen. Additionally, a major challenge for streaming services could be in finding unique proposition through which they would differentiate themselves from their competitors given that, as of now, the services offered are identical.



⁷⁹ Industry discussions conducted by KPMG in India



Social Media

With almost 19 per cent⁸⁰ internet penetration and 9 per cent penetration of social media⁸¹, India continues to be the fastest growing market for social media in the world. 41 per cent of India's total mobile users are active on social media⁸². Whatever be the choice of device, India spends around 2 hours and 57 minutes, on an average, on social media every day and the number of such socially active users has increased by 31 per cent since last year⁸¹.

The rise of social media adoption among Indians, however, has also raised a growing concern over poor internet speed in the country, which is just 2 Mbps on average, much below the global average of 4.5 Mbps⁸³. The connectivity is poor and speed lower for the rural users in India. With around 72 per cent⁸⁴ population in rural India, the true potential of social media can be unlocked only by getting these people under the umbrella through apps like 'Gram Vaani' and 'LocalCircles', which are available free of cost on smartphones, work on low internet speeds, are easy to use and publish content relevant to the rural masses.

In order to reach the under-penetrated areas, Facebook has initiated the Internet.org project with a vision to provide basic mobile internet services for free. The service is run by Internet.org in collaboration with a number of telecom players. In India, Facebook has tied up with Reliance Communications to bring the service to six states initially- Tamil Nadu, Maharashtra, Andhra Pradesh, Gujarat, Kerala, and Telangana. This service is available in English and six local languages — Hindi, Tamil, Telugu, Malayalam, Gujarati and Marathi — and can be accessed via the dedicated Android app.

Social commerce is on the rise

A social revolution is in the offing in the commerce space with companies such as Voonik, Klip, Woopl, Limeroad, etc. coming up with innovative platforms for customers to connect with people they trust for suggestions while they shop. Recently, a Hyderabad based online fashion network, Violet Street secured funding worth INR2 Cr from private angel investors⁸⁵. Violet Street endeavours to offer the offline shopping experience on the online world by allowing its users to mix and match and create custom looks by putting together fashion products from various sites⁸⁵.

Indian banks were also quick to jump on to support banking on social platforms. After launching its Facebook payment platform, Pockets, ICICI bank introduced '#ICICibankpay', the first-of-its kind service in India that enables ICICI Bank customers to transfer money to anyone in the country who has a Twitter account. Apart from this, the service allows Twitter users to check account balance, view last three transactions and recharge prepaid mobile in a completely secure manner. A similar service called Jifi was launched by Kotak Mahindra bank, which uses the concept of '#Hashtagbanking'



to allow account holders to perform basic banking operations through Twitter.

Rich media content has the strongest pull in social media

Visual rich media content clearly dominated the social media space for engaging the Indian audience. Some key statistics make this phenomenon very evident:

- Tweets with visual content receive 18 per cent more clicks, 89 per cent more favourites and 150 per cent more re-tweets⁸⁶.
- Facebook posts with visual content result in 87 per cent of the total interaction on the website⁸⁷.
- 70 per cent marketers plan to increase visual content on social media in 2015⁸⁸.
- The number of videos from people and brands are expected to increase by 36 per cent in 2015 as compared to last year⁸⁹.

80. eMarketer newsletter, KPMG in India analysis, Internetlivestats.com

81. We are social: Digital, Social and Mobile in 2015 report

82. blog.digitalinsights.in, 17 August 2014, 10 Important statistics about Digital and Social Media in India

83. Akamai state of internet report, Q3 2014

84. Nomura report- India internet: Raring to go, 2014

85. iamwire.com, 05 January 2015 Indian Social Commerce Portal VioletStreet Raises USD 315K Funding in Angel Round

86. Blog.bufferapp.com, KPMG in India analysis

87. Social bakers: as cited in company blog, 8 April 2014

88. www.emarketer.com: Social media marketing report, 2014

89. Facebook internal data content, November 2014

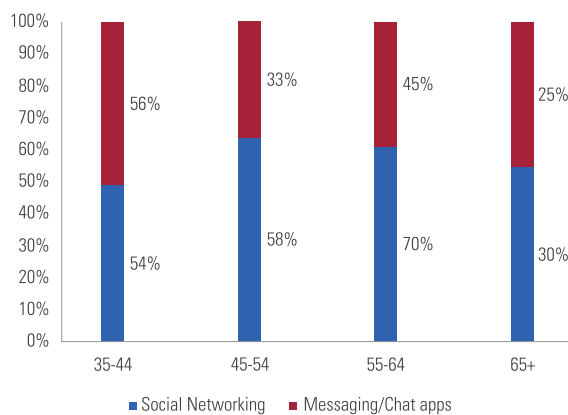


Senior Citizens and women adopting social network

Social media is witnessing what is famously described as the 'Levi's effect' i.e. increased adoption rates among older sections of the population, as compared to youngsters. An increasing number of people in the age group of 35 to 65 years are downloading apps for social networking and instant messaging. Other than Instagram, all online social media apps had a higher percentage of online adults in the age group of 29-65+ years⁹⁰. This points to the fact that people today are looking for a more personalised social networking platform where they can communicate with different groups of people differently. They want to share different content with different groups - their close friends, family, colleagues and acquaintances, all at the same time. Women all over the world seem to have dominated the online social media space in 2014. Among online adults who use various social networking sites, women outdid their male counterparts on all social media platforms except Twitter, where they lagged behind marginally⁹⁰.

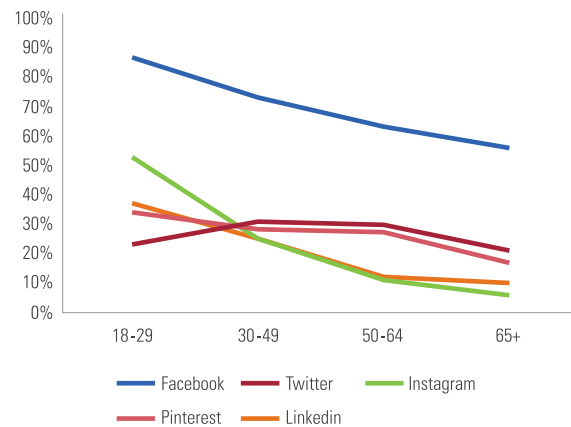
The chart below shows that social networking and messaging apps are the categories that are of interest to adults in the 35-65+ age groups.

Applications/web content accessed regularly on mobile device by adults in the 35-65+ years age group



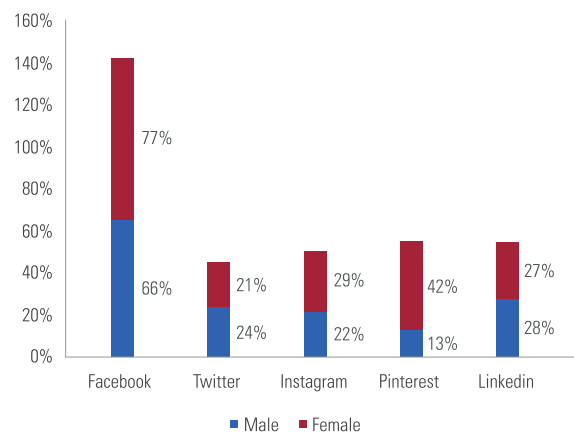
Source: InMobi Mobile Messaging Apps Study: India, 2014

Percentage of adults using social media platforms globally



Source: Pew Research Center's combined omnibus survey, September 2014

Global gender-wise distribution of adults using social media platforms



Source: Pew Research Center's combined omnibus survey, September 2014



90. Pew Research Center's combined omnibus survey, September 2014



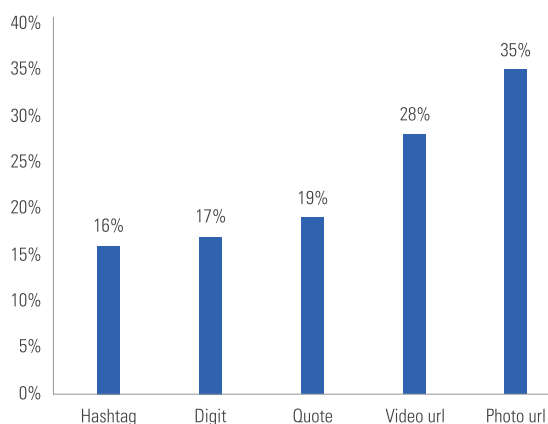
Indians experience special Twitter moments

The year gone by saw Twitter creating a fair amount of buzz with the launch of specialised services for Indian audience. Hashtags in regional languages and the ability to support conversations in Telugu and Bangla, among other vernacular scripts, were some India-specific product innovations introduced by Twitter⁹¹. This has helped the social networking giant to reach out to the large number of non-English users in India who were previously untouched by the phenomenon of microblogging.

Twitter's acquisition of ZipDial, an Indian mobile marketing platform, helped it introduce a new feature that allows subscribers to receive updates about Cricket World Cup by making a missed call to a pre-designated phone number. This feat was made possible by collaborating with the International Cricket Council (ICC).⁹¹

Such partnerships were entered into with broadcasters and media distributors as well, allowing Twitter to become the centre stage for breaking news and special events. These partnerships have allowed Twitter to make the most of product innovations like audio cards and the ability to share videos on the platform. It is now proved that rich tweets have far more reach than text on tweets.

Percentage of retweets per type of content



Source: Twitter media blog

There are a range of tools available to developers that have empowered them to make the most of Twitter's dynamic technology platform. The table below lists a few of them.

Product	Details
Twitter Amplify	Allows broadcasters to publish content directly on Twitter, with the ability to monetise it using sponsored packages. Vodafone and Star Sports joined hands to work on the first campaign of this kind during the Indian cricket team's tour of England last year.
Twitter Fabric	A cross-platform mobile development toolkit for developers. Provides special SDKs- Crashlytics Kit (for crash analytics), Twitter Kit and MoPub Kit (for mobile advertising).
Digits	A specialised Fabric product for SMS-based tools.

Source: Twitter in India

With new product innovations backed by relevant content from content partners, Twitter seems ready to ride the next wave of user growth. The impact that it had on big-ticket events such as the general elections and the Cricket World Cup is a proof of its growing popularity. As new players from diverse industries begin exploring the medium to reach out to new audience groups, brands are expected to realise the increasing power of the platform in the year ahead.



Twitter is where audience comes to join the conversation around big moments from regional and national elections to live sports events and from reality show finales to big ticket movie releases with the rest of the country. With the introduction of vernacular language hashtags and technology to receive Tweets via missed calls, we will see more and more mobile phone users contribute and experience this public conversation in real-time on Twitter.

- Rishi Jaitly
Market Director India and SE Asia.
Twitter

91. Industry discussions conducted by KPMG in India



Facebook introduces innovative offerings

Facebook is by far, the social networking platform with the widest reach boasting of 118 million monthly active users in India, out of which 55-60 million are daily active users. 95 per cent of these users are 'mobile-also' users, meaning that they access Facebook on their mobile devices, in addition to their device of primary access⁹².

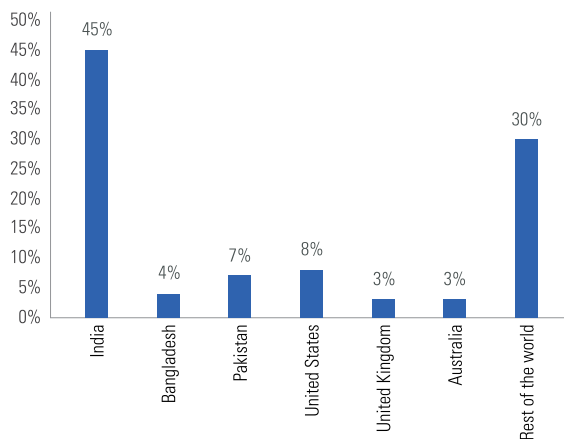
In 2014, Facebook rolled out 'FB mentions', an app that users can use to follow their favourite celebrities. The product supports multiplatform posts with the help of which trending events can be captured. The increase in consumption of video content on Facebook has led to its evolution from a distribution platform to a discovery platform. The auto-play feature of these videos is valuable to advertisers, as now their content can be directly uploaded to Facebook, instead of having to publish it on YouTube, and then sharing it⁹².

The 'Share' button on Facebook pages has encouraged hyper-sharing behaviour amongst Indian users. Amongst its 1.3 billion active monthly users worldwide, Indian users make our country Facebook's second largest market globally⁹².

Facebook- the world's biggest Cricket stadium

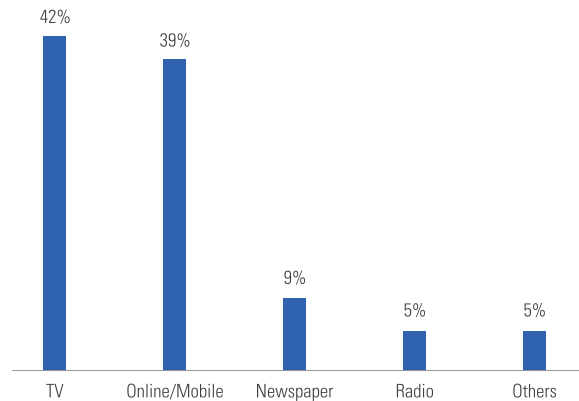
The Cricket World Cup saw Facebook teeming with frenzied digital activity like never before. Indian users took to the social network to share their excitement. Brands capitalised on this with interesting content crafted to complement the sporting action on the field. More than 100 million people on Facebook are interested in cricket and cheered their favourite teams. Out of these, 84 per cent of the fans are between 18-24 years, a captive audience for marketers. Of the 14 teams in the World Cup, the Indian cricket team's Facebook page is the most popular with over 21 million fans⁹².

People interested in Cricket on Facebook



Source: Facebook

Media usage of Indian cricket fans during ICC World Cup, 2015



Source: Facebook



Whether it is discovering information about a breaking news story or an upcoming TV show or getting to watch a movie trailer first or celebrities engaging with fans in authentic and meaningful ways, people converse on Facebook around things that matter to them most. More people than ever before are sharing, discovering and engaging with videos on Facebook. Content creators are building and engaging a global audience on Facebook. From increasing traffic to digital publishers, to the massive scope of conversation people have during major events, this growth in content discovery and discussion is taking place across Facebook. Facebook is an effective medium for content creators, public figures and publishers to connect with their fans and community.

- Saurabh Doshi
Head - Media Partnerships
Facebook India

92. Facebook data, Industry discussions conducted by KPMG in India



Facebook, Twitter, LinkedIn on an acquisition spree globally

Facebook continued its acquisition spree in the year gone by. Although the USD 19 billion acquisition of WhatsApp was the highlight, it remains to be seen how Facebook will monetise this deal. It also acquired Oculus VR that developed the famous Oculus Rift headset for virtual reality experience. It is evident that this social media giant is on a mission to strengthen its arsenal of complementary products, services, and platforms. They are achieving this by acquiring innovative companies with massive user base(s) to maintain its dominance in an extremely competitive market.

Further, Facebook has launched 'Facebook at Work' that allows enterprises/businesses to create in-house networks where employees can maintain professional Facebook profiles to interact with colleagues and use the social network for improvement in productivity. Twitter and LinkedIn also picked up emerging technology and Big Data companies to consolidate their tech portfolio.

A major high point for India was the acquisition of made-in-India start-ups by reputed tech companies. Earlier last year, Facebook made news by acquiring Bangalore based Little Eye Labs that develops mobile app analysis tools. Another feather in India's cap was the acquisition of cyber security firm, Imperium by Google. Twitter too, made its presence felt, by acquiring ZipDial, a 'missed call' marketing platform⁹³. Though small in terms of value, these acquisitions mark the beginning of growing foreign interest in India's entrepreneurial ecosystem.

Amidst US tech giants buying out companies across the world, India's home-grown mobile messaging platform, Hike was acquired by the US-based VoIP company Zip Phone. This marks the entry of messaging platforms into the free voice calling space. With WhatsApp testing out its own voice messaging feature, the competition in this sector is expected to heat up further.

Recent Acquisitions

Facebook		Twitter		LinkedIn	
Company Name	Technology/ Application	Company Name	Technology/ Application	Company Name	Technology/ Application
Little Eye Labs*	Performance analysis and monitoring tools for Android	Gnip	Dados	Newsle	Web application
Branch	Web conversation platform	Namo Media	Native mobile advertising	Bizo	Web application
WhatsApp	Mobile instant messaging	TapCommerce	Mobile app install ads		
Oculus VR	Virtual reality technology	CardSpring	Payment application platform		
Ascenta	High-altitude UAVs	Mitro	Password security		
ProtoGeo Oy	Fitness tracking app Moves	ZipDial*	Mobile marketing and analytics		
PrivateCore	Secure Server Technology				
WaveGroup Sound	Sound Studio				
Wit.ai	Speech recognition				
Quickfire	Video Compression				

Source: KPMG in India analysis
* Indian Company



93. Forbes.com, 20 January 2015 Twitter Acquires India-Based 'Missed Call' Startup ZipDial



LinkedIn maintains focus on providing B2B solutions

Specialised marketing solution offerings have distinguished LinkedIn as a highly effective platform for B2B marketing. The introduction of sponsored updates on the site last year dramatically advanced the platform. It is now LinkedIn's fastest-growing marketing solutions offering. LinkedIn acquired a B2B marketing platform, Bizo. Bizo's offerings are expected to strengthen LinkedIn's existing content marketing products to help brands build stronger relationships with professionals.

Social media players face some challenges

Indians being conservative by nature, are often not as open to sharing content online, as much as their counterparts in other countries. While they consume content, many Indian users are averse to sharing the content they consume. Countries like the US and U.K. are important markets for social networks considering users in these countries are far more comfortable sharing content with their online network.

Another major challenge is the limited internet infrastructure present in many parts of the country. The network is patchy which leads to poor user experience or no access at all. Further, while the prices for internet-friendly mobile phone handsets are coming down they are still out of reach for most Indians who live on low daily subsistence.

Social Media: Outlook 2015

Mobile advertising becomes a major contributor to social media revenues

The most popular social networking website, Facebook, is growing its base of monthly active users (MAUs) across desktop and mobile devices even as users migrate to other platforms. Accelerating this growth, is the rising percentage of people using mobile devices to access social networking sites. This accounts for 90 per cent of the users⁹⁴. This catapulted the ad revenues from mobile to around 66 per cent of the company's ad revenues in Q3 2014⁹⁴. Globally, mobile ads have contributed to more than 90 per cent of Facebook's revenue growth⁹⁵.

Globally, Twitter has about 80 per cent of the monthly active users coming from mobile devices, of which 8 per cent reside in India⁹⁶. A new feature, Twitter Amplify (available on mobile and desktop) has also pushed its revenue to USD361 million (Q3 2014), of which close to 85 per cent come from mobile advertising⁹⁶.

LinkedIn, which is slowly gathering traffic on its mobile web and app platform, has observed 38 per cent of its total user base coming through mobile⁹⁷. As Indians continue to gain access to cheaper smartphones and data plans, advertising is also expected to move to mobile. Native video ads on Facebook are already known to

perform better than regular ads⁹⁸. With shifting platform preferences, it is imperative that marketers shift focus to social mobile advertising to reach out to audience that are always on the go.

The future of social media marketing is expected to be driven by mobile advertising. The year ahead will likely notice ads becoming more location centric, contextual and helping advertisers and media buyers to evaluate the different platforms better with accurate reporting capabilities for tracking engagement.

S-commerce- a new tweak to the customer journey

Social media platforms have been a melting pot for research about different user behaviour attributes and interests and changing buying behaviour patterns. Social networks like Twitter and Facebook, and advertisers like Amazon, Flipkart and Dominos etc. are blending the assets of the two platforms to tap into customer preferences. Moreover, using features like the 'Get Deals' button, marketers are making the consumers' purchase cycle shorter. With social media platforms becoming smarter, the concept of hyper targeting is expected to become more effective in the year ahead.



94. Medianama, 18 December 2014 Facebook has 112M monthly active users in India; 90% of them on mobile

95. statista.com, 29 January 2015 Mobile Ads Account for 98% of Facebook's Revenue Growth

96. Livemint, 20 January 2015 Tweets are growing louder in India

97. Reuters, 07 February 2014 LinkedIn 2014 revenue forecast misses Wall Street estimates

98. Industry discussions conducted by KPMG in India



New developments/outlook for social media in India

Multi-app mobile strategies – The rapid rise of traffic coming in through mobiles should no longer be breaking news to companies. Yet it is still surprising that many companies automatically assume that users want a uniform experience across desktop and mobile. I believe it is the opposite. Given the smaller form factors on mobile and our quick consumption nature while on it, the trick for a wow mobile experience centres on simplification which means, we need to focus on providing the right features in a simple and reliable manner. To provide more options companies must embrace a multi-app strategy. For example, at LinkedIn we have six different mobile applications designed around specific use-cases (e.g. Pulse for news consumption, Connected for contact management, LinkedIn Jobs for finding the right opportunity, etc.). Each allows the user to go deep on delivering for them that exact value-proposition via a delightfully simple UI.

Context-based nurture campaigns – Today, consumers live online but thanks to the explosion of information and generic 'one-size-fits-all' information, as is necessary in traditional media, it is becoming harder to decide how to send the right information at the right time to multiple audiences. Yet all along consumers give us hints that we are not able to pick up. Consumers use various social networks and websites for different reasons because to them context matters. Those who choose to voluntarily share their consumption behavior, a brand has been able to pick up all small signals access to figure out what stage of the decision-making journey a consumer is at: if they are checking out the product features section of your website chances are high that they are close to a purchase decision. It is therefore crucial that brands adopt a full funnel marketing strategy that enables them to not just reach their target audience but also nurture these customers and build a relationship over a period of time. For example, Citibank created community on LinkedIn to engage with and nurture professional women. Not only was this community engaged at 2-3x levels of other groups, but eventually they helped move both top and bottom funnel metrics for Citi. According to Forrester, 60 per cent of a buyer's decision journey is already over before they choose to engage with a company. Is it time then for a brand to consider online consumers to be as valuable as those in

the brick and mortar space? Should brands invest time in content marketing to tailor the conversation and make things relevant? The answer to both these questions is yes because the tools for both already exist.

Go Native. Go Social – We are already seeing digital advertising grow at higher rates than traditional forms of advertising. But with the widespread internet and mobile adoption in India, we are seeing a new era where classic display and search based digital marketing are having to make way for more immersive means. With the rapid rise of smartphones, I expect to see many more brands to increase focus on native advertising (less intrusive forms of mobile ads that are placed directly into the user's feed). This will help them get their message front and center while also delivering a more intuitive and seamless user experience. Similarly, I also predict an increase in shifting budgets to social so that brands can tap into the very best form of marketing – trusted referrals and word of mouth. By enabling a consumer's own network of trusted colleagues/experts or friends depending on what solutions they are seeking and hence the network they are leveraging to be advocates on behalf of the brand and share insights and advice that increase likelihood of success. For example, Van Heusen did a Best Dressed Professional campaign via LinkedIn that got rave reviews since an individual's own peers and colleagues were nominating her/him and helping each find their own unique style.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Nishant K Rao. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Nishant K Rao
Country Manager,
LinkedIn India





Online Classifieds

Online classifieds continued to generate consumer interest in 2014. Propelled by large scale advertising by online classifieds players on mass media, direct consumer-to-consumer and business-to-consumer transactions are on the rise. While job and matrimony still remained the top categories, users seem to be more open to buying and selling a range of used products through online classifieds.

Online classifieds- major players

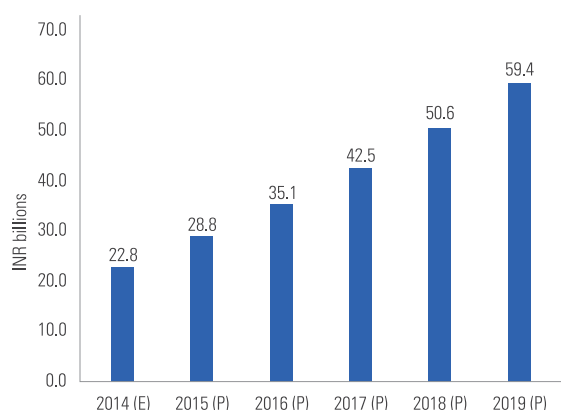
Strategic segments	Categories	Key players
Horizontal classifieds	General (Non-category specific)	Olx, Quikr, Sulekha, ClickIndia, Justdial
Vertical C2C classifieds	Matrimony	Shaadi, Jeevansathi, Bharatmatrimony
Vertical B2C classifieds	Auto	Carwale, Cardekho, India Automobile
	Real estate	99acres, MagicBricks, Indiaproperty
	Food and entertainment	Zomato, Burrp
	Recruitment	Naukri, Monster, Times Jobs

Source: KPMG in India analysis

The size of the online classifieds segment in India was estimated at INR22.8 billion at end of 2014 and it is expected to grow to about INR59.4 billion by 2019 with a CAGR of 21 per cent⁹⁹.

Close to 100 per cent of the jobs classifieds are online. In addition, 50 per cent of matrimony classifieds, 10 per cent of real estate classifieds and 10-15 per cent of education classifieds have also moved online¹⁰⁰.

Indian online classifieds market, 2014 (E) to 2019 (P)



Source: KPMG in India analysis

Further, online classifieds are no longer an urban phenomenon. Major online classified companies claim to have almost 50 per cent of the traffic coming from Tier 2 and 3 cities¹⁰¹.

Job and matrimony sites still ruling the roost, real estate growing

Recruitment is the largest category in the Indian online classifieds segment in India, with a 62.5 per cent share¹⁰². With the economy in overdrive mode, it is expected that an additional 87.37 million jobs will be created this year¹⁰². Many head hunters are increasingly tying up with job portals to scout for talent online. However, a major challenge that remains is the authenticity of user profiles. With websites now employing qualified resources to ensure that fake profiles are not uploaded, this picture could change for the better, moving forward.

The second largest category online is matrimony, with more than 100 specialised matrimony sites catering to niche, community-specific audiences. This category is expected to grow at a CAGR of over 65 per cent to touch INR1, 500 Cr by 2017¹⁰³. Several matrimonial sites have started offering relationship managers and counselling in addition to their existing services in order to provide a wholesome offering. In the year ahead, online matrimony is expected to form an even larger chunk of the already meaty Indian wedding industry pie.

The real estate classifieds contribute 7 per cent of the overall online classifieds pie and are among the fastest growing categories¹⁰⁴. The number of real estate sites is increasing, with many existing players receiving fresh rounds of funding from institutional investors and newer sites being launched more frequently than before. Housing.com's entry into the real estate classifieds space is one such example. This sector has the potential to become the largest area in the verticals classifieds segment, outgrowing jobs as a category¹⁰⁴. This is owing to the large spends of real estate advertising in conventional media like TV and print.

Specialised mobile apps for online classifieds gain traction

The online classifieds sector could not escape the mobile apps transition, as experienced by other categories, owing to the growing number of smartphone users. The major players in the classifieds space have a presence on the various mobile marketplaces. The horizontal classifieds site Quikr, went a stretch further and launched Quikr Nxt, where buyers and sellers can chat with each other on a real-time basis.

99. KPMG in India analysis

100. Motilal Oswal E-commerce report, 2014

101. Industry discussions conducted by KPMG in India

102. Industry Monitor, Indian e-Commerce Sector- Gyaan Research, 2014

103. Zenith Optimedia, 28 February 2013, Online classifieds: Choosing a successful strategy

104. Nomura report- India internet: Raring to go, 2014



Zomato goes global with impressive acquisitions

2014 was a dream year for restaurant aggregator Zomato, as it expanded its presence to 20 countries. Since making its first international foray to Dubai in 2012, the online food classifieds site has come a long way. After quick expansion across Sri Lanka, Qatar, U.K., Philippines and South Africa, Zomato launched its services in New Zealand and Turkey as well. More recently, Zomato expanded to Brazil and Indonesia.

Zomato made its plans clear with its first acquisition in July 2014, by buying New Zealand's Menu-mania. In August, the company acquired Lunchtime.cz in the Czech Republic and Obedovat.sk in Slovakia. This was followed by its acquisition of Poland-based Gastronauci in September. However, the biggest surprise of them all was the acquisition of Seattle-based food portal Urbanspoon for an undisclosed sum. The acquisition marked Zomato's entry into United States, Canada and Australia, bringing it in direct competition with Yelp, Zagat and OpenTable.

Today, Zomato garners more than 35 million visits per month across its website and mobile apps¹⁰⁵. Out of this, 50 per cent plus comes from its mobile app, which services the user by not only providing information of the searched outlets but also customises the content category wise, with, the user's location as a basis. This just goes to show the readiness of the user to depend less on web search and the growing migration of users to mobile apps. This adoption has also given brands the ability to procure more user behaviour data as well as an opportunity to instantly notify the user about the latest offers. The success of Zomato has attracted investors resulting in Info Edge picking up a 50 per cent stake in the company.

Zomato is a fine example of Indian start-ups, harbouring strong global ambitions, making their presence felt globally, on the strength of impressive valuations and funding. Other Indian start-ups in the online classifieds space, or even otherwise could learn a lot from Zomato's success story.

Online classifieds: Outlook 2015

Flush with funds, investors and VCs are increasingly eyeing the online classifieds space, allowing the portals to increasingly use these funds for promotional activities to enhance their user base. In its latest round of funding, Quikr raised USD60 million from New York-based private equity firm, Tiger Global¹⁰⁶. Online selling of used goods has increased by more than three times in the last year. Online buying of used goods has doubled in the last one year¹⁰⁷. The amount of unused goods sitting idle in Indian homes stands at INR56, 200 crores. Horizontal classifieds like OLX and Quikr are the frontrunners in the race to cash in on the potential of this number. India is the country with the maximum number of listings on OLX. The site witnesses 80 per cent of its traffic coming from mobile phones¹⁰⁸.

JustDial is another strong player in the horizontal classifieds space with 11.8 million listings on its site¹⁰⁹. As the number of paying customers stand at just 2.2 per cent of the total number of listings, there is considerable potential for increase in revenue¹⁰⁹.

Auto classifieds, which have still not moved online at the pace with which jobs and matrimony have, also saw USD100 million being poured into the category in India¹⁰⁹. In the year ahead, specialised categories like real estate and auto classifieds are expected to drive investor interest.

With increasing interest of investors in horizontal classifieds like OLX and Quikr this space is expected to heat up in the year ahead. Ratan Tata's investment in CarDekho is a sign of expectations from the auto classifieds sector.



The pace of innovation in the world of online classifieds is faster than ever before. Classifieds are evolving from being mere listing portals to curated services that are location-specific, rating/review driven and socially validated. Mobile technologies are expected to be a great disruptor that will challenge the existing state of play.

- Alok Mittal
Co-founder,
Indian Angel Network



105. YourStory, 19 December 2014, Zomato makes its 5th international acquisition, nabs Italy-based startup

106. International Business Times, 18 September 2014 Quikr, India-Based Online Classifieds Startup, Raises \$60M In Fresh Funding, Led By Tiger Global

107. Digit, 18 February 2015, Urban India is hoarding Rs. 56,200 crores worth of unused goods: OLX

108. Industry discussions conducted by KPMG in India

109. Nomura report-India internet: Raring to go, 2014

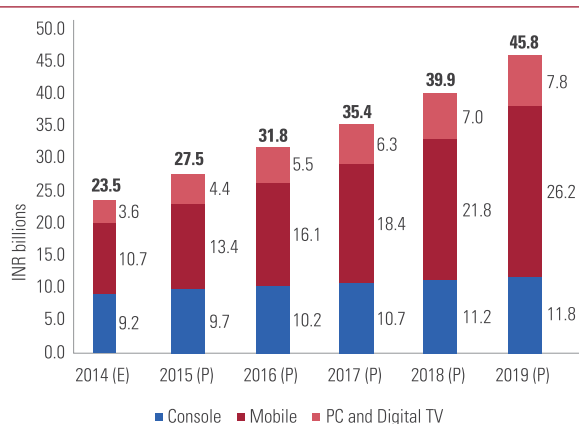


Gaming

The simultaneous developments in the mobile and gaming industry increased the share of the overall gaming market in India by a little more than 22 per cent¹¹⁰ in 2014 and has reduced the difference between the revenues of console and mobile games¹¹⁰. With this trend continuing, it is expected that gaming will become an INR45.8 billion industry by 2019¹¹⁰ with mobile gaming leading the growth. The industry observed a steady shift from console gaming to mobile gaming, with games being among the most downloaded apps¹¹¹, driven majorly by the availability of low-cost smart phones, increased tablet ownership and increased data usage per device. The share of PC gamers in the overall gaming population continues to reduce with rapid user migration to consoles, mobile apps and other online gaming platforms¹¹⁰.

The introduction of new business models such as free-to-play (F2P) and game as service has resulted in attracting new gamers especially through mobile gaming. Even the big console players such as Sony and Microsoft are planning to offer similar F2P games on Playstation 4 and Xbox One respectively¹¹².

Gaming market in India, 2014(E) – 2019(P)



Source: KPMG in India analysis

Console gaming

The console gaming segment witnessed almost flat growth rates of 10 per cent in 2014 with around 1.5 – 1.6 lakh consoles being sold during the year¹¹³.

It is estimated that the segment will observe growth albeit at a moderate CAGR of 5 per cent from 2014 to 2019¹¹⁰. Cost has been a major factor for the sluggish growth. The cost of procuring the cheapest console is almost three to four times of the cost of decent smartphone. Apart from making an investment in purchasing a console, a gamer would be required to

spend additional amount every time a game is to be procured. No wonder first time gamers and casual gamers may not consider investing in console gaming. However, serious gamers drive the growth of this segment. Not only is the console gaming experience perceived better compared to mobile gaming but also the console gaming giants keep the pressure on by introducing relevant content to make sure that these serious gamers keep coming back for more.

Microsoft and Sony are expected to regain some momentum in 2015 by evolving systems that is expected to drive growth through online distribution of content/games. It is forecasted that by 2017, the console business will draw almost 39 per cent of their revenue from online distribution¹¹⁴.

Despite sluggish growth, the console gaming market continues to witness increasing interest from serious gamers who are open to investing in dedicated gaming solutions like the Sony PlayStation 4, XBOX One, even as previous models such as the PS 3 and XBOX 360 maintain their image of being family-gaming consoles. Indian audience is now slowly opening up to the idea of using gaming consoles as their one stop destination for accessing multimedia content with an increasing number of console users also accessing non-gaming content on their devices¹¹². However, as of today, non-gaming content is not perceived of value by the Indian gaming community. Internationally, console gaming companies gain a significant portion of their revenues from video/movie subscription services (such as Netflix).

Consoles constitute about 39 per cent of the gaming industry. Though revenues for entry level consoles such as the Sony PlayStation 2 used to be driven by sales in the top 35-40 towns, evolved consoles such as PlayStation 4 and Xbox One are witnessing an uptake only in the urban areas. It remains to be seen how this challenge would be overcome. While the entry level models continue to be made available in the INR9990-INR16990 price range, the serious gamer does not mind paying for heavy-duty consoles such as the PlayStation 4 and Xbox One. These devices offer a connected experience through their PlayStation Store and Xbox Live platforms respectively. Now gamers can download content over the internet instead of physically purchasing the software. However, given the poor internet infrastructure in India, it is a long way before all games can be made available for downloads from the online stores. Due to this, as of now, full value games downloaded from online stores account for around 5 per cent of the revenues. However, in mature markets, where the internet infrastructure is relatively better, gamers download games as heavy as 10GB¹¹².

110. KPMG in India analysis

111. InMobi App Insights, 2014

112. Industry discussions conducted by KPMG in India

113. Industry discussions conducted by KPMG in India, KPMG in India analysis

114. DFC Intelligence forecasts, 2014



Gaming console price comparison

Company	Console	Price
Sony Computer Entertainment	PlayStation®4 500 GB	INR39,990
	PlayStation®3 500GB	INR22,990
	PlayStation®3 12GB	INR16,990
	SLIM and LITE PSP®	INR6,990
	PlayStation®Vita 2000 Series	INR16,990
Sony Computer Entertainment	Xbox One Kinect Sensor Edition	INR39,999
	Xbox One Standard Console	INR30,000
	Xbox 360 with Kinect	INR33,990
	Xbox 360 250GB	INR27,990
	Xbox 360 4GB with Kinect	INR26,990
	Xbox 360 4GB	INR12,990

Source: Company websites, KPMG in India analysis

In terms of genres, action-adventure storyline based and first-person shooting games top the list of gamers' choices. There has been a considerable decline in the popularity of racing games, which used to be heavily consumed till not a very long time ago¹¹⁵.

As console companies continue to monetise their user base, the attach ratios for the major players such as Sony and Microsoft are increasing. For example, the attach ratio for PS4 is 5 to 5.5 while it is marginally better for PS3 at 6¹²⁰. Further, the ARPUs for console gaming are increasing but, as mentioned earlier, the user base continues to grow sluggishly. Tax implications in the country are another major stumbling block for further growth. Consoles that are imported into India sell at much higher prices than in countries abroad. The use of retail cards for purchase of console titles that is predominant model in mature markets has also not been introduced in the country due to lack of clarity about the tax regulations¹¹⁵.

Even amidst such a scenario, there have been certain advancements that the market has seen. Microsoft has entered into an exclusive retail partnership with Amazon India for sale of its Xbox consoles and accessories on the e-commerce platform. This signals a change in marketing strategies as the console makers adapt to changing market dynamics¹¹⁵.



This had been a good transition year. While the number of consoles sold decreased, there is an overall growth in the revenue indicating a sharp migration towards the high end home consoles and emergence of a breed of serious Indian gamers. However, the high tax incidence on the console gaming category still remains the key bottleneck. We are hopeful of an overall easing and simplification in this area with the roll out of GST declared.

- Atindriya Bose
Country Manager,
Sony Computer Entertainment

PC and TV gaming

PC and TV games continue to experience sluggish growth. Even with growth in the number of PCs per household, the PC and Digital TV gaming industry is estimated to remain only 15 per cent of the overall gaming market¹¹⁶. Industry veterans believe that PC gaming is for core gamers who do not prefer to move to consoles and avoid making additional investment. However, in order to get high-class gaming experience they keep investing in computer peripherals and in upgrading to new-generation graphics and sound cards.

The last two years have seen a minor increase in popularity of online PC gaming because of the growing interest in eSports or electronic sports which infuses multiple game experiences with real-world physical sports and competitive gaming experience. Owing to its growing popularity, large brands like Red Bull, Monsters and Coke are already sponsoring eSports related events¹¹⁷.

The jury is out there but prospects of growth seem promising albeit sluggish. Sistema-MTS invested in the Indian market by foraying into online, multiplayer video gaming platforms. They have tied up with Nodwin Gaming to launch Gamegod, which will enable multiplayer online video gaming on ranked servers in India¹¹⁸.

TOP 5 PC Games 2014

Call of Duty: Advanced Warfare

Bioshock Infinite

Company of Heroes 2

Gone Home

FIFA 14

Source: <http://www.digit.in/top-products/top-10-pc-games-7.html>

115. Industry discussions conducted by KPMG in India

116. KPMG in India analysis

117. Hi-Rez Studios, 1 December 2014, Top 5 online gaming industry trends for 2015

118. EconomicTimes, 14 November 2014, Sistema eyes \$300 mn Indian video gaming market



The rising viewership of digital TV is a clear indicator of the potential reach of the medium. Although at a nascent stage the platform stands to offer opportunities to engage the customer through games requiring limited graphic support and minimalistic remote controlling functions. Even though developing games on such platforms may not be the top priority for the entertainment industry there is considerable potential that waits to be unlocked by integrating the mobile, social and app platforms to increase customer engagement. The trend of using social gaming to increase engagement among new casual gamers is also expected to continue.

Mobile gaming

The boost in the overall mobile gaming industry in India has greatly added to the growth of the global mobile gaming market, which has taken a leap of 42 per cent over 2013, reaching a total estimated value of USD 25 billion by 2014¹¹⁹. The mobile gaming market in India has grown from INR8.2 billion in 2013 to INR10.7 billion in 2014, and is further projected to grow with a CAGR of 20 per cent to reach INR26.2 billion by 2019¹²⁰.

The increase in the usage of smartphones and tablets is expected to encourage more users to access games on mobile web and app platforms. The free to play simple mobile games are appealing to a broader audience who are casual gamers. New and creative games appealing to various age groups and catering to a range of interests are being developed. This is likely to change the user demographics with younger gamers and more females getting on board along with a new category - mom gamers¹²¹. The mobile gaming sessions are lasting longer with users spending around four to five minutes on an average per gaming session¹²². The opportunity cost to try new games is low or nil so it is not uncommon for users to experiment with various games before developing some interest in the games they would want to play for an extended period of time. With mobile games becoming more sophisticated in terms of features offered such as multi-player, social-media integrated, time shifting, etc. and with screen sizes becoming bigger, even serious gamers are opening up to exploring mobile gaming. It is estimated that globally, 44 per cent of all smartphones and tablets are used for gaming and by 2018 the total count of mobile game users will reach one billion¹²¹.

The Indian mobile gamer is averse to paying for mobile games. Further, most users do not prefer downloading large sized games, despite low-cost data plans and inexpensive game rates¹²³. Another challenge faced by mobile game developers is around app discovery. With ever-increasing number of games being made available across mobile app stores, getting the game noticed requires the mobile game developers to invest significantly in marketing activities. This tends to increase the cost of customer acquisition which ultimately puts a pressure on already thin bottom lines. Also, the cost of building quality games that can compete at a global scale is increasing. The competition at the global level is

high and ROIs can be low and business risks becoming unsustainable unless the gaming companies can drive high volumes through customer acquisition and retention. Further, with upgrades and new versions of OSs introduced frequently, the mobile games developers would need to invest time and effort in keeping with the market and technology shifts.

However, the opportunities for monetisation of mobile games have increased. The revenues of mobile app stores from games are growing with a healthy rate due to increase in percentage of freemium game downloads as well as in-app advertising/purchasing.

Top Mobile games in 2014

Ranks	Game	Publisher
1	Candy Crush Saga	King Tencent
2	Subway Surfers	Kiloo
3	My Talking Tom	Outfit7
4	Farm Heroes Saga	King
5	Clash of Clans	Supercell

Source: App Annie Index, Retrospective 2014

Another development worth mentioning is the growing interest of existing mobile game studios in launching incubators for gaming start-ups. Reliance Games have launched such an incubator. Participating start-ups, once selected, will get mentorship from Reliance Games on product management, engineering and character illustrations. The intellectual property of the developed games will be shared by Reliance and the developers. Similar initiatives have been launched by many other players in the market. In July last year, InMobi announced a USD 25 million fund for indie game developers, along with a new monetisation solution for games. Earlier, Bengaluru-based Dhruva Interactive set up an incubator called Gametantra, where it would offer space and mentorship in return for a 3-7 per cent stake. Such developments portend positive outlook for the future of the mobile gaming industry.

119. The Quarterly Global Games Market Update, Newzoo, 2014

120. KPMG in India analysis

121. Hi-Rez Studios, 1 December 2014, Top 5 online gaming industry trends for 2015

122. Industry discussion conducted by KPMG in India

123. ASSOCHAM Study, Digitization and Mobility, 2014



Today consumers demand for quality content as they are privy to world-class games and digital content through global marketplaces like iOS, Android, Windows. We strongly feel that high-quality and engaging content will continue to rule consumer's hearts, putting the roles of content creators to test constantly. While all kinds of monetisation models will continue to co-exist, what will work will be the locally developed content that is inspired by local themes, making is relevant to the users. The industry is heading in the right direction and there are a lot of opportunities with the rise in smartphone users in the country and India becoming the second largest smartphone market in the world.

- Sameer Ganapathy
VP and Head, Interactive,
Disney India

The increasing number of smartphone users holds immense potential for the mobile gaming industry. Casual gamers will likely continue to prefer smartphones as opposed to a desktop or a console, since smartphone users are not bound by location. The portability and the always connected, on-the go nature of smartphones means that the gaming content can be enjoyed anytime, anywhere. Mobile will likely become the preferred platform for gaming, surpassing other content delivery platforms in the days to come. Console companies would keep innovating to introduce better product and service offerings and would plan their strategies to adapt to the changing needs of the 'always mobile' consumer accordingly.

India gaming: Outlook 2015

Even though mobile gaming is growing faster than any other gaming category, developers are still figuring out means to monetise this platform. In the year ahead, consoles will likely continue to maintain a steady course. A strengthened internet infrastructure as promised under the Digital India initiative is expected to provide the required thrust for digital downloads of games for consoles as well as for mobile gaming. The tax and VAT issues plaguing the console market need further clarity for better standardisation of console prices in India as compared to developed economies.

Several companies delivering games digitally have started providing access to upgraded versions of games by way of Games as a Service or cloud gaming. This allows them to provide regular updates, new downloadable content, a refreshed interface and with the option to store data on cloud for resuming the game from any device. Many of the mobile games from the above download tally fall within the Game as a Service category.

Even as Microsoft experimented with an online-only distribution model by offering the Xbox One exclusively on Amazon, the effects of such a strategy will have to be studied, given that Sony continues to sell more consoles in its own online retail store as compared to the other market places¹²⁴. In the year ahead, console manufacturers are expected to look to position themselves as a one-stop multimedia destination. This could be supported by the fact that a large collection of video and music can be streamed directly on to the device.



124. Industry discussions conducted by KPMG in India



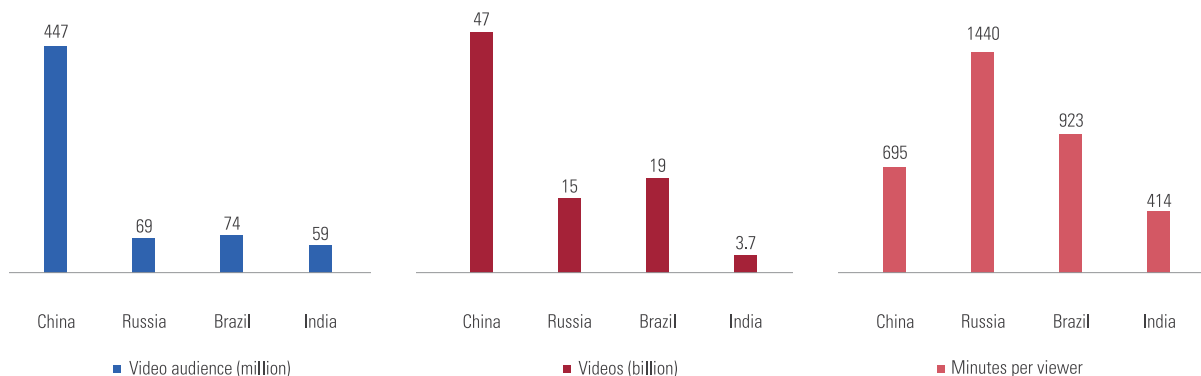
Digital Video

The growing Digital video phenomenon

Video has been one of the fastest growing online content categories in India driven by changing consumption pattern and favourable trends in the device and internet ecosystem. Consumers are moving from a “what’s on TV” mind set to “what do I feel like watching” mind set and want to expand their viewing experience beyond the conventional means of TV and film screens. There is a strong demand for flexibility in terms of timing, volume of content consumed and place of consumption. Younger audiences, especially, are already accustomed to watching time-shifted and non-linear video. Declining prices of smartphones and tablets are leading to rapid proliferation of these devices, while larger screens on smartphones are improving the experience of watching videos, leading to more consumption. Increasing broadband and 3G penetration, lower charges and higher internet speeds are driving online video viewership and 4G is expected to further boost online video user base and consumption in the future. However, online video penetration and consumption in India still lags other emerging markets, indicating the huge potential for further growth.

For reach and consumption of online video to breakout and reach critical mass, issues with connectivity need to be sorted. Access to high-speed internet and expensive data charges remain the biggest roadblocks for growth of online video networks. Among, Asia Pacific countries surveyed by Akamai in 2014, India has the lowest average broadband speeds of 2 Mbps, with penetration of connections with speeds above 4 Mbps also the lowest at 6.9 per cent¹²⁵. Even though 3G penetration is improving, in 2014, only 56 per cent of the times an Indian smartphone user used his mobile phone he has access to mobile broadband network and 44 per cent of smartphone users often do not watch mobile videos due to lengthy delays when loading.¹²⁶

Comparison of Video usage to other BRIC countries*



Source: comScore Video Metrix July 2014, KPMG in India analysis

* Refers to video viewership on PCs only

125. Akamai, State of the internet report Q3 2014

126. Ericsson Consumer Insight Summary Report, Performance shapes smartphone behavior, July 2014



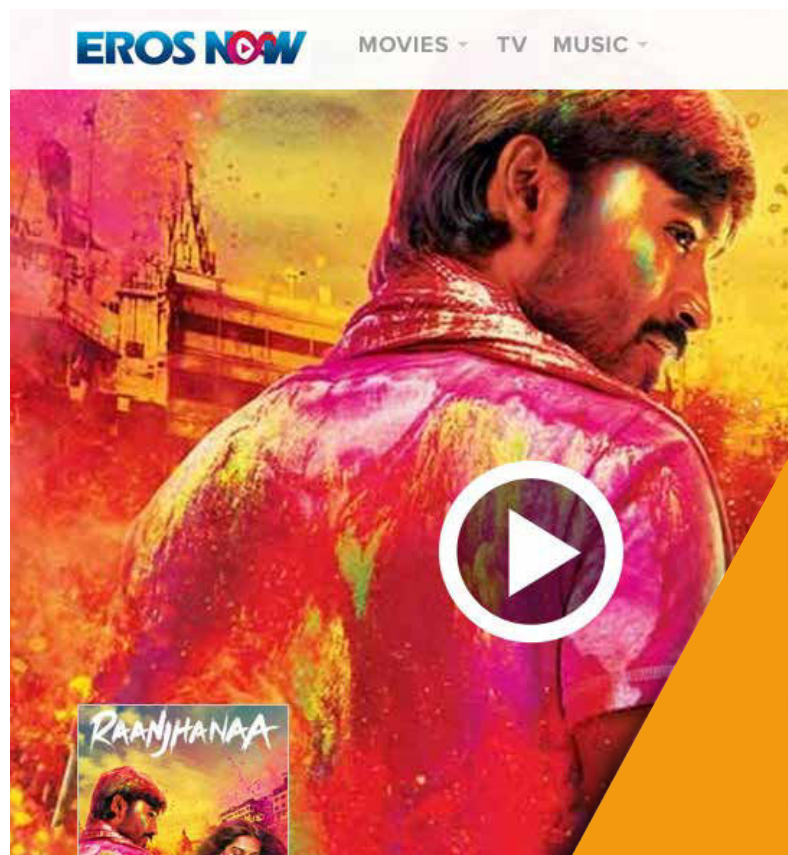
Comparison of broadband speeds with other Asia Pacific countries (2014)

Country/Region	Avg. Mbps	Global rank in average speeds	% of Broadband connections above 4 Mbps	Global rank in % of BB connections above 4 Mbps
South Korea	25.3	1	96.0%	1
Hong Kong	16.3	2	89.0%	8
Japan	15.0	3	87.0%	12
Singapore	12.2	10	83.0%	20
Taiwan	9.5	27	78.0%	31
New Zealand	7.0	42	77.0%	33
Australia	6.9	44	66.0%	47
Thailand	6.6	48	85.0%	15
Malaysia	4.1	71	39.0%	67
China	3.8	75	34.0%	72
Indonesia	3.7	77	35.0%	71
Vietnam	2.5	101	14.0%	86
Philippines	2.5	105	8.8%	90
India	2.0	115	6.9%	92

Source: Akamai, State of the internet report Q3 2014, KPMG in India analysis

Competition intensifying in the space of digital distribution of video

For the traditional TV and film companies, expansion to digital platforms has become imperative to safeguard against the risk of losing viewership, especially from key demographics of SECA and youth population in urban markets, which are very important from the perspective of advertisers. For instance, Indian smartphone users on average already spend 3 hours 18 minutes daily on their smartphones compared to 2 hours and 8 minutes on TV.¹²⁷ As a result, there have been several launches in the space of digital delivery of video over the past couple of years, with players along the television and film value chain entering the market, as well as some independent players. While several TV broadcasters and film producers have launched Over-the-top (OTT) online video platforms, the TV distribution players have launched TV Everywhere apps for non-linear distribution of content.¹²⁸ Global players such as Apple's iTunes Store and Google Play Store also have their presence in India and offer movies for download to own, also known as Electronic Sell Through (EST). While all these platforms have shown initial traction, they are yet to gain any significant scale.



¹²⁷ Ericsson Consumer Insight Summary Report, Performance shapes smartphone behavior, July 2014

¹²⁸ TV Everywhere, also called authenticated streaming or authenticated video on-demand, refers to a business model wherein television distributors allow their customers to access content from their network through internet-based services either live or on-demand, as an extension of their subscription to the service.



Competitive landscape for digital distribution of video in India

Service	Group/Company	Content library	Pricing models
Online video platforms			
Hotstar.com/ Starsports.com	Star India	<ul style="list-style-type: none"> TV shows from the Star stable in seven languages ~300 movies Sports including live content 	<ul style="list-style-type: none"> Non-sports: Free unlimited streaming, supported by advertising Sports: Live content is priced per tournament; Content delayed by few minutes is free
Ditto TV	Essel (Zee) Group	<ul style="list-style-type: none"> ~150 live TV channels TV shows from the Zee stable and other broadcasters ~3,000 movies across all major Indian languages and English 	<ul style="list-style-type: none"> Live TV channels: INR150/month Catch up TV: INR49/month Movies: INR150/month
Sony LIV/LIV Sports	Sony MSM	<ul style="list-style-type: none"> All content from Sony Entertainment banner Sports including live content 	<ul style="list-style-type: none"> Free unlimited streaming, supported by advertising Sports: Live content is priced per tournament
Eros Now	Eros International	<ul style="list-style-type: none"> ~3,500 movies, including all of Eros International's movies and from most major studios across Hindi and regional languages TV shows from mainstream Hindi and regional channels Music from Eros internal library and other major music labels 	<ul style="list-style-type: none"> Free ad-supported content Subscription pack at INR100/month
Box TV	The Times Group	<ul style="list-style-type: none"> Movies in Hindi and English TV content primarily from Sony, Big Magic and library content 	<ul style="list-style-type: none"> Free ad-supported content Starter pack at INR99/month with limited ads Subscription pack at INR199/month
Bigflix	Reliance ADA Group	<ul style="list-style-type: none"> ~2,000 movies in 13+ languages 	<ul style="list-style-type: none"> Free ad-supported content Packages start from INR99 for a 7 day trial to INR999 for a 6 month package
Hungama.com	Hungama Digital Entertainment	<ul style="list-style-type: none"> 900+ movies in 8+ languages 	<ul style="list-style-type: none"> Unlimited movies in SD for 7 days at USD 1.49 Unlimited movies in HD for 7 days at USD 2.99 Unlimited movies at USD 6.99/month
Spuul.com	Spuul, Singapore	<ul style="list-style-type: none"> 1000+ movies from most major production houses in India in Hindi and regional languages Hindi and Regional TV content, primarily from Viacom18 	<ul style="list-style-type: none"> Free ad-supported content USD 4.99/month for premium content



Competitive landscape for digital distribution of video in India

Service	Group/Company	Content library	Pricing models
TV Everywhere apps			
DishOnline	Dish TV	<ul style="list-style-type: none"> 50+ live TV channels Catch up TV content Movies 	<ul style="list-style-type: none"> INR69/month
Everywhere TV	Tata Sky	<ul style="list-style-type: none"> 75 live TV channels catch up TV content from 24 channels Movies 	<ul style="list-style-type: none"> INR60/month
Pocket TV	Airtel Digital TV	<ul style="list-style-type: none"> 150 live TV channels Catch up TV content from 13 channels Movies 	<ul style="list-style-type: none"> INR60/month
Direct2Mobile	Videocon D2H	<ul style="list-style-type: none"> 78 live TV channels Catch up TV content Movies 	<ul style="list-style-type: none"> INR60/month
Electronic Sell Throughs			
iTunes Store	Apple	<ul style="list-style-type: none"> Movies, TV shows, music, games, books, podcasts 40,000+ movie titles and 190,000+ TV shows 	<ul style="list-style-type: none"> Standalone prices for each download
Google Play	Google	<ul style="list-style-type: none"> Movies, TV shows, games, books in English, French, Spanish and Hindi 	<ul style="list-style-type: none"> Standalone prices for each download Indian movies for INR25 to 100 Hollywood movies for INR25 to 590

Source: Company websites, News articles, KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: Standalone websites/apps for individual channels such as MTV, Nickelodeon and Disney have not been included here





YouTube continues to take the largest share of online video in India, accounting for more than 50 per cent of all online videos watched.¹²⁹ India is also expected to become the second largest market for YouTube in the world in 2015. To capitalise on this first-mover advantage YouTube has started rolling out its paid subscription streaming service called YouTube Music Key, which for a monthly subscription fee of INR9.99, lets subscribers (i) listen to music in the background on mobile and on the desktop, (ii) download videos for offline playback, (iii) skip ads.¹³⁰ Given the low internet penetration and high data charges in India, YouTube has also recently enabled the feature to watch some videos offline on its mobile app for up to 48 hours after download¹³¹.

With several different platforms vying for eyeballs, content differentiation, user experience and sound technology should become keys for success. Currently, most platforms are trying to provide all content to everyone. While exclusivity of content is definitely a lever to attract customers, the cost of exclusivity may make it prohibitive. Instead, as the platforms mature, using data-driven insights for content development and monitoring and better segmentation of customers to tailor content suitable for different target groups would become critical. While a lot of platforms are currently in customer acquisition mode, the focus will shift to user experience to increase stickiness. To provide good user experience, platforms should work on several different fronts including ease of content discovery, seamless experience as viewers toggle across screens, personalisation to increase viewer involvement and ease of payments. Video platforms will likely also have to fight against piracy as the availability of entertainment through pirated means on the internet continues to grow rapidly and implementation of anti-piracy laws in India currently lacks teeth.



Discovery of content and lack of good customer experience are key issues on digital platforms, currently. The key challenge is to model the business in the way the customer is comfortable as customer is on a steep learning curve currently.

- Ramki Sankaranarayanan
Founder and Chief Executive Officer, Prime Focus Technologies and Managing Director, Prime Focus Limited

Even as competition is heating up among the existing players in the digital video space, there are also several other players waiting in the wings:

- Amazon India has plans of launching music, movie and video streaming services in 2015¹³²
- Netflix, one of the world's largest subscription-based video streaming platform plans to be present in 200 countries by the end of 2016 and India is very likely

to feature in this list early on, given the large under-penetrated market.¹³³

- Reliance Jio is also expected to launch an on-demand content platform along with its 4G launch. The company also applied for a pan-India Cable MSO license in January 2015.¹³⁴
- Relativity Media, a US based film and TV producer and B4U have formed a 50:50 joint venture with a USD 100 million investment and one of the ventures of the JV will be RelaTV, a digital streaming technology platform.¹³⁵
- Ronnie Screwvala, former CEO of UTV Group, and B Saikumar, former Group CEO of Network18, have launched a venture that will offer on-demand video, audio and other content, with expected investments of INR1.5 billion¹³⁶
- Ogle, a service focussing on English content and backed by Pritish Nandy has been in beta-testing since September 2014¹³⁷.

Content is king on digital platforms as well

While content will be one of the critical success factors, according to industry participants, it is also expected to be the biggest drain on cash flows for digital video platforms. The content licensing deals for digital rights largely remain on minimum guarantee basis, while there are some deals, especially for ongoing TV shows and live TV streaming that are taking place on revenue share basis. Even internationally, in spite of its scale, majority of the content deals for Netflix are on a fixed cost basis and content costs constituted over 70 per cent of revenues for Netflix in 2014.¹³⁸ In India, the content licensing deals for digital platforms were largely non-exclusive initially, given that most of the platforms did not have the requisite scale. However, increasingly content deals are turning exclusive as platforms realise importance of unique content to acquire and retain eyeballs. This could drive content costs even higher for the digital platforms.

In international markets, there are content aggregators which negotiate the placement of films/TV shows onto major destination platforms on behalf of content owners, manage encoding of content into appropriate forms and handle delivery of content. Since new media deals are not yet standard, the advantage of aggregators is that they have access to databases. Currently, there are no content aggregators in India, apart from those for library Hindi movies. The rights of most old movies have already been made into libraries by players such as Shemaroo, Ultra, Hungama Digital and Venus, while the new releases are mostly produced or co-produced by major Indian studios which retain digital rights for their movies and negotiate deals on their own. On the TV shows side as well, broadcasters retain the IP rights of TV shows in most cases, and negotiate digital distribution deals on their own. As a result, we do not expect the Indian content owners to start using digital content aggregators for Indian markets. However, for taking Indian content to international markets, Indian content owners may consider going via content aggregators.

129. comScore Video Metrix July 2014

130. Techcircle.in, December 11, 2014, YouTube launches offline video viewing feature for mobile users in India

131. Tech.firstpost.com, December 15 2014, YouTube introduces offline Video Streaming in India

132. Economic Times, January 2 2015, Amazon India may start offering music, movie and video streaming services in India

133. Marketwatch.com, January 21 2015, Netflix steps up plan for global expansion

134. Indiantelevison.com, January 14 2015, Reliance Jio Media applies for pan-India license, over 200 others in queue for phase III of DAS

135. Bloomberg, May 17 2014, Relativity Media in Venture With Mittal Bollywood Network

136. Business Standard, January 21 2015, Ronnie Screwvala, B Saikumar launch digital media company

137. Livemint.com, September 2 2015, Pritish Nandy hopes to do a Netflix in India with Ogle

138. valuewalk.com, December 31, 2014, Netflix, Inc. (NFLX) Pressured By Content Costs, But It's OK



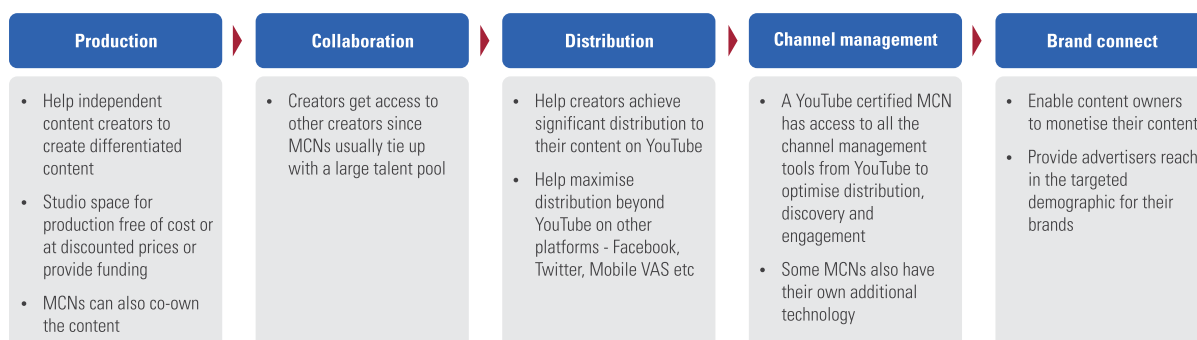
The rapid growth of online video consumption on personal screens like mobile phones, tablet computers, laptops and desktops is giving rise to a new entertainment industry - the digital industry. It will be parallel to the film and TV industries, with its own set of stars, directors, producers, writers and technicians, who understand short form content that is interactive and engaging. We have to create our own Tulsi and Parvati, albeit for a younger audience that is tech savvy, aspirational, educated and on-the-go. Despite bottlenecks like poor bandwidth and lack of digital payment gateways, I have no doubt that made-for-digital shows are here to stay and that the mobile phone will be the most important screen in our life!

- **Rajjat A. Barjatya**
Managing Director and CEO
Rajshri Entertainment Private Limited

The emergence of Multi-channel Networks

While traditional broadcasters and film producers are trying to port TV content and movies to digital, we have also seen the emergence of made-for-internet content, with some independent content creators creating a large and loyal audience. This has coincided with the emergence of Multi-Channel Networks (MCNs) in India. MCNs are entities that affiliate with multiple channels on video platforms such as YouTube and offer assistance to the channels in many areas such as product, programming, funding, cross-promotion, partner management, digital rights management, monetisation and audience development.¹³⁹ MCNs basically help independent content creators to create differentiated content, achieve significant distribution to this content on various video platforms and enable content owners to monetise their content by providing advertisers reach in the targeted demographic for their brands.

How MCNs add value beyond aggregation of channels



Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

139. <http://www.youtube.com/yt/creators/en-GB/mcns.html>



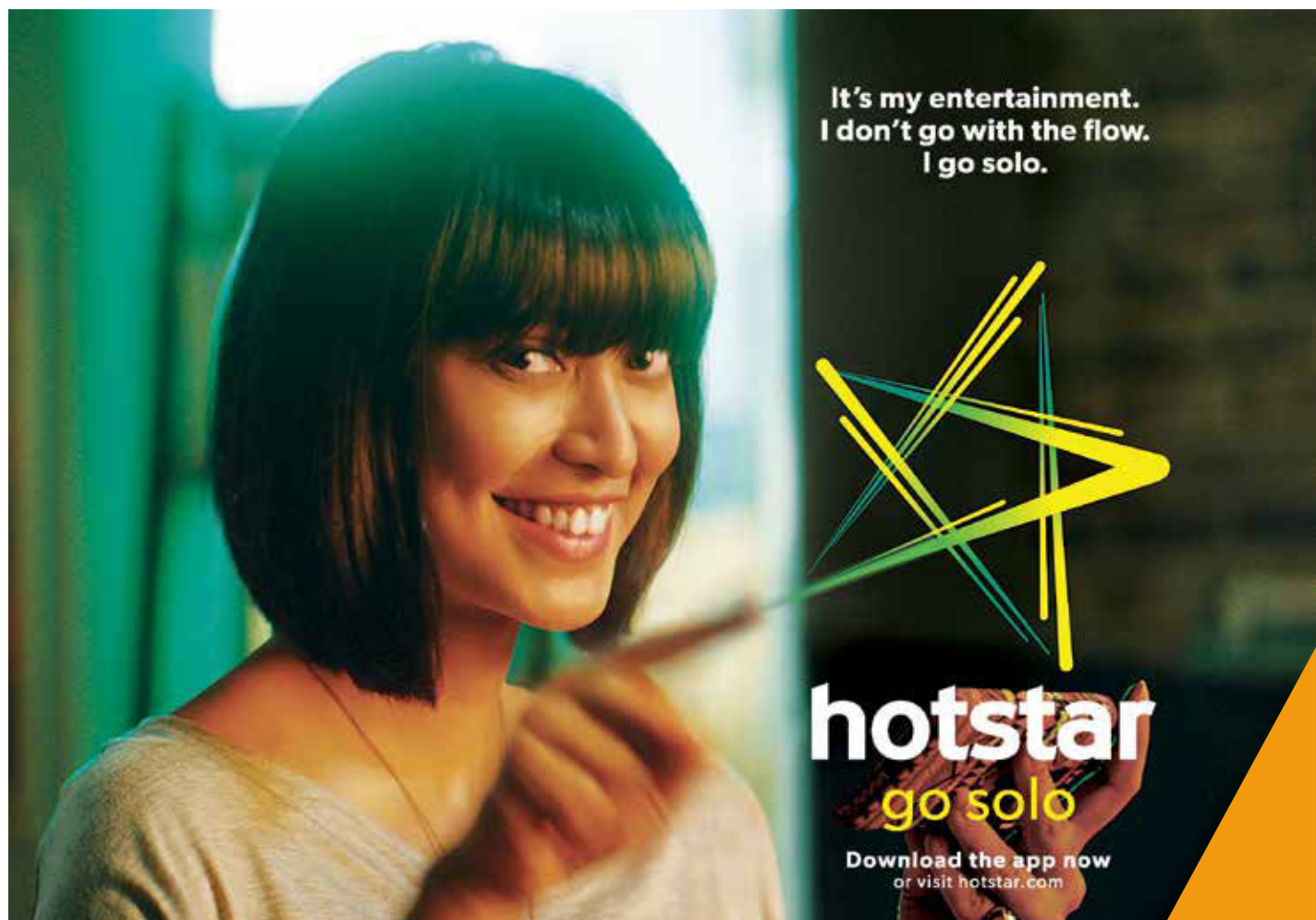
There are several MCNs in India with focus on different types of content ranging from encompassing Kids to Music to Comedy. There are different business models for MCNs which have emerged in India – (i) Aggregator model where existing and usually non-exclusive content is aggregated and re-purposed for YouTube, (ii) Studio model where content owners such as film producers launch multiple YouTube channels to monetise their existing content, (iii) Destination model where the focus is on the building brand around the channels/platform instead of creators, (iv) Creator-centric model where the creator is the brand and the consumers have a connect with the creators.¹⁴⁰ All these models can work but will have different levels of profitability and value addition for investors.

Internationally, MCNs have emerged as a driving force with Maker Studios, FullScreen, Machinima and AwesomenessTV being acquired by traditional media companies for hefty sums over the last two years. Maker Studios has entered the Indian market through its parent Walt Disney Co by tying up with several existing YouTube artists¹⁴¹, while FullScreen has presence in India through its strategic alliance with India-based MCN, Qyuki.¹⁴²



MCNs are redefining how talent will be unlocked at scale and through that scale deliver unprecedented reach and engagement to brands. Advertising will innovate through smart content marketing solutions connecting brands and creators. The ecosystem will begin to look similar to the broadcast industry and will compliment TV ad spend. I think if TV was the Yin of advertising MCNs will provide the Yang.

- Samir Bangara
Co-Founder and Managing Director
Qyuki Digital Media



¹⁴⁰. Industry discussions conducted by KPMG in India

¹⁴¹. Medianama.com, November 26, 2014, Disney owned YouTube MCN Maker Studios signs up Indian channels: AIB, Kanan Gill, others

¹⁴². Medianama.com, December 11, 2014, Fullscreen partners YouTube MCN Qyuki to expand into India



Multi-channel networks operating in India

No.	Name	Key focus genres	No. of YouTube Channels	Monthly views	Famous artists/channels/shows	Investments/Partnerships
1	MakerGen	Comedy, Entertainment	NA	NA	AIB, Kanan Gill, East India Company	<ul style="list-style-type: none"> Part of Maker Studios which got acquired by Walt Disney Co for USD500 million (globally)
2	Rajshri	Movies, Food, Music	25+	NA	Rajshri, Rajshri Music, Rajshri Marathi, Bollywood Now, Hollywood Now	
3	YoBoHo	Kids, Fitness, Entertainment	100+	>90 mn	hooplakidz	
4	One Digital Entertainment	Entertainment, Music, Comedy	500+	70 mn	Sunny Leone, Vir Das, Papon, Honey Singh, Sanjeev Kapoor, Jazzy B and Anubhav Sinha	
5	Culture Machine	Music, Comedy, Fashion, Lifestyle and Kids	240	80 mn		<ul style="list-style-type: none"> Series A: Zodiuss: USD 3.5m 2. Series B: Tiger, Zodiuss and Times Internet: USD18M
6	Qyuki Digital	Music, Bollywood	~200	80 mn*	AR Rahman, Ranjit Barot, Salim-Sulaiman, Shweta Subram, Shraddha Sharma, Pooja Bedi	<ul style="list-style-type: none"> Shekhar Kapur, A R Rahman and Samir Bangara (Undisclosed amount) Cisco: INR270 million Content partnership with Fullscreen
7	Whackedout Media	Entertainment, Kids	~500	51 mn	The Jungle Book, Peter Pan, Lassie, Iron Man, Robin Hood and Casper	
8	Nirvana Digital	Entertainment, Kids, Music	~400	47 mn		
9	Pepper Media	Entertainment, Regional, News, Food, Lifestyle	19	NA		
10	Pocket Films	Short Films, Documentaries	8	23 mn		
11	Ping Digital	Entertainment, Fashion, Food, Health and Fitness, Lifestyle and Technology	~160	NA	DJ Suketu (music), Shanaya Sinner (fashion), Shantanu Nimesh (wrestling), Nipun Kapur (fashion) and Gitika Saikia (food)	<ul style="list-style-type: none"> Travelguru founder Ashwin Dhamera and Angara.com CEO Ankur Daga Consortium of angel investors headed by Monisha Advani, co-founder Emmay Entertainment
13	#fame	Fashion, Music, Comedy, Food, Fitness and Cricket	~10	NA	Artists: Maria Goretti, child comic star Saloni, celebrity chef Ajay Chopra, and singer Shibani Kashyap Shows: Style Code, Diva ON Duty, School of Style and Some Like it Hot	<ul style="list-style-type: none"> TO THE NEW Ventures (TTN Ventures): USD 3 million + USD10 million

Source: Company websites, News articles, KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: For a YouTube channel aggregator to be called an MCN, it has to be certified by YouTube; * Including FullScreen India



Monetisation of digital video

While revenues from digital delivery of videos are still very small, the industry is not discounting the future potential and is making investments to capitalise on the potential. Video advertising is fast gaining prominence as advertisers are looking to reinforce their marketing messages on multiple screens to maximise impact by integrating video-related advertising into their digital mix. From the advertisers' perspective, video ads are similar to TV in terms of ability to connect with the consumer but provide the efficacy and direct targeting with the ability to track, measure, analyse and monetise online campaigns in real time. Also, video ads are an effective way to target the young and affluent demographics for whom consumption habits have shifted significantly to digital media. Social media provides a 'multiplier effect' for video ads since video ads when done right can get shared multiple times and go viral.

Besides pure play advertising, platforms and advertisers alike are also exploring made-for digital branded content. There have been some successful examples of this already – (i) MTV had two web series, a fashion and lifestyle web series called 'The Look' and a fitness web series called 'Get Fit' in 2014¹⁴³, and (ii) The Viral Fever, a YouTube channel debuted a sponsored web series called 'Permanent Roommates'¹⁴⁴, (iii) One Digital Entertainment in association with Virgin Atlantic Airways and VisitBritain had a food and travel 20 episode series with Chef Saransh Goila named 'The Spice Traveller'¹⁴⁵.

While so far, monetisation of on-demand content has been through advertising, scope for subscription and pay-per-view revenues for premium, value-added and exclusive content is promising. In the medium term, as internet accessibility improves further, there will be increasing demand for customised and premium content in India. This can make the paid model more attractive for the digital video platforms. Further, as observed in developed markets, there could likely be increasing preference for ad-free content on digital platforms for which users may be willing to pay a premium. Increasing disposable income seem to also be resulting in higher spend on entertainment by the growing mid and high income classes in India, particularly in urban clusters. Viewers are expected to be selective in paying for content and are expected to pay as long as they see additional value in terms of exclusivity or timing or availability. This has been observed in the case of multiplexes and DTH industry, which have managed to raise average ticket prices and ARPUs, respectively, consistently year on year by providing better value. However, a key risk is that consumers are becoming accustomed to free content on digital media, and changing the habit of consumers would be tricky.



Being a young nation and a mobile-first country, the adoption of Digital in India will skip several stages. The way content is consumed will change dramatically over the next few years with the viewers expecting more control over the content they view. Although digital advertising is still at a nascent stage in India, it is bound to take Indian ad space by storm since advertisers are expected to follow eyeballs. We see television and digital as one media and expect a shift in ad revenues from TV to digital as digital platforms offer greater user engagement and better performance tracking.

- Rishika Lulla
Chief Executive Officer
Eros Digital

Currently, existing TV and film content has been re-purposed for viewing on digital media but going forward, original content on digital media can drive subscription revenues. Sports can be another key driver for premium subscription. For instance, StarSports.com's paid streaming for ICC Cricket WC 2015 for a subscription package costing INR120 (USD 2) has gained significant traction.¹⁴⁶

One of the primary forces impeding the growth of subscription and pay-per-view revenues is the hassles that customers face while making payments on digital platforms, even when they are willing to pay. This is on account of:

- Low credit card penetration
- Fear of using netbanking and credit cards online due to security threats
- Lack of experience in using e-wallet/m-wallet

As a result, some digital platforms are using the mobile carrier billing for payment collection, but the high revenue share expected by Telcos for billing is a barrier, especially since unlike in the Mobile VAS space, Telcos do not manage the delivery channel and customer acquisition, but only the collection. The TV Everywhere services by TV distribution platforms have an advantage over other platforms, due to their already existing customer billing relationship. Even in a relatively mature market such as US, TV Everywhere is growing faster than other video streaming services such as YouTube, Hulu and Daily Motion.¹⁴⁷

143. medianama.com, September 12, 2014, MTV India launches fashion and lifestyle web series – The Look

144. Yourstory.com, December 17, 2014, How The Viral Fever etched a permanent spot on its viewers' memories with 'Permanent Roommates'

145. valuewalk.com, December 31, 2014, Netflix, Inc. (NFLX) Pressured By Content Costs, But It's OK

146. <https://account.starsports.com/star-package>

147. U.S. Digital Video Benchmark Adobe Digital Index Q2 2014



Lack of convenient payment mechanisms is one of the biggest challenges in getting customers to pay for content online. Making payments every month or for every transaction is cumbersome for customers since auto-debit is not allowed by RBI regulations. Credit cards and telco billing are the two options currently but telco billing has the disadvantage of high revenue share being asked by telcos. E-wallet systems are still in a nascent stage and will hopefully develop over the next few years. ▲▲

- Ashish Behl
Business Head
Box TV, Times Internet Limited



I think it's fair to say that convergence, in the truest sense of the term, has evolved from being a catchy buzzword to a market reality. The point to note is that this shift has primarily been driven by our consumers. As industry participants we've simply reacted to the changing needs of our consumer. Now the government is trying to figure out the best way to regulate this consumer-led phenomenon. So, in a manner of speaking, its consumer-first, industry-next and government-last. Moving forward we need to unleash a new way of thinking as far as our business is concerned. While we continue to innovate on the content front, we must extend the frontiers when it comes to our use of technology and analytics and our ability to forge cross-industry partnerships. ▲▲

- Sudhanshu Vats
Chief Executive Officer
Viacom18 Media Private Limited

Digital Video: Outlook 2015

Over-the-top devices: The future trend

For all the convenience and flexibility of streaming content on to smartphones and tables, the viewing experience on a high-definition large screen TV will likely remain unmatched. While smart TVs/connected TVs are one way for consumers to watch on-demand content on TVs, globally the market is shifting towards over-the-top (OTT) devices/Internet STBs on account of high cost of replacement of smart TVs, better user interfaces on OTT devices, shortening technology life cycles, and difficulty in receiving software updates on smart TVs. These OTT devices could be dedicated IP streaming devices such as Apple TV and Chromecast or gaming consoles such as Xbox and PS3. There are already several international as well as domestic devices available in the market at different price points and with different feature sets. While these devices may not gain mass appeal in India given their high prices, a segment of the audience, is already adopting these devices and the trend is expected to gain traction as availability of premium quality content on digital platforms improves.

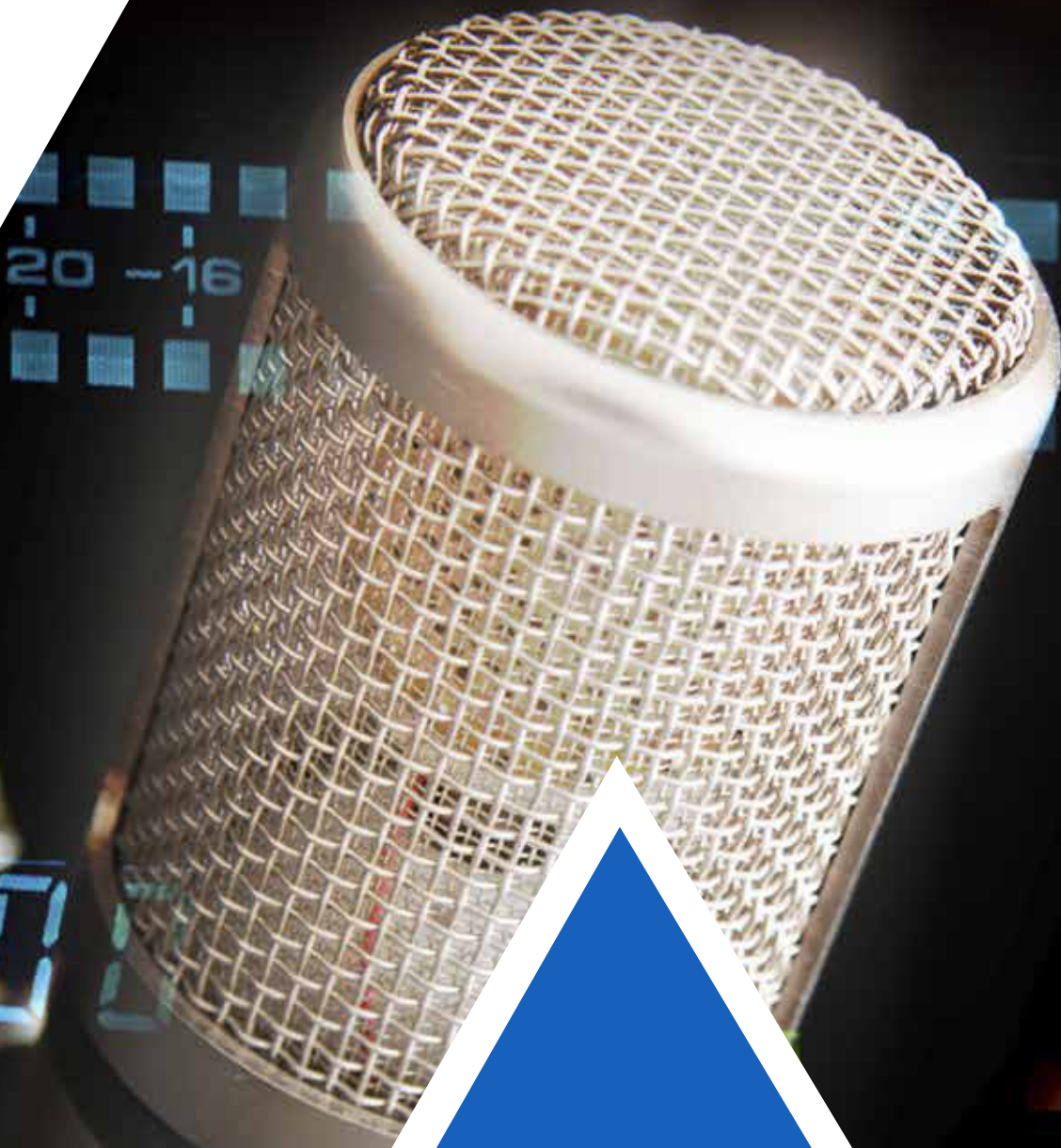


What's interesting is that while consumers have embraced digital technology - the homemaker, to household help to a young executive are all accessing information and entertainment on their smartphones. The average brand manager however, is still used to the traditional use of media for their brand – as the benefits from the digital marketing stream have not thropwn up impactful numbers yet. And until digital marketing becomes meshed with mainstream marketing – there will be an overall hesitancy in using the route. This transformation in India is taking place at a slower pace than other similar markets.

An industry solution and an important missing piece of the puzzle is campaign measurement. Measuring efficacy of brand advertising, as opposed to direct response ads, is still difficult in the digital space despite the huge amount of data available in digital ecosystem. Effective and timely campaign measurement will bring accountability to digital brand advertising in India. Globally we have observed this shift with digital ad ratings, and believe the same will happen in India. ▲▲

- Prashant Singh
Managing Director
Nielsen India





Radio
Transmitting growth



Round up of the year

What seemed like a year lost due to further delays in Phase III auctions, ended with a phenomenal growth of 17.6 per cent. This growth exceeded our earlier estimate and catapulted the industry size in 2014 to INR17.2 billion. The radio industry showed one of the highest growth rates amongst other traditional media segments, and this too, without Phase III⁰¹.

2014 was an important year for the Radio Industry as the Government started proceedings on the much delayed and highly anticipated Phase III auctions. Although the final auctions would be due in the latter half of 2015, the Government has given its nod to the partial auctions for 135 channels in 69 cities. Industry players believe that Phase III, which had been delayed for more than two years, could herald a new era in the industry. The issue of migration for existing operators from Phase II to Phase III was also potentially resolved, by extending the deadline for migration to 31 March 2015 after the partial Phase III auctions, the price of which would also form the basis of the migration fees.⁰² Though some key contentious issues of exorbitant reserve prices for the auctions, the 15 per cent limit on the total number of frequencies that an entity may hold, as well as dearth of new frequencies in the larger markets of A and A+ cities remain, the commencement on Phase III provided the required fillip to the industry and reach its full potential. Allowing news bulletins in private FM channels, fed directly from Prasar Bharti, would provide the necessary impetus to the industry. The Hon'ble Minister for Information and Broadcasting also suggested independent news content to be permitted in future course of time.⁰³

Growth in 2014 can be attributed to several reasons. New upcoming sectors like E-commerce fought aggressively to woo customers and gain market and used radio extensively in their campaigns. Growth was also driven by demand from the existing industries such as Real Estate, Retail, Lifestyle products, etc. and most of the large players operated with almost 100 per cent inventory utilisation. As many players reached peak utilisation, many hiked their ad rates⁰⁴. There appeared to be a welcome shift in focus from nationwide brand-building to more local, focused promotional targeting, feeding to the strength of Radio as a medium. Content innovation also contributed to the strong performance from many radio operators. This included branded shows, on-ground properties, and in some cases, a complete change in programming, thus providing advertisers with better ways of using the medium. General Elections saw an unprecedented amount of election spending which in value is estimated to be second only to the 2012 US Elections.⁰⁵ According to data released by the parties to the Election Commission, Congress spent INR5,160 million in the 2014 general elections whereas BJP spent INR7,140 million⁰⁶ out of which INR3,040 million was spent on audio-visual media campaigns.⁰⁷ This election spend also found its way to the radio industry and was a driver for growth. The BJP itself used around 400

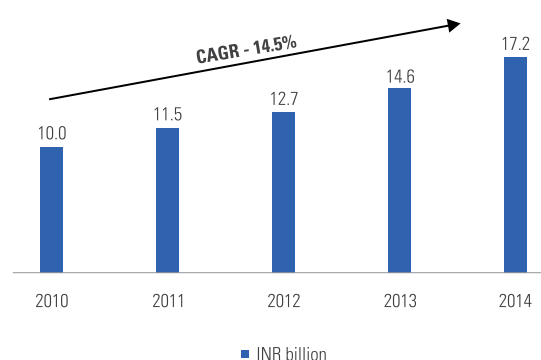
thousand spots for the radio with spends of around 12 to 15 per cent as against the normal 1 to 3 per cent, making it one of the biggest campaigns for the Radio Industry.⁰⁸

The medium has also gained the attention of many as a mass medium with the popularity of the PM's address to the nation through his show 'Mann Ki Baat'. All India Radio ('AIR') has a reach of more than 99 per cent of India's population⁰⁹ and this will encourage large operators to bid for more stations to increase their reach. Radio's combination of extensive reach and effective pricing makes it an attractive medium.

Challenges continued to hound the industry with smaller and standalone stations feeling the pressure of rising cost structures, measurement and royalty fee issues and the rising threat of the digital medium eating into the radio pie.

One continues to witness a change in attitude towards FM radio. Advertisers no longer see it as an add-on medium but as an integral part of their media plans. As experiential marketing gains much more traction, advertisers are increasingly looking at radio to use its core competency to create targeted localised content to gain listener attention culminating in sales. With the launch of Phase III as well as resolution of the minimum spacing issue, it is expected that radio will significantly expand its presence in cities with existing licenses as well as enter new towns. This will enable and drive content differentiation to a great degree. These developments will help radio gain much more traction in increasing its share in the overall advertisement spend.

Size of Radio industry



Year on year comparative analysis with CAGR % for the period 2010 to 2014

Source: KPMG in India analysis

01. KPMG in India discussion and analysis

02. www.radioandmusic.com, October 9 2014, TRAI formula for migration fee accepted formally

03. www.televisionpost.com, June 2 2014, Govt open to allowing news on FM radio, digitisation deadline may be relaxed

04. Industry discussions conducted by KPMG in India

05. www.ndtv.com, March 10 2014, India's spend on elections could challenge US record: report

06. www.outlookindia.com, January 16 2015, BJP Spent Over Rs 714 Cr, Cong Rs 516 Cr in 2014 Elections

07. <http://ibnlive.in.com>, January 21 2015, BJP spent over Rs 61 crore for Modi's 3D campaign in Lok Sabha elections

08. <http://www.campaignindia.in>, June 11 2014, India Radio Forum 2014: 'How people listen to radio and how advertisers perceive radio is being heard are different'

09. <http://allindiaradio.gov.in>



Expansion of FM radio broadcasting services through private agencies (Phase III)

General introduction and round-up of events

The New Year rang in great tidings for Private FM radio operators when the Union Cabinet, headed by the Prime Minister Narendra Modi, announced that it has approved the auctioning of the first batch of FM Phase III licenses comprising 135 channels in 69 existing cities of Phase II. This set in motion one of the most anticipated changes in the Radio Industry. The announcement also addresses another key concern of migration of existing players from Phase II to Phase III. The long overdue Phase –III auctions will change the perspective of the industry from a frequency builder to reach builder as the rollout would help radio go to newer regions and newer audiences.

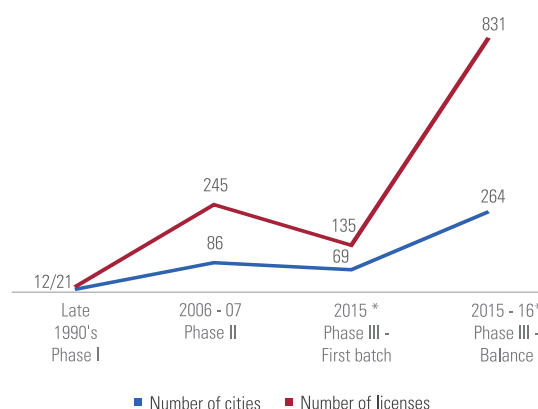
Phase III FM licensing was initially scheduled to roll out by 2009 in consultation between the Telecom Regulatory Authority of India (TRAI), Ministry of Information and Broadcasting (MIB) and various stakeholders. Closely linked with the Phase III auctions was the issue of migration of existing radio players from Phase II to Phase III. TRAI in its consultation paper had invited various stakeholders to voice their opinion on issues regarding these matters. The new Government formally accepted the TRAI recommendations for the Migration Fee, which also made it imperative to set the ball rolling for the auction of the residual Phase II frequencies which would form the basis of the Migration fee.

The journey of privatisation of the Radio Industry

	Phase I	Phase II	Phase III
Objective	Attract private investment	Increase reach of FM radio in major metros and cities	Reach 85 per cent of Indian territory
Type of Bidding	Ascending non-electronic Auctions	Single step closed bid tenders	Ascending e-Auction
License Fee terms	Annual License Fee	One time fee + 4 per cent of gross revenue every year	One time fee+4 per cent of gross revenues or 2.5 per cent of one time fee whichever is higher every year

Source: KPMG in India discussion and analysis, Government of India, Ministry of Information and Broadcasting

Phasewise details of FM radio license and cities



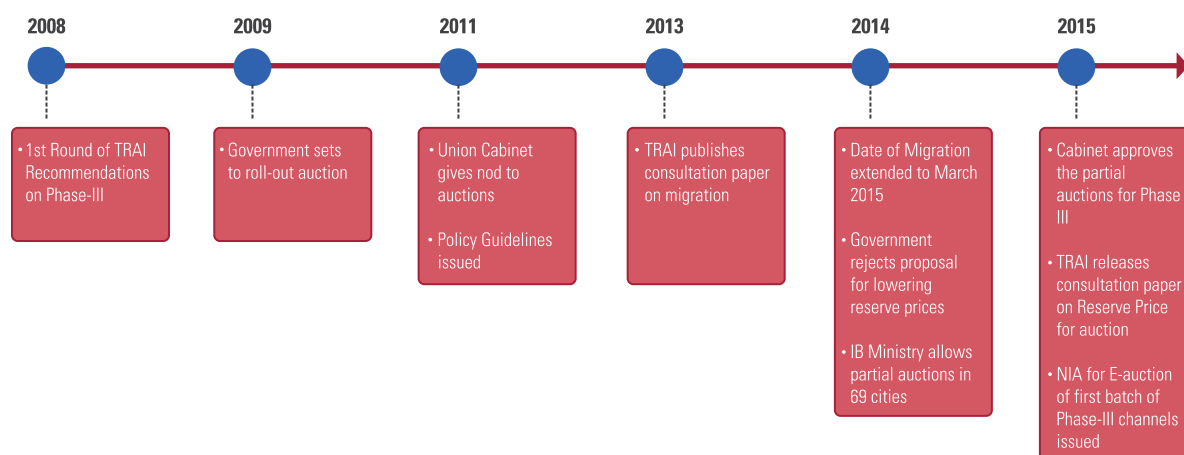
* Proposed

Source: Government of India, Ministry of Information and Broadcasting





Timeline for Phase – III and Migration



Source: KPMG in India discussion and analysis

Phase-III offers exciting opportunities for companies to expand – both into new cities and within cities with a second and even third frequency in the existing large markets. With economic activity increasing in smaller towns, operators have a positive outlook for these markets.

Key policy changes under Phase III

Areas ¹⁰	Implications
Operators can run/ own not more than 40 per cent of the total channels in a city, subject to a minimum of 3 different operators in the city. On a national level, no entity can hold more than 15 per cent of all channels allotted in the country excluding channels located in Jammu and Kashmir, North Eastern States and island territories.	<ul style="list-style-type: none"> • Potential to grow revenues • Cost efficiencies arising out of economies of scale • Content innovation • Ability to provide advertisers with a robust alternative to print media. • Restriction on the number of channels an entity can hold, prohibits players from leveraging economies of scale to broadcast niche content (which is otherwise not so profitable) as the industry continues to focus on general entertainment categories only.
Permission to broadcast news bulletins from AIR subject to certain conditions. Other non-news contents like sporting events, traffic, weather, coverage of cultural events, festivals, coverage of topics pertaining to exams results, etc. are also permitted.	<ul style="list-style-type: none"> • Improve listenership
Networking of channels in its own network permitted with a condition that at least 20 per cent of the daily broadcast should be in local language and promotes local content.	<ul style="list-style-type: none"> • Enables operational efficiencies.
License period extended to 15 years. The period of permission to operate existing FM channels on migration from Phase II to Phase III has also been increased from 10 to 15 years.	<ul style="list-style-type: none"> • This will enable operators to spread costs over a longer period and provide more stability to the Industry.

10. Notice inviting applications No.N-38014/6/2013-FM for E-Auction of First Batch of Private FM RADIO Phase-III Channels



Challenges and key concerns

While the industry is certainly excited about the upcoming Phase III auctions and views the auction as a much needed boost to the industry, key issues with the auctions like the high reserve price and auctioning methodology are making the industry tread carefully. With the current roll-out discarding certain recommendations of TRAI pertaining to spacing of channels and lowering of reserve prices, players in the industry are extremely cautious of the approach towards bidding and expansion.

Auction methodology	Reserve prices	Minimum channel spacing
An ascending e-auction could result in increased bid values as the bidders can view all the details of the on-going bids and can increase their own bids	Operators, particularly in major cities believe that the high reserve prices will add to the pressure on profitability. With such astronomical reserve prices, it could be the case some licenses may become financially unviable. High reserve prices emulate auction under scarcity which is detrimental to fostering of content differentiation for the Radio Industry.	TRAI had recommended a minimum spacing of 400 kHz from the proposed 800 kHz but the Government has mixed this recommendation citing technical reasons. Reducing the spacing would double the number of frequencies available for auctions, which is specially important for revenue generating A & A+ cities which have very low number of frequencies in the Phase III auctions. Increasing the number of frequencies will also encourage content differentiation in the cities. Many believe that there would be some form of clarity on this issue and that the Government would finally come about to accept the proposition

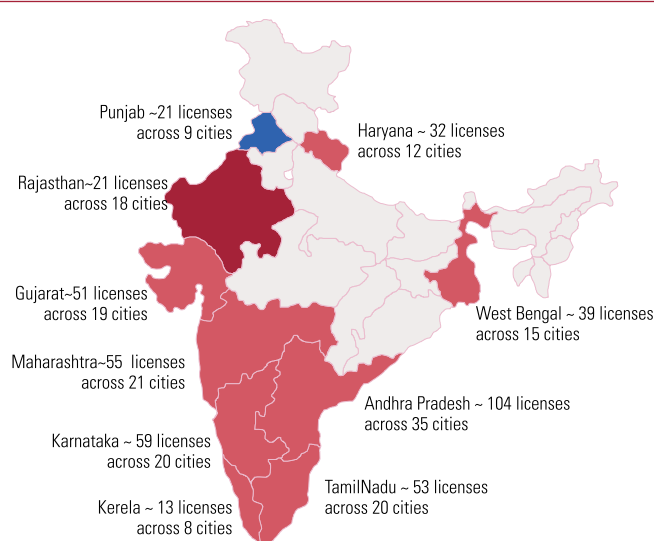




Major implications

Geographical expansion

With Phase III, industry will see FM radio increase its reach to 85 per cent of the Indian territory. This increased reach will put radio in contention in most media discussions, as advertisers would look to reach out to these places through the relatively cheaper alternative that radio offers. It is expected to result in the creation of stronger regional networks.



Advantages of regional networks:

- Offer a cluster of stations to advertisers
- Enables radio to compete more effectively with Print and TV
- Helps leverage cost synergies across stations

Please note: This is not an exhaustive list

Source: Ministry of information and broadcasting; BECIL

Radio's share in the M&E Ad Pie

Phase III will see large players as well as smaller players looking for expansion in Tier 2 and Tier 3 regions. The small operators operating standalone FM channels have a strong understanding of the local markets and advertisers. Local advertisers would want to use radio as a cost effective medium ensuring increase in radio's share in the advertising mix in these areas. Most of the cities under Phase III auctions are Tier 2 and Tier 3 cities - local advertisers and large national brands will be inclined to drive penetration in these areas.

Inventory utilisation and rates

Inventory utilisation of existing stations in metros is estimated to be largely unaffected by Phase III. While smaller stations could see a slight reduction initially, they are likely to eventually stabilise. New towns are expected to take some time to fill their inventory. Lack of established measurement metrics may also impact the growth of radio in small towns and cities. Due to additional inventory, rates are expected to decrease or stay flat.

Operating efficiency and margins

Industry experts believe that the operating efficiency and margins are likely to improve with the implementation of Phase III. This would be mainly attributed to the improved utilisation rates as well as expected reduction in the cost of operations from sharing of common infrastructure for stations across several cities.



Consolidation

The Industry has for long been working under the burden of high costs with profitability coming to the larger players only in recent years. Given the high reserve prices, consolidation could be a natural outcome. The acquisition of Radio City, one of the largest radio networks, by Jagran Prakashan¹¹ and talks of Oye FM from TV Today group by ENIL¹² (which runs Radio Mirchi), are recent examples. With the rising cost of setting up a new station as well as the high price of acquiring a channel, experts feel that small players could drop out with bigger players expanding to new cities. However, the three year restriction on change in ownership will not allow consolidation in the medium term.

Industry landscape

The Radio Industry landscape today may be broadly categorised as under -

- Public Broadcast System comprising the All India Radio operating in the FM, AM and SW frequencies
- Private FM channels operating in 86 cities currently
- Community Radios - currently 170 in number as on July 2014¹³
- Digital Radio

All India Radio (AIR)

AIR, the public broadcast radio of the country also seems to be growing at rates similar to the Private FM industry. Growth was fueled by programs like 'Mann ki Baat' which garnered advertisement rates higher than any of the previous programs.¹⁴

One of the most important aspect for AIR is the reach which comes to around 92 per cent of the country's area and 99.19 per cent of the population. The programming is in 23 languages and 146 dialects. AIR has a three tier system of broadcasting – National, Regional and Local. National programs are broadcasted from Delhi and relayed to the capital, regional and local radio stations. The broadcast are on the Medium and Short Waves and are in Hindi, Urdu and English.¹⁵

The Regional Stations form the middle tier of broadcasting and are aired in regional languages and dialects. The 116 regional channels are representative of the major linguistic cultural region of every state with a spread of over 29 States and 6 Union territories. The regional channels operate largely on the Medium Wave frequency. Local radio is a relatively new concept in India whereas it serves small communities showcasing local culture and focusing on content specific for the benefit of the community. The programming is in FM mode and there are 86 stations spread across the country. AIR operates its FM services through two channels – FM

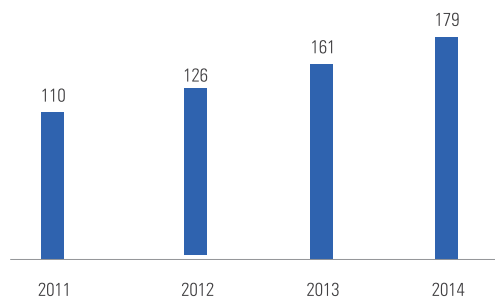
Rainbow and FM Gold and has 206 FM transmitters which covers 24.94 per cent of the area as well as 36.81 per cent of the population. While FM Rainbow is transmitted through 15 centers the relatively younger FM Gold which operates in the niche category is available in four metros – Delhi, Mumbai, Kolkata and Chennai.¹⁵

Vividh Bharati Services is the largest entertainment network of the station and has been the epitome of connectivity and the democratic nature of reach which radio stands for. Vividh Bharati owes its 97 per cent population penetration to its 37 centres along with some local Radio stations. The service recently saw a boost when the Prasar Bharti board announced that the service would be available through the FM service so as to tap the new modes of radio consumption – mobile phones and car stereos. The FM mode would be available in Delhi, Mumbai and Chennai.¹⁶

Community radio

Community radio stations had seen a surge in its numbers since the Community radio guidelines were announced in 2006. Currently around 170 stations are operating in India with specialised programming focusing on specific community issues and agenda. As per the figures of 2014, number of applications received were 1615, Letters of Intent issued were 409 and rejected were 91, Grants of Permission of Agreement signed were 211, Operational radio stations were 179, Number of applications rejected was 801 and number of application under process was 314.¹⁷

Number of Operational CR



Source: TRAI Recommendation Report, 29 August 2014

11. www.exchange4media.com, December 18 2014, Why Radio City acquisition makes sense for JPL

12. www.radioandmusic.com, February 13 2014, ENIL to acquire TV Today's Oye FM

13. TRAI Recommendation Report, 29 August 2014

14. www.economicstimes.com, February 21 2015, PM Narendra Modi's 'Mann Ki Baat' turns big business for All India Radio

15. www.allindiaradio.gov.in

16. www.dnaindia.com, February 5 2015, All India Radio set to launch Vividh Bharati service in FM mode

17. Ministry of Broadcast www.mib.nic.in



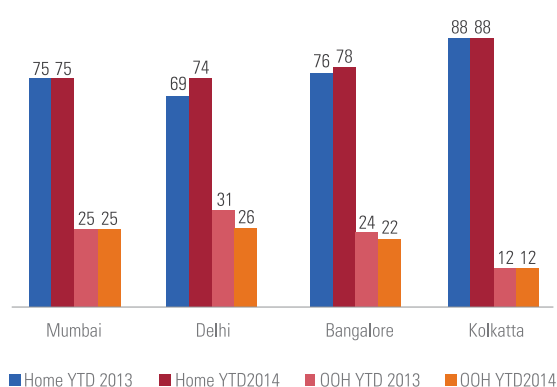
Digital radio

Internet penetration and growth of the smart phone segment continues to blur the lines between traditional analogue broadcast radio media and the internet and new mobile technologies. While traditional broadcast radio channels have taken their stations online, new companies run internet based radio services that provide Radio as a Service (RaaS).

Listenership trends¹⁸

According to the Radio Audio Measurement Survey covering four metros – Mumbai, Delhi, Kolkata and Bangalore, the share of audiences in Mumbai, Kolkata and Bangalore, tuning into Radio from home and out of home in 2014 changed very marginally from 2013. In Delhi the shift to home was higher with 75 per cent audiences tuning in from home as compared to 69 per cent in 2013.

Listenership on the go



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Time spent on radio

Time spent on Radio (average weekly minutes)	Weekday		Saturday		Sunday		Average Weekly time on Radio	
Major Metros	2014	2013	2014	2013	2014	2013	2014	2013
Delhi	614	642	139	147	139	143	892	932
Mumbai	567	574	121	128	121	128	809	830
Bengaluru	953	890	203	189	201	194	1357	1273
Kolkata	624	678	151	162	155	166	930	1006

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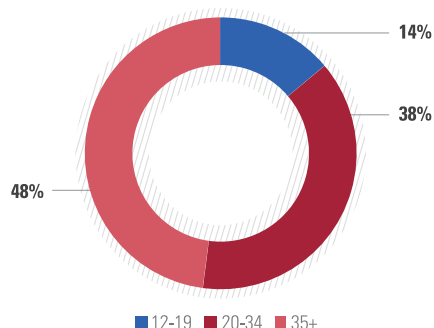
In 2014, the time spent on radio decreased marginally in Delhi, Mumbai and Kolkata while there was an increase in Bengaluru. Radio listenership in Bengaluru continued to remain the highest among the major metros with the listeners spending more than 22 hours a week. Kolkata came in second followed by Delhi and Mumbai; the listenership of these metros ranging from 13 to 16 hours in a week.

Age group

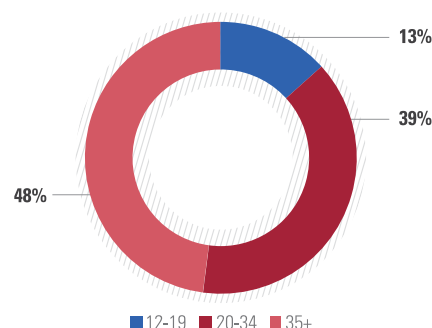
Audience profile¹⁹

In 2014, men and women spent almost equal amount of time listening to radio in the four metros taken together; however, Kolkata continues to have a higher share of women listeners at 55 per cent while Delhi had the highest share of male listeners at 58 per cent. Also, 2014 saw a marginally higher percentage of listeners in the 12 to 19 years of range.

Audience Profile By age Group, 2014



Audience Profile By age Group, 2013



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Key trends

Increased social media presence

Radio stations are taking to social media to accentuate the entertainment quotient for their listeners as well as to establishing a platform to have direct interaction with them. Many like Radio Mirchi, Red FM and Radio City maintain a national page as well as city-centric pages. Content on these pages usually range from videos and pictures of celebrities visiting the studio for promotion activities to also posts pertaining to polls, contests and quizzes, etc.

Content differentiation

Radio stations are increasingly focussing on differentiation strategies to break away from the routine so as to increase listenership. Since Bollywood is one of the profitable categories for the medium, stations have experimented within this to carve out a niche for themselves. Additionally, Radio gives the opportunity to focus on some very specific local issues. These shows have been generally talk shows based with little or no music content. Industry players believe that although these shows garner much attention from the listeners,

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the nature of the content limits the number of advertisers. Stations are also increasingly looking at bringing celebrities (apart from promotions) to capture the listenership. Generally, two attempts to content differentiation can be seen on the private FM channels.

Music based shows with celebrities

In this format, the differentiation is driven by the presence of a celebrity from the entertainment industry as RJs. The content usually comprises music strewn with anecdotes or personal experiences or stories about the film industry, etc.

Program	Host	Radio Station	Content
Suahana Safar ²⁰	Annu Kapoor	Big FM	Program showcasing the musical journeys as well as lesser known stories of Retro Era Artists
Carvaan-e-Ghazal ²¹	Talat Aziz	Big FM	Aired across 35 stations, the show focuses on the ghazals, qawwalis and Sufi songs with anecdotes and unheard stories behind them
My Sunday Missal ²²	Celebrity from the Marathi Film Industry	Radio Mirchi	Celebrities from Marathi film industry take to the mike to talk about their experiences and play the best of Marathi music
Sitaron ki Jawaniyaan ²³	Ameen Sayani	Radio City	Array of interviews with film actors wherein they share interesting stories about their lives, etc.

Non-music based content

Another differentiation strategy adopted by the networks is non-music content. Radio stations have experimented quite a bit in this aspect with many regional channels airing plays, etc. or talk show based programs to focus on issues faced by the listeners. For example, Radio Mirchi Kolkata has shows which air Radio plays adapted from classic Bengali stories and novels.

The extent of content differentiation is expected to be much more profound with the roll-out of more stations in Phase III auctions.

On ground activation and innovation in advertisement

The on-ground activation segment for Radio has been truly bustling with many innovative ideations and execution happening in 2014. Brands increasingly looked at Radio for the on-ground activation to supplement their national campaigns or to engage better with their customers through altogether new ideas.

Additionally, advertisement agencies are devising and designing content specifically for the Radio segment, which reflects the local flavour of the target region. Innovation has been on the rise with brands increasingly trying to reach out to the audiences more effectively as well as establishing a two way communication between the brand and the consumer with radio acting as a bridge.

Some of the key sectors which look for brand activation in the Radio space are Telecom, FMCG, BFSI, Cement, Automobiles, Retail etc.²⁴ Year 2014 saw activation being a driver for the Radio industry and experts believe it will continue to grow in the next year also.



20. <http://www.reliancebroadcast.com>

21. www.indiaonline.com, November 19 2014, 92.7 BIG FM presents 'Carvaan-e-Ghazal with Talat Aziz'

22. <http://www.radiomirchi.com>

23. www.radioandmusic.com, October 11 2014, Radio City presents Ameen Sayani's 'Sitaron ki Jawaniyaan'

24. www.mxmindia.com, July 18 2012, Brands go 360-deg with FM radio activations



Some of the activations in the radio space for the year 2014 are as follows:

Campaign	Station	Description
Honda Amaze Longest Drive through Amazing India ²⁵	Big FM	The campaign centered on Honda Amaze breaking the world record for the longest journey by a single car in a country. Big FM executed the on ground activities as well as on air promotions across 30 stations of the Big FM network to create buzz about the campaign. It saw the radio station inviting dealers to its studios as well as RJs hosting live shows across Honda Showrooms
Vodafone Mirchi Grand Ganapati Gammat ²⁶	Radio Mirchi	Vodafone collaborated with Radio Mirchi to celebrate Ganapati festival in a unique way in Pune, Nagpur, Goa, Aurangabad and Nashik. The campaign saw digital as well on ground activation with fans clicking and uploading selfies on Radio Mirchi FB page. Selfies with the most number of likes got to play the Mirchi Fortune Modak Contest.
Red FM Thappa – Season 3 ²⁷	Red FM	Adjudged as one of the best On-Ground promotion at the India Radio Forum 2014, Thappa engages and connects listeners across cities to endorse the best street food across 23 cities through various round culminating in a grand 2 day food festival
Close Up Antakshari ²⁸	Big FM	Close up and Big FM recreated the iconic show on Radio with an intercity competition across 12 cities in Uttar Pradesh, Bihar and Jharkhand. The first season was confined to just one state and the success compelled the owners to expand to three other states.
Hajmola Chatpata No.1 ²⁹	Big FM	A talent show aimed at discovering individuals with comic potential across Uttar Pradesh and Bihar. The first edition of this show saw over 6,500 participants and its success was followed by a second season in 2015.

Brand building measures

With the advent of Phase III and the emergence of new players and new markets, stations will increasingly feel the need to differentiate themselves from others. Brand building measures are not confined to activations and events but also doing extensive research on the listeners to find out programming as well content preferences. Radio Stations used occasion based marketing as well as social issues to engage with listeners out of their studio. Ensuring their presence in major events in a city like Sporting events like IPL, or elections, etc.

Some key trends were:

Social causes/issue based

Radio stations continued to undertake various social initiatives and had a forthcoming approach to launch campaigns highlighting social issues. Radio had always been one of the primary vehicles for the Public Service announcements pertaining to health, environment, safety, gender issues etc., recently many of them are tying up with NGO's or Companies and devising programs or initiative which addresses some social cause, engaging in community building exercises.

Campaign	Station	Description
My FM ke Rangrez – Swachh Bharat Painting Competition ³⁰	My FM	Aimed at bringing awareness among school children about Clean India with CM of states like Gujarat, Rajasthan, Punjab taking time out to see the paintings. The campaign was run in 17 cities.
Mama ko Paani Pilao ³¹	Red FM	A week long campaign where the team from Red FM distributed water bottles to traffic police officers during the summer months
Daryadili ³²	Big FM	Collaboration with NGO Goonj and cricketer Virender Sehwag, the campaign brings together people from different strata of the society to provide warm clothes to people battling bitter cold. The campaign has run across 45 station network with a reach of 43 millions
Chhora Ganga Kinaare wala ³³	Big FM	Campaign to clean up Ganga Ghat. Local authorities, school kids etc were invited to talk about the various issues faced by them while maintaining the cleanliness of Ganga

25. www.radioandmusic.com, November 17 2014, Big FM heralds the way for Honda's longest drive through amazing India into the Guinness World records

26. www.radioandmusic.com/ October 8 2014, Radio Mirchi and Vodafone partner to celebrate Ganeshotsav festival

27. <http://www.afaqs.com>/ June 24 2014, 93.5 RED FM commences 'RED FM ka THAPPA - SEASON3'

28. <http://dumkhum.com>, February 5 2014, CLOSEUP AND 92.7 BIG FM BRING BACK 'CLOSEUP ANTAKSHARI' ON RADIO

29. www.radioandmusic.com, January 17 2015, Big FM and Hajmola launch the second season of 'Hajmola Chatpata No.1'

30. www.radioandmusic.com, November 20 2014, 'MY FM ke Rangrez' paint 'Swachh Bharat'

31. www.radioandmusic.com, October 13 2014, Red FM ke saath 'Mama Ko Paani Pilao'

32. www.radioandmusic.com, December 13 2014, Big FM and Virender Sehwag come together to help Goonj

33. www.radioandmusic.com, June 14 2014, BIG FM's RJ Sid: PM Narendra Modi's decision to clean Ganga encourages 'Chhora Ganga Kinare Wala' campaign



Event based

Radio companies engaged in event based marketing. Sports was one of the primary areas of focus as networks continued to tie up sports teams or sporting spectacles in the regions to boost their brand visibility and relevance. The emergence of successful leagues like the IPL and the more recent Kabaddi League or ITPL would ensure that stations continue to engage with these properties. The year 2014 saw Radio Mirchi tie up with various Marathon events in Mumbai, Delhi and Kolkata and Radio City continue its partnership with Mumbai Indians.

Entertainment awards

Larger players are also investing in their own award shows to successfully reach over to the TV audiences and have a cross platform experience. Not only is Radio becoming an integral part of marketing the entertainment awards but also the networks are investing in building their own property to enhance their brand.

Mirchi Music ³⁴	Radio Mirchi	Mirchi Music awards is one of the most popular award shows for the music industry. Started in 2009 primarily for Bollywood Music, over the years it has extended to Punjabi, Kannada, Marathi, Malayalam, Telugu, Bangla, Tamil.
Red FM Tulu Awards ³⁵	Red FM	Organised in the year 2014, Red FM Tulu awards felicitates both artistic and technical excellence in the Tulu Film Industry
Big Star Entertainment Awards ³⁶	Big FM	Presented by RBNL in association with Star India to honor excellence in movies, music, television, sports, theatre and dance. It was first started in the year 2010.
Radio City Freedom Awards ³⁷	Radio City	Radio City celebrates independent music with felicitation across genres like HipHop, Fusion, Pop, Rock etc. Started in 2013, the awards are not restricted to any specific region or language

Mergers and acquisitions

One of the major outcomes which the Radio industry is going to witness is the propensity of mergers and acquisition amongst the radio players who would be keen to enter the new markets. Rather than going through the long and tedious process of auctions, industry believes it would make good sense for willing players to enter through the merger and acquisition route. The year 2014 and early 2015 saw two big deals happen in the

radio space. First was the acquisition of Radio City by the Jagran Prakashan Group and the second was ENIL's acquisition of TV Today group's Oye FM. JPL also operates Radio Mantra across 8 stations focusing primarily in the non-metro market. The deal therefore helps JPL to get key access to almost 20 markets including the advertiser friendly markets like Mumbai, Bangalore and Delhi and thereby have presence in West and South as against primarily North at present.³⁸ Similarly, Oye FM operates in 7 cities and probably fits into ENIL's expansion plan under Phase -III.³⁹ Although, as already mentioned the clause of minim lock-in period of 3 years could prove detrimental to the prospect of M&A in the radio industry as companies are not allowed to change their ownership pattern during this period.

Key challenges

Increased penetration of digital platforms

With increased proliferation of the digital medium through smartphones and other portable digital devices, terrestrial radio stations would find it increasingly difficult to stay relevant among the younger tech savvy listeners. Most of the industry players believe that terrestrial radio has to inevitably shift to the digital platform in the near future. From the advertisers' perspective, with the increasing focus on ROI, digital interfaces are likely to address two most important aspects which the traditional radio platform does not provide clearly – measurability and targeting. Although larger players have either started online channels or have created apps, the increasing threat from YouTube and other services like Gaana and Saavn is looming large (more Indians consume music on YouTube than all three of the biggest music channels combined).⁴⁰

Measurability

Measurability continues to be one of the biggest challenges for the industry with advertisers and sponsors increasingly shifting their focus on analytics and consumer data to justify their ROI. Some Radio operators have unsubscribed from the Radio Audio Measurement Data and the Indian Readership Survey which provides a pan India view of the listenership. While many players employ their own set of surveys and methodologies through external agencies to provide analytical data to the advertisers, it still does not provide a comprehensive framework that can be viewed as the industry's 'currency'. The importance of a universally accepted metric to measure listenership cannot be stressed upon more as historically incorporation of these metrics have increased the advertisement spend in Radio.

34. <http://www.mirchimusicawards.com>

35. www.newskarnataka.com, November 13 2014, 93.5 RED FM organizes first ever 'Tulu Film Awards' in Mangaluru

36. <http://www.927bigfm.com>

37. <http://www.planetradiocity.com>

38. www.exchange4media.com, December 18 2014, Why Radio City acquisition makes sense for JPL

39. www.radioandmusic.com, February 13 2014, ENIL to acquire TV Today's Oye FM

40. www.medianama.com, June 3 2013, Can Radio Bring Its SexyBack? A Report from India Radio Forum 2013 – NH7



Copyright Board

Pursuant to the Copyright Amendments on June 21, 2012, the erstwhile Copyright Board was dissolved in order to reconstitute the same as per the amended provisions of the new Copyright Act. It is unfortunate that almost 2 years have elapsed and till date the Copyright Board has not been reconstituted. Hence, this unreasonable delay in reconstitution of the Copyright Board has led to the unnecessary delay in adjudication of the long pending issues. The Copyright Rules envisages publication of Tariffs that would be payable by a person for exploitation of the content. The landmark judgment dated August 25, 2010 passed by the old Copyright Board specified that the royalty rate be fixed at 1 per cent of the Net Revenue. However, due to the non-functioning of the Copyright Board, the tariffs have not been published. The amendments have introduced a new right in favor of broadcasters i.e. "Statutory License", which applies to all broadcasters. It is pertinent to mention that though the Copyright Rules have been framed in 2013, till date the procedural aspects of availing the benefits of statutory licensing by the radio broadcasters still remains to be framed.

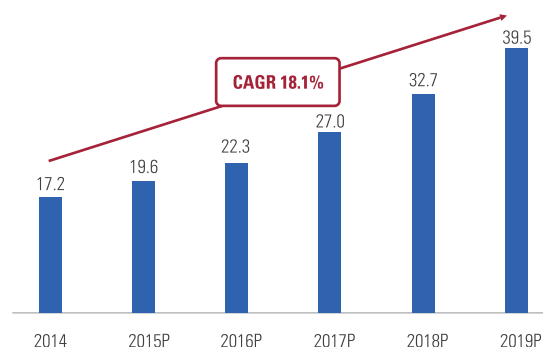
Foreign Investment in Radio Broadcast

Foreign Direct Investment (FDI) in the Radio sector is currently capped at 26 per cent which the industry believes is a major hindrance for the growth of the industry. TRAI's recommendation of increasing the limit to 49 per cent was in coherence with the suggestion of the Finance ministry Panel. The approval would not only entail infusion of capital but also transfer of technology, strengthening infrastructure, raising productivity, enhancing competitiveness etc. FDI would have been a boon for companies especially before the auctions which would have ensured better participation in the auction by both existing as well as incumbents.

Priority sector status for radio

Radio is a free to air, local medium which operates within limited bandwidth making it similar to telecom sector. Also like the telecom industry, Radio operates with high end technology involving huge capital investments generating employment. The similarities with the telecom sector has compelled many industry players to be of the view that the Radio industry should be given the status of priority sector so that the bank lending to the sector can qualify under Priority Sector spending rules. Also, this could enable raising debt from ECB reducing capital burden on players.

Future Projections and the road ahead



Source: KPMG in India Industry discussion and Analysis

It is expected that the Radio Industry will continue to witness robust growth in the years to come and may surpass the expected growth rate as and when the Phase III is entirely rolled out and the stations are operational as the expansion will see FM channels proliferate to newer cities covering close to 85 per cent of the Indian territory. Phase III is going to be a game changer for the industry as the medium will enter newer geographies enabling players to tap new audience segments. This expansion phase will opportunity for local advertisers in these regions to reach out to the audience in a cost effective manner. This also means national advertisers would increase their presence in radio to move from the already saturated urban markets to these untapped markets. Radio will now be able to compete more effectively with TV as national and regional reach will now be possible on this medium

The Industry is also looking forward to reducing its operational costs once the sharing of infrastructure is permitted as part of Phase III. The Copyright Act issue when resolved, can help reduce costs substantially. But apart from all these policy changes and expansion plans, radio as part of the media industry would ride the growth of economic upsurge that India is looking for in the coming years. The change in government in 2014 saw a rise in business sentiment and it is only in the coming years that the will see a path of achieving its long held promise.





**Animation, VFX and
post-production**

Create in India



Overview

Value in INR billion

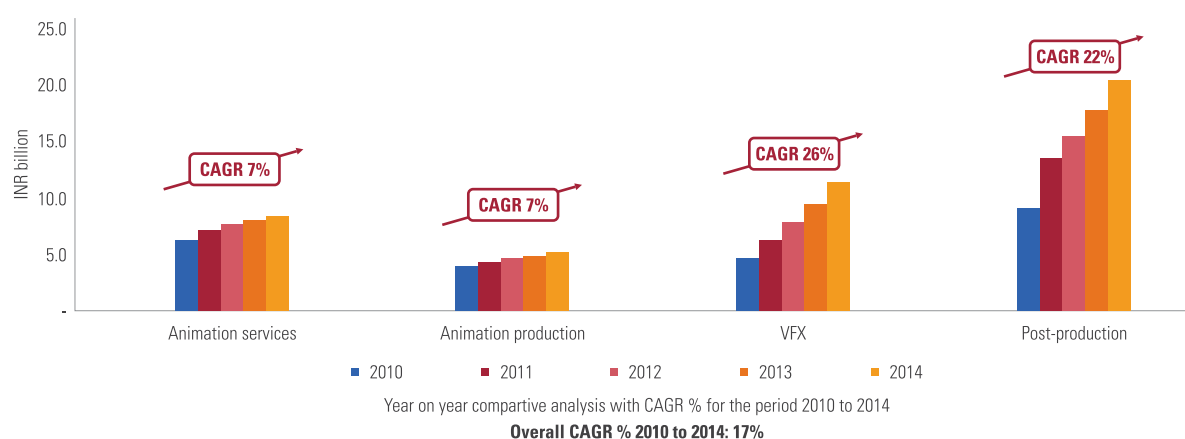
Segments	2010	2011	2012	2013	2014	CAGR % 2010 – 2014	Growth in 2014
Animation services	6.2	7.1	7.6	8.0	8.1	7%	1%
Animation production	3.9	4.2	4.5	4.7	5.1	7%	9%
VFX	4.5	6.2	7.7	9.3	11.3	26%	22%
Post-production	9.1	13.5	15.5	17.7	20.4	22%	15%
Total	23.7	31.0	35.3	39.7	44.9	17%	13%

Source: KPMG in India analysis

2014 was an exciting year for the Indian Animation and VFX Industry. The animation industry witnessed a major box office success in 'Chaar Sahibzaade', which earned INR332 million⁰¹ in India. It also saw the release of India's costliest⁰² animation film and the first film shot with photorealistic performance capture technology, 'Kochadaiyaan'. Many animation channels carried more domestic content, driving the growth in the animation production segment. While India still appears to be a key destination for carrying out high-end outsourcing work, 2014 witnessed a lot of the more routine work being shifted to the Far East and China.⁰³ The Indian VFX industry continues to make its presence felt in all

segments i.e. films, television and advertisements. Out of the 10 movies nominated for Oscars, VFX work for six movies was carried out in India.⁰⁴ 2014 has also been the year of collaboration and consolidation for Indian VFX studios which can be seen with the acquisition of Reliance MediaWorks Ltd by Prime Focus Limited for USD61 million and many others.⁰⁵ The Finance Minister, Arun Jaitley, acknowledged that the Film & Television Institute (FTII), Pune and Satyajit Ray Film & Television Institute, Kolkata should be accorded status of Institutes of national importance and proposed a National Centre for Excellence in Animation, Gaming and Special effects to be set-up in the coming year.

Size of Animation, VFX and Post production industry in India



Source: KPMG in India analysis and Industry discussions conducted by KPMG in India

01. http://www.beekays.com/movies/hindi/2014/chaar_sahibzaade_3d

02. <http://www.indianmoviestats.com/film/kollywood-2014/kochadaiyaan.html>

03. Industry discussions conducted by KPMG in India

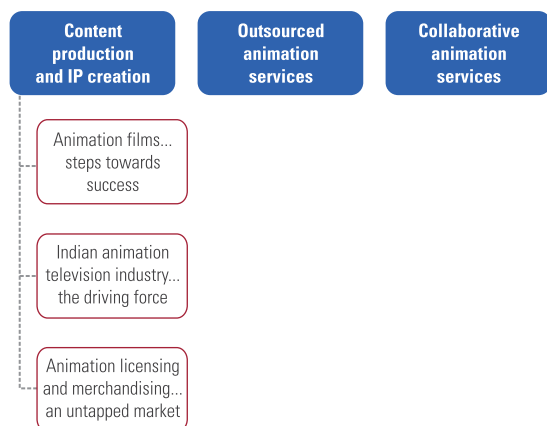
04. KPMG in India analysis



The demand for local animation content has been rising over the past few years, which is exemplified by the regular release of locally produced movies such as 'Hanuman', 'Chhota Bheem', 'Chaar Sahibzaade' and TV shows such as 'Motu Patlu', 'Pakdam Pakdai', 'Chhota Bheem', and many others. The popularity of channels such as Cartoon Network, Pogo, Nickelodeon, etc. has resulted in more opportunities for the studios in India. This demand for animation content is likely to help India evolve into a significant animation consumption country coupled with an untapped market for merchandising.

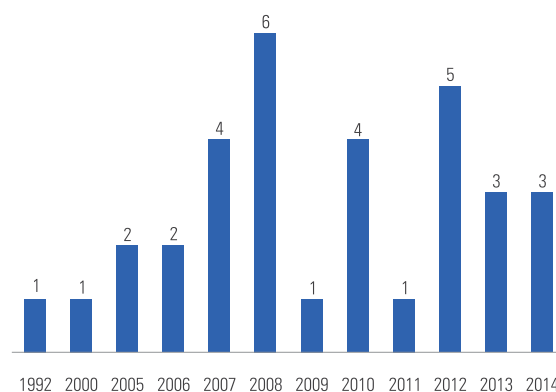
Animation films...steps towards success

Number of Indian animation theatrical releases over the years



Content production and IP creation

In this business model, Indian animation studios develop their own content in-house thereby owning the entire intellectual property rights to the content. Indian animation companies are increasingly looking to own and co-produce intellectual property rights, a shift from the model of merely outsourcing animation production from international studios. This will not only enable the studios to generate revenues from content, but also create brands with possibility of monetisation through various avenues including merchandising. 'Chhota Bheem' is one such example, while the theatrical releases of all movies have not fared well in comparison to the production budgets, the series is successful as it has recovered its money through broadcasting and merchandising.



Source: KPMG in India analysis





Indian animated movies with production budget and box office collections in 2014 and 2013

Value in INR millions

2014 movies	Studio	Budget	Box office collection - net	2013 movies	Studio	Budget	Box office collection - net ⁰⁵
Mighty Raju Rio Calling	Green Gold Animation ⁰⁶	50	11	Mahabharata	Pen India Pvt. Ltd ⁰⁷	500	14
Kochadaiiyaan (all languages)	Accel Animation studios in association with foreign studios ⁰⁸	1,250	810	Chhota Bheem and the Throne of Bali	Green Gold Animation ⁰⁷	124	43
Chaar Sahibzaade	iRealities ⁰⁶	200	332	Main Krishna Hoon	J.C.Film Vision	NA	3

Indian animation feature films continue to take baby steps towards gaining popularity and acceptability with Indian audiences. While the expectation is to replicate the success of television, the journey has been rough. Green Gold Animation's third theatrical outing 'Mighty Raju: Rio

Calling' performed below par and the much anticipated 'Kochadaiiyaan' also found it challenging at the box office. The industry needs more hits like 'Chaar Sahibzaade' to get the momentum going and to instil confidence in producers to take this segment to the next level.

'Chaar Sahibzaade' – Case study on an animation film success story

Background

'Chaar Sahibzaade', a movie based on a true story of the sacrifices made by the four sons of Guru Gobind Singh, released on 6 November 2014. Directed by Harry Baweja, the film took five years from the date of conception, including three years in production. Made at a budget of INR200 million (including print and publicity of INR55 million), it is probably the highest grossing animated film in India. Out of the INR650 million collections, 45 per cent were from the overseas territories largely from diaspora markets. The main overseas markets that did well for this movie were the U.S., Canada, U.K., Australia and New Zealand. Initially released in 350 screens in India and 75 screens abroad, the numbers were soon upped to 450 screens in India and 175 screens abroad.

Key considerations behind the success of the movie

- Great attention was paid to detailing; it took six months for the animators to get the static image of Guru Gobind Singh right as Sikhism does not permit the depiction of Sikh Gurus in an animated form or the depiction of his family by actors. The voice artists who were part of the production process were kept anonymous, except Om Puri whose voice was used for narration throughout the movie. There was no compromise on the time required to be spent on designing the characters which took almost eight months to complete.
- An attempt was made to replicate reality as closely as possible; in order to get the look and feel of the movie right along with the voice intonations, multiple visits were made to the towns and villages in Punjab to record voices of people. Overseas animators were not used as they would react differently to the nuances of Indian body language and the unique storyboard, thereby not doing justice to the script. Since the movie would feature still sequences, a lot of importance was paid to all other elements of

the movie e.g. sound, design and others so that the narrative was not compromised.

- There was tight control on budget and innovative pay structures were designed to work with top technicians and other artists to ensure the quality was not compromised.
- Prior clearances were obtained from the Shiromani Gurdwara Parbandhak Committee in Amritsar so as to avoid religious sentiments being hurt at a later stage even though obtaining such approvals involved a significant amount of time.

Animation techniques

The entire film was created in Mumbai by iRealities under the supervision of Prasad Ajaonkar. About 45 to 50 animators and 200 people worked on the project where all the animation sequences were done from scratch by hand rather than use Motion capture. In order to speed up the animation process, techniques like simulation that saved time were developed in-house.

Source: Baweja Movies



05. for box office collections: www.funrahi.com

06. www.beekays.com

07. for budget: www.animationxpress.com

08. <http://www.indianmoviestats.com/film/kollywood-2014/kochadaiyaan.html>



Globally, among the top 100 movies released, there were more than 10 animated movies including 'Big Hero 6', 'The Lego Movie', 'Penguins of Madagascar', 'How to train your Dragon 2', 'The Boxtrolls', 'Rio 2', 'Ribbit', 'Song of the Sea', 'Yellowbird' and 'Mr. Peabody & Sherman'⁰⁹.

The demand for animation content in India appears to be growing steadily over the last few years, following

the success of international releases in India. The box office collection from India of these international films is minuscule when compared to overall collections; however, the numbers are encouraging. The performance of movies like 'How to Train Your Dragon 2', 'Rio 2', proves that there is indeed a potential market for animated films in India which is yet to be tapped.

Box office collection of international animated movies in 2013 and 2014 from India⁰⁹

Movie	Year	Gross collection (in INR millions)	Movie	Year	Gross collection (in INR millions)
How to Train Your Dragon 2	2014	169	The Croods	2013	93
Rio 2	2014	144	Epic	2013	67
Big Hero 6	2014	30	Despicable Me 2	2013	52
The LEGO Movie	2014	16	Frozen	2013	36
Planes: Fire & Rescue	2014	9	Planes	2013	19
Mr. Peabody & Sherman	2014	9	Monsters University	2013	18
The Nut Job	2014	NA	Turbo	2013	16
Penguins of Madagascar	2014	NA	Cloudy with a Chance of Meatballs 2	2013	8

Taking animation to the big screen

'Alpha and Omega', 'Chhota Bheem and the Curse of Damyaan' and 'Chaar Sahibzaade'- animation in India is growing dramatically and gaining a lot of international recognition. Indian animation industry has indeed come a long way.

The past decade has seen a major increase in the production and release of Indian animated movies. 'Hanuman', which was released in 2005 by Percept Pictures & Silvertoons, did well with kids. Successful Indian TV series have also paved the way for a plethora of Indian animated movies. Green Gold animation's biggest show, 'Chhota Bheem', after its huge success on the TV screen was well received in its theatrical release, 'Chhota Bheem and the Curse of Damyaan' in 2012. Other recent prominent releases in 2014 have been 'Kochadaiyaan' and 'Chaar Sahibzaade'.

As they say, sky is the limit! Indian companies are aiming high. With improved software and digitisation, the pace and programming of animation has cut down on man-hours and improved quality and precision. The Indian animation industry is going through the transition phase where producers are contemplating about aiming at the international markets with big budgets and high quality products.

The path to international success lies in producing good quality movies with smaller budgets of INR60 to 100 million for the domestic market and then tying up with an international distribution agency. This path to international fame will take another 2 to 5 years.

Today, movie marketing and promotions are equally important. Retail promotions, in-film branding, in house distribution, mascot promotions and merchandising enhance the success and help create awareness of the movie, a proven formula by Greengold Animation.

The future for Indian animation movies is bright. Good content coupled with great promotion will bring audiences time and again to the box office.

Disclaimer: Unless otherwise noted, all information included in this column/ article was provided by Rajiv Chilaka. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Rajiv Chilaka
Founder and CEO,
Greengold Animation Private Limited



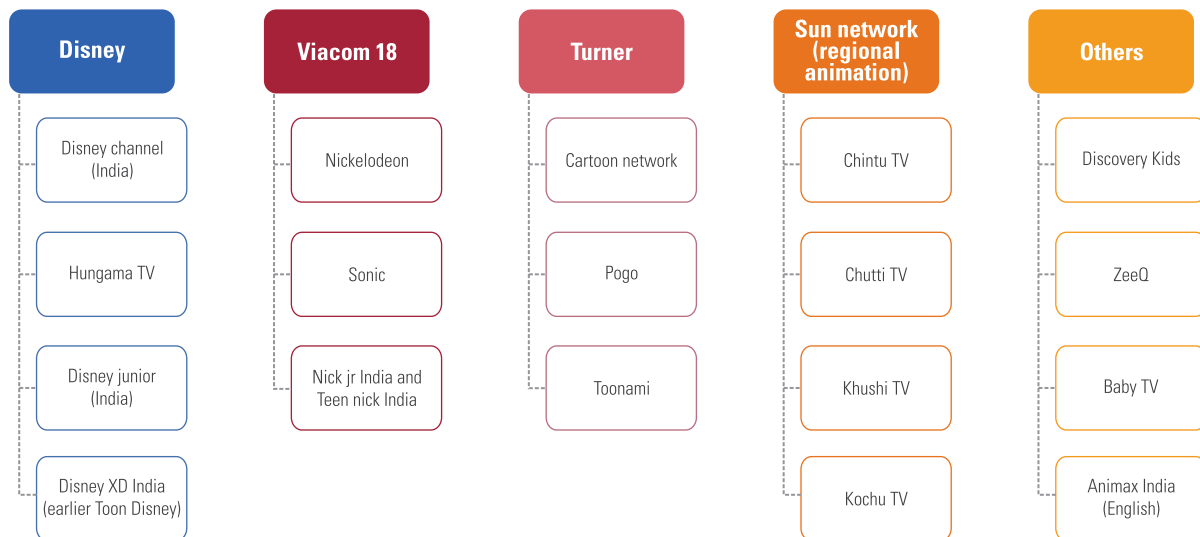
09. www.boxofficemojo.com; gross collection (in USD) converted for 2014 @ 1USD = 60.8843 and for 2013 @ 1USD = 58.4869.



Indian animation television industry....the driving force

The Indian animation broadcasting industry has a very distinctive structure; it consists of few key players namely Disney, Viacom 18, Turner, and the Sun network which caters to regional audiences in South India. These players, in order to reposition themselves within the industry and to increase their market share, have adopted a multi-channel strategy based on target audiences. e.g. Disney Channel has repositioned itself from being originally a kids channel to a family channel with a slew of new family shows and Hungama TV is aimed primarily at children and pre-teens (ages 4 to 14).¹⁰ Viacom 18's Nickelodeon has created a multi-platform brand experience with a view to provide both education and entertainment to kids across

all age groups.¹⁰ Sonic Nick is targeted at action loving young adults primarily in the age group of 10 to 17 years, Nick Jr is aimed at younger kids between age group 2 to 6 years whereas TeenNick is a channel for teens.¹⁰ Cartoon Network from Turner mainly airs animated programming, ranging from action to animated comedy and Pogo, launched by Turner in 2004, telecasts animated programming and some live-action.¹⁰ Sun TV Network has launched four channels namely, Chintu TV, Chutti TV, Kochu TV and Kushi TV catering to kids in the age group of 4 to 14 years in regional languages Kannada, Tamil, Malayalam and Telugu, respectively.¹⁰



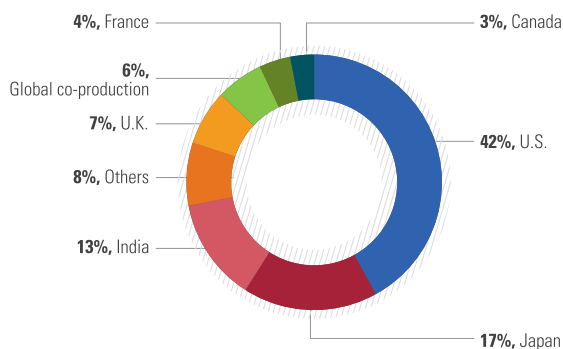
Source: KPMG in India analysis



10. KPMG in India analysis and Industry discussion conducted by KPMG in India



Countrywise animated shows on Indian TV



Source: KPMG in India analysis

Note: 1. Others include China, Denmark, Australia, Mexico, Portugal, Malaysia, Argentina and Spain.
2. Global Co-production are various co-productions animation work between Canada, U.S., Ireland, U.K. and Belgium.
3. India includes four co-productions between India and other countries

The reach of global animation industry on television in India has given kids of different age groups a choice from 350 plus animation shows catering to various tastes. While animation content from U.S., Japan, U.K., France, Canada, etc. continues to entertain the said group,

domestic animation has also made its presence felt over the past few years. Not only does domestic content contribute approximately 13 per cent of the total shows (third largest contributor), it also occupies increased running time, for example, 'Motu Patlu' and 'Kisna' have a daily run time of three hours (Nick) and two hours (Discovery Kids), respectively¹¹.

Television continues to be the principal segment for domestic consumption of animation content in India. As India has one of the largest population of kids watching cartoons in the world (approximately 200 million¹²) the need for kids' content is growing. Over the past few years, the viewership of kid's channels has been steady, 6.7 per cent in 2012, 7.5 per cent in 2013 and 7.3 per cent in 2014¹³. While there was a belief in the past that only Indian mythology would work on Indian television, today, there is a vast variety, as is evident from the popularity of characters such as Disney's 'Doraemon', Pogo's 'Chhota Bheem', Cartoon Network's 'Oggy And The Cockroaches' and, Nick's 'Motu Patlu', 'Pakdam Pakdai' and 'Ninja Hattori'. The trend for 2014 appears to be 'less is more', where each franchise has developed four or five theme shows on one character, for example, Ben Ten has many shows on Cartoon Network e.g. 'Ben 10', 'Ben 10-All', 'Ben 10 Alien Force', 'Ben 10 Omniverse', 'Ben 10 Ultimate Alien' etc., Pokémon has 'Pokémon: Adventures on the Orange Islands', 'Pokémon: Johto League Champions', 'Pokémon: The Johto Journeys' etc. on Hungama TV.

Top 10 favourite kids' characters

Rank	Character	Shows	Channel	Production studio (Country)
1	Doraemon	Doraemon	Disney	Shin-Ei Animation, (Japan) ¹⁴
2	Bheem	Chhota Bheem	Pogo	Green Gold Animation ¹¹
3	Hattori	Ninja Hattori	Nick	Shin-Ei Animation, (Japan) and Reliance media work, (India) ¹¹
4	Motu	Motu Patlu	Nick	Maya Digital Studios, (India) ¹¹
5	Oggy	Oggy And The Cockroaches	Cartoon network	Xilam and Gaumont Film Company (France) ¹¹
6	Jerry	Tom & Jerry	Cartoon network	Warner Brothers (United States) ¹⁵
7	Shinchan	Shinchan	Hungama	Shin-Ei Animation ¹⁴
8	Tom	Tom & Jerry	Cartoon network	Warner Brothers (United States) ¹⁵
9	Power Ranger	Power Rangers Super Samurai	Sonic	SCG Power Rangers Power Rangers Productions Ltd. Toei Company Ltd (New Zealand) ¹⁶
10	Patlu	Motu Patlu	Nick	Maya Digital Studios, (India) ¹¹

Source: Oramax – Small wonder report, November 2014 for rank, show and channel.

11. KPMG in India analysis and Industry discussion conducted by KPMG in India

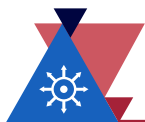
12. www.animationxpress.com, 22 December 2014 - Indian Animation now has global acceptance

13. KPMG FICCI 2013, 2014 and 2015 – TV

14. www.animeplanet.com/anime/all?page=2&sort=year&order=asc&studio=Shine%20Animation

15. www.warnerbros.com/studio/divisions/television/animation

16. www.sabanbrands.com



For Indian studios, 2014 was a year of creating Indian brands with endearing characters such as 'Bheem', 'Motu', 'Patlu', 'Hattori', 'Kid Krish' and 'Kisna'. The success story of transforming these characters into brands was written by many factors such as superior content, great storytelling and extensive engagement beyond television with the viewer. The viewership trend for the year shows that the kids of today are increasingly inclined towards local content as evident with the growing affinity for characters that are Indian in spirit, as five out of the top ten favourite animated characters¹⁷ are created by studios in India (including the co-production work). Having tasted success, Indian studios are now more keen on creating their own content, right from the conceptualisation stage to the delivery of the finished product.



Developing domestic kids' content market is vital and most critical for all the stake-holders of Animation, VFX, Gaming and Comics (AVGC) sector in India. Unwinding the potential of the large kids segment, its unmatched number strength and growing touch points shows a unique opportunity for original IP creation in the AVGC space in India. The emergence of terrestrial public broadcasting channel - Doordarshan Kids, could create a number of jobs. Empowering the Children Film Society of India with more funding to create relevant content formats with marketing and distribution ability will stabilise India in the AVGC space.

- Ashish S K
Founder - PUNNARYUG &
Chairman - FICCI,
Animation, VFX, Gaming & Comics Forum.

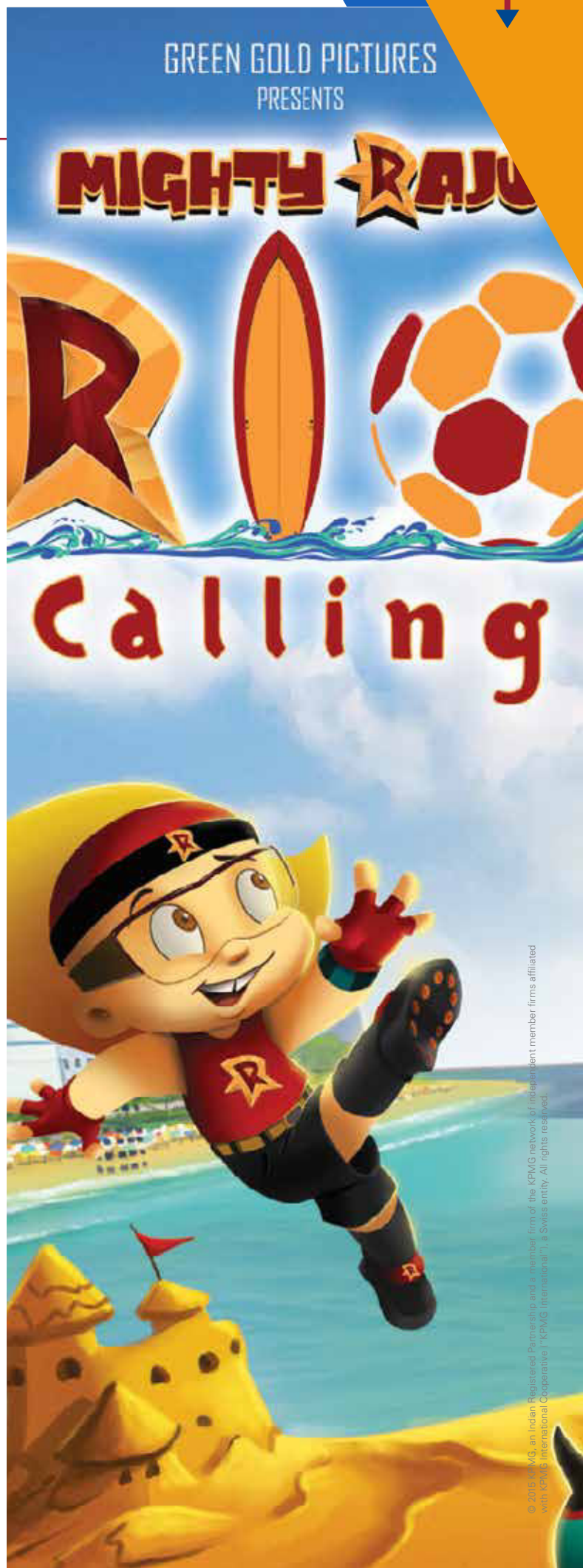


The future is promising for the Indian Animation Industry as more Indian properties are being aired by the broadcasters.

- Rahul Bakshi
Founder Director,
Phoebus Media.

What's trending...Branding through innovations

The Indian channels have adopted a two-fold strategy towards building kids brands; first is to develop a wide and deep portfolio of lovable characters that cater to viewers across all age groups and, second is to drive brand engagement through multiple touch points by building an ecosystem beyond television spanning large-format on-ground events, online and mobile platforms, vast consumer products portfolio and many such brand extensions.



17. Oramax – Small wonder report, November 2014 for rank, show and channel



Few innovative branding campaigns and activities using animated characters

Honda launches safe riding campaign with 'Chhota Bheem' ¹⁸	Honda came together with the Indian animation character 'Chhota Bheem' to promote safe riding among kids which is also an effective way of spreading the message to the entire family. The campaign 'Honda Safe Riding with Chhota Bheem' was organised in 11 cities across the nation where 'Chhota Bheem' was seen interacting and engaging with the kids at large.
Kellogg signs unique promotional deal with 'Chhota Bheem' TV series ¹⁹	Pogo used its series about the adventures of 'Chhota Bheem' and his gang in the mythical land of Dholakpur to promote Kellogg's quest to sell more chocolate cereal. 'Chhota Bheem's' escapades with Coco, the Kellogg mascot revolved around a river of milk, chocolaty waterfall and volcano in a storyline co-scripted by Kellogg and Pogo.
Be the Boss on Nickelodeon for Children's Day ²⁰	Nickelodeon decided to turn over the reins to kids on the Children's Day as a part of this campaign. The campaign ran online and was on air for over a month and attracted a good response of 21,000 plus entries pouring in from children across India. As bosses of Nickelodeon for a day, these five head honchos took responsibility of the channel at the corporate office of Nickelodeon in Mumbai. The winners received their 'Engagement Letters' from Nick toons 'Motu Patlu', 'Dora The Explorer' and 'Ninja Hattori' who went all the way to their home towns to personally deliver the news.
Fly to U.S. to meet the SONIC's 'PowerRangers' ²¹	Sonic launched – 'Meet the Power Rangers in U.S.' contest. The kids won an all expenses paid trip to the United States of America where they met the 'Power Rangers' in person and got a chance to click photographs alongside their favourite superheroes.
Parle Products ropes in 'Tom and Jerry' ²²	Parle Products, India's biscuit, confectionery and snacks manufacturer, launched an Ad campaign for one of its offerings in the cream category - Milk Shakti Milky Sandwich. The product and the TVC are inspired by childhood playfulness and the fun that is associated with 'Tom and Jerry'.
'Motu Patlu', shake a leg on 'Jhalak Dikhhla Jaa' ²³	Nickelodeon and Colors, part of Viacom18, came together to create the an animated integration on television. Nickelodeon's popular characters 'Motu Patlu' were seen shaking a leg on the sets of the dance reality show 'Jhalak Dikhhla Jaa'.
Others ²⁴	'Motu Patlu' has also incorporated branded content, showing brands such as Horlicks or Diamond Rings, a packaged snack, being consumed by some of the characters. For 'Ninja Hattori', Nick collaborated with Hajmola and actor Ajay Devgan for the launch of the digestive candy's guava flavour. An animated version of Devgan was seen interacting with Ninja in Hajmola's TV ad, with Devgan lending his voice.

Many observers may argue that these engagements are far and few when seen in context to the overall advertising sector; however, from the point of view of the animation industry, these engagements help to take characters closer to the viewers and create a more tangible relationship.

'Made for TV' films

As the theatrical fortunes of the Indian animated feature films continue to remain a mixed bag, key players are looking beyond theatricals for value creation. The idea is to build a brand away from the silver screen and once the brand is established, it can be introduced on the big screen. One way of doing this is to have made-for-television movies. The concept of the exclusive made-for-TV movies based on popular characters is gaining popularity within the Industry and has been tried by many kids channels. For example, 'Motu Patlu' franchise was made into four exclusive made-for-television movies which were successful. The last 'Motu Patlu' movie 'Motu Patlu Kung Fu Kings' was a blockbuster according to the channel having premiered with 777 TVT (2.06 TVR) and emerged as the highest-rated slot in the kids category in Weeks 43, 44 and 46 of 2014²⁴. The first 'Pakdam Pakdai' movie 'Pakdam Pakdai – Don v/s Billiman' released on Sonic was also touted to be a success. Similarly, Green Gold studio has churned out many profitable projects

involving their characters 'Chhota Bheem' and 'Mighty Raju'²⁵. Cartoon Network partnered with Rakesh Roshan's Filmkraft and Toonz Animation last year to air 'Kid Krrish', an animated variant of the silver-screen superhero 'Krrish'²⁴. Disney as a part of its local strategy has partnered with Green Gold to launch an animated TV series 'Arjun, Prince of Bali' which is targeted at kids in the age group of 6 to 12.²⁵



2014 was a year of engaging story-telling, endearing characters and brand extensions. The kids of today are increasingly inclined towards local content as is evident with the growing affinity for characters that are Indian in spirit, based in identifiable environments with contemporary treatment. Taking cue from these evolving preferences, engagers and kids entertainers are now focused on creating relatable local content from start to finish in India.

- Nina Elavia Jaipuria
EVP and business head,
Kids Cluster, Viacom 18

18. <http://www.gaadi.com/blog/honda-launches-safe-riding-campaign-with-chhota-bheem> dated 14 January 2014

19. The Economic times, 17 October 2014, Kellogg signs unique promotional deal with 'Chhota Bheem' TV series

20. www.afaqs.com/media/media_newslets, 13 November 2014, Thousands of Kids want to 'Be the Boss' on Nickelodeon for Children's Day

21. www.indiantelelevision.com, 11 November 2014, Fly to U.S. to meet the SONIC "Power Ranger"

22. www.adgully.com, 25 April 2014, Parle ropes in Tom & Jerry for its new campaign

23. www.televisionpost.com, 3 July 2014, Nicks 'Motu Patlu' shake a leg on Colors Jhalak Dikhhla Jaa

24. Businessstandard, 28 December 2014, Nicks toons revel in telefilms

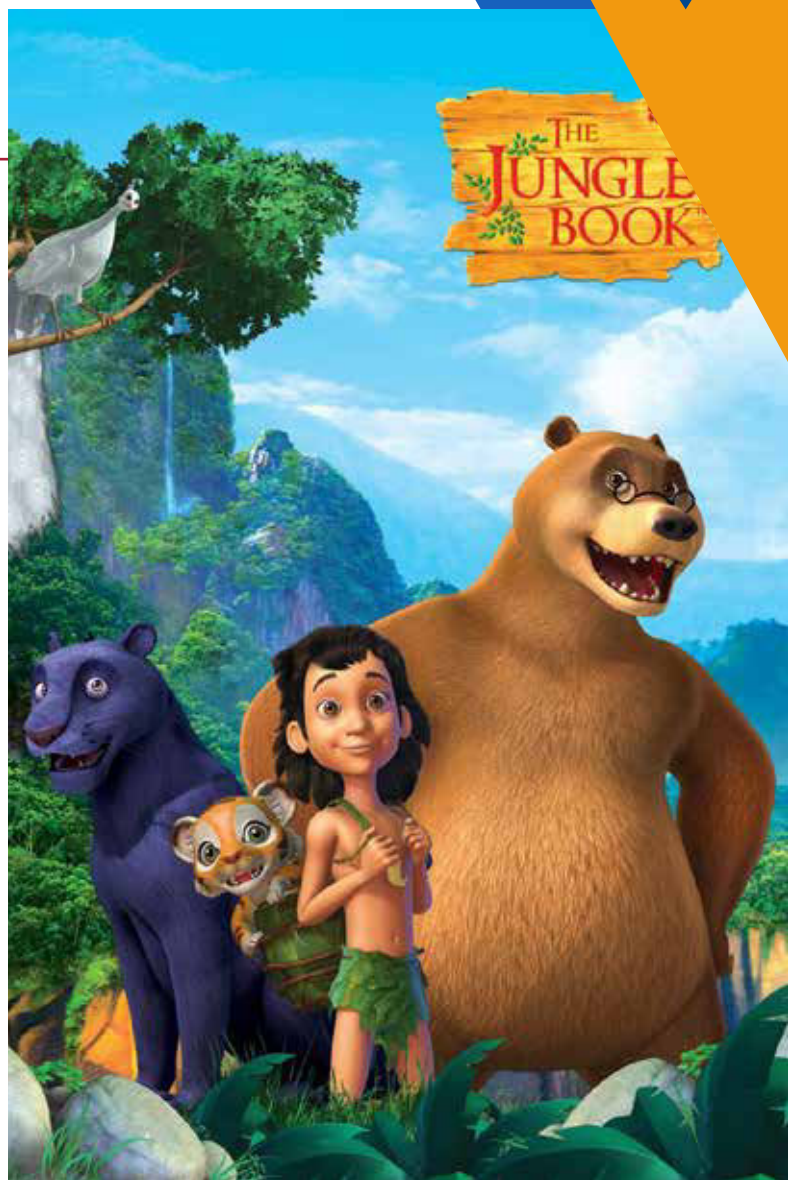
25. Industry discussion conducted by KPMG in India



Animation Licensing and Merchandising ('L&M') an untapped market

Overview

L&M is a huge market, USD150 billion (INR9 trillion) globally and growing at 5 per cent to 10 per cent in developed markets and 10 per cent to 15 per cent in developing markets²⁶. India has been a late entrant to the game but increasingly, consumer-product companies are realising that brand recall works even better when brand communication happens through a character that children already relate to - Retail chains such as Shoppers Stop, Pantaloons, Westside and Lifestyle have started stocking up on kids' merchandise. Estimates show that organised retail in India is expected to grow from 9 per cent of the total retail market in 2015 to a staggering 20 per cent by 2020²⁷. This growth is expected to give a good push to the merchandising industry as well. Disney, was the pioneer in bringing character merchandising into the Indian L&M market in 2005²⁶. With characters such as 'Mickey Mouse', 'Donald Duck', 'Princess' and Marvel's 'Avengers', Disney currently has 3,000 Store Keeping Units ('SKUs') across six categories under license, from sheets and towels, to soft toys, fruit juice and bicycles.²⁶ Turner with its Cartoon Network and Pogo channels, has 8,000 SKUs over 53 categories²⁶, such as back-to-school (stationery), publishing and home entertainment. Viacom 18 Media's Nickelodeon which shows popular characters like 'Spongebob Squarepants', 'Motu Patlu' and 'Dora the Explorer' has close to 100 product categories in the market, over 300 SKUs and a presence across 200 cities and towns²⁶. Since 2009, the business in this segment has claimed to have grown three times and with a high double-digit growth by not only expanding the category but also taking it to smaller towns²⁶.



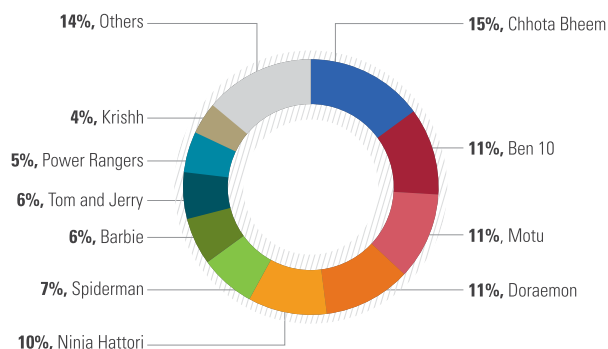
Nickelodeon has been deploying a mix of marketing strategies to reach potential partners and fans including city tours and toon meets; for example 'Dora the Explorer' which mainly targets pre-schoolers was on an eight-city tour for the launch of a back-to-school range; similarly Mandira Bedi was roped in by Nick to travel to launch a 'Spongebob Squarepants' line of t-shirts.²⁶ Also, Viacom 18's consumer product division signed up DQ Entertainment's 'The Jungle Book' for licensing and merchandising business where Viacom 18 handles themed apparel, toys, books and stationery, and rolls them out in organised retail chains and standalone stores. Similarly, Indian studios such as Green Gold has made its presence felt in the L&M segment by setting up 30 exclusive retail outlets with 3,000 SKUs with an average size of around 250 square feet for children's merchandising and are also present in smaller cities such as Chandigarh, Agartala, Jaipur, Patna, Indore and Kakinada²⁶. Additionally, the studio is expanding its reach beyond its exclusive retail stores, for example, 'Chhota Bheem' merchandise is now available at 12,000 stores across the country²⁶.

26. www.business.outlookindia.com, 14 November 2014, Catching 'Em Young

27. blog.ipleaders.in, 25 October 2014, An analysis of the burgeoning character merchandising industry in India

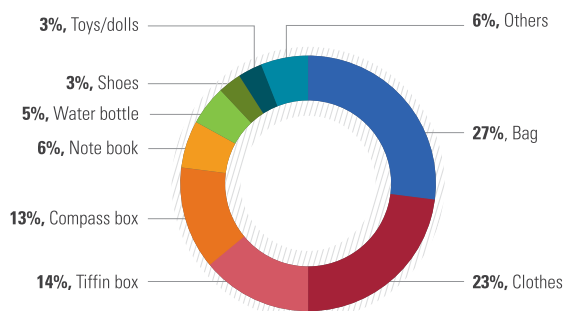


Kids merchandise - Top characters



Source: Oramax – Small wonder report, November 2014

Kids merchandise - Top items



Source: Oramax – Small wonder report, November 2014

The most popular kids merchandise in the Indian market is bags, followed by clothes and tiffin boxes per Oramax – Small wonder report, November 2014.

Success factors

The growth in character merchandising over the past few years may be attributed to several factors. First, technological advancements have widened the access of people to television, film and radio content that were previously inaccessible to them. Secondly, several kids channels have gained greater popularity in the last few years and kids can relate at an intuitive level with pencils, mugs or T-shirts that are associated with their favourite characters such as 'Chhota Bheem', 'Kid Krish', 'Motu', 'Doremon', 'Pokemon', etc. As per Oramax – Small wonder report, November 2014, 'Chhota Bheem' is the

most popular character for merchandising followed by 'Ben10' and 'Motu'. Character merchandising is a tool for increasing the viewership for the entertainment content with which it is associated as viewers who purchase a product that is associated with the main character in the said movie or show, are constantly reminded of the character, which helps the brand gain popularity. Thirdly, character merchandising is increasingly being seen as an effective tool for offsetting a large portion of the money that is spent on television and film production.

Road blocks

Often brands are launched without the characters being given sufficient time to gain popularity. It is also imperative that the products are not over exposed to the market and are introduced in the right category for example, an action adventure property, may never make its way to soft toys. The focus should be on creating long-term relationships with licensees where the characters are converted into brands as they mature and once mature, can be exploited through the consumer products business; the characters then are timeless and not just a flavour of a season.

In terms of the retail ecosystem, India lacks a robust organised retail network. Experience in many countries has proved that licensing is easier to handle with few national-level chains, unlike India, where distribution is vast. Very few players like Green Gold have set-up their own distribution platform with a strategy to focus on both organised and unorganised retail. This also helps in reducing the working capital cycle. E-commerce is gaining momentum in India and fast becoming a medium to increase reach.

Character merchandising is entangled with many legal complications. Courts across the globe are increasingly recognising the importance of laying down clear principles for regulating this burgeoning industry. Many countries have acknowledged, either through the judicial or the legislative route, that the person or entity owning the rights in a character is exclusively entitled to commercially exploit that character in whatever manner it deems fit. As a result, any other entity which wishes to commercialise a character must acquire the approval of the entity owning the rights in the character either through a license or otherwise. From a legal standpoint, there is a pressing need to put in place a robust framework for regulating the sale of character merchandise.

Like many other IP-driven products, children's merchandising is also hit by piracy. Industry players estimate that the grey market is six times the size of the branded merchandising market. At times, counterfeits are available even before the licensed products are officially launched.



Future potential

Today, revenue from L&M contributes a miniscule percentage of the overall revenue pie of the Indian animation industry. However, with new characters becoming popular on TV and given its widened reach in over 400 towns, a lot more opportunity exists.²⁸ There is a pressing need to streamline obstacles which inhibit the growth of this market and to put in place precise guidelines that would promote the progress of this segment for the local animation industry.

Outsourced animation services

Indian animation studios mostly have adopted this low risk-low return business model, with the studios working either on a time and material basis (payment based on actual hours and expenses) or on a fixed payment basis (fixed fee for the project) with most of the outsourced animation work coming from studios in U.S., Canada and Europe. The partnership could be between one or more animation studios in India, between Indian animation studios and studios abroad, Indian studios and foreign TV channels/film producers, studios and advertising firms etc. Moreover, in outsourced animation services, the intellectual property of the product rests with the outsourcing firm. Increasing number of outsourced projects also means constant work. In recent years, India has emerged as the new haven for 2D and 3D animations - many studios like Sony and Walt Disney have outsourced both pre and post-production 2D, 3D animation work to India. What has worked in India's favour is the large pool of English speaking young professionals which helps overcome the language barrier and the fact that India offers professionals with expertise in different techniques. Added to this, many well-equipped studios with state-of-the-art technologies comparable to the West are available across India.

2014 was a tough year for the Indian outsourcing industry. While some studios continued to deliver high-quality work for many Hollywood animation top grossers such as 'Mr. Peabody & Sherman' and 'How to Train Your Dragon 2',²⁹ increasing competition from other countries especially China and Far East, limited government support coupled with slow pace of roll out of initiatives and declining cost arbitrage hindered growth. To counter some of this, a new trend currently observed is of modularisation of animation wherein experts from multiple animation studios (big and small) have come together and are providing specific services in the production value chain which they individually specialise in, for example some work on design, storyboarding, layouts etc while some focus more on animation, texturing, lighting etc. Such a model which is very popular in mature animated markets is being adapted by the local studios based on their ability to distribute work in modular units without loss of time or quality.



Collaborative animation services ('Co-production')

In this model, there is a collaborative effort between studios in India and abroad with different core competencies who leverage on each other's expertise. The partnership could be between Indian animation studios and foreign TV channels/film producers or animation studios in India and abroad etc. The Intellectual property rights and revenues are shared by the firms. The focus of Indian studios entering into such strategic alliances is to establish a presence in the global animation market. The key attraction of a treaty of co-production is that it qualifies as a national production in each of the partner nation and can access benefits that are available to the local film and television industry in each country. The co-production agreements seek to achieve economic, cultural and diplomatic goals and benefits accruing from such agreements include tax concessions, government financial assistance, and inclusion in domestic television broadcast quotas.

28. www.business.outlookindia.com, 14 November 2014, Catching 'Em Young

29. Industry discussions conducted by KPMG in India



In 2014 India signed co-production treaties with China and Canada.³⁰ India already has similar agreements with Brazil, New Zealand, and in Europe with Italy, Poland, France, Germany, Spain and the U.K. This is an important step for Indian studios as it enables them not only to expand reach but also enter otherwise tough markets such as Europe where 70 per cent of the content shown on screen must be produced in the European Union countries.³⁰ The co-production agreements signed between India and various other countries has been fruitful for M&E industry at large. - for example Hungama TV got Japanese shows to India, such as 'Ninja Hattori' and among others, which are successful in India. Haricane Studios, India collaborated with a leading international production house to co-produce the upcoming animated adaptation of 'The Town Musicians of Bremen' reportedly costing USD45 million³¹. Indian studios executed some prestigious projects in 2014 - movies such as 'Planes: Fire & Rescue' which is a co-production effort between Prana Animation Studios (India), DisneyToon Studios (U.S.) and Walt Disney Pictures (U.S.) collected a gross amount of USD151.2 million in U.S (estimated budget of USD50 million) and 'The Pirate Fairy', a co-production effort between Prana Animation Studios (India) and DisneyToon Studios (U.S.), collected a gross amount of USD64.94 million³². DQ Entertainment completed co-production of a series including 'NFL2' (Rollman Entertainment for NickToons), 'Peter Pan Season 1' (with France's Method Animation) and 'The Jungle Book Season 2' (with Germany's ZDF, and France's TF1 and Moonscoop).³³ Also, DQ Entertainment is in production of an upcoming TV series 'Manav' with Disney India and 'Lassie & Friends', a series being co-produced with DreamWorks Classics³³. Toonz Entertainment is co-producing 'Bunyan and Babe' (with Exodus Film group, U.S.) and TV series 'Geschichten aus 1001 Nacht' (version of 1001 nights) with Chocolate Liberation Front, Australia and Hahn Film AG, Germany³⁴. Though there are a few shows and movies which are co-produced in India, the overall potential still remains untapped.



The Indian animation sector is poised to reach new heights with studios producing world class content for television and feature films. Our vision is to continue to produce several high quality global IPs combining our proven production prowess with our ability to work with broadcasters and producers from around the world. Our creative teams collaborate with national and international talent to bring ideas to the screen while our distribution teams monetise returns across all platforms of distribution and licensing.

- Tapaas Chakravarti
CEO,
DQ Entertainment.



Digital platform...a new dawn

The internet is fast developing as a parallel medium for content distribution, a promising alternate platform to monetise content. Today, audiences are consuming large amounts of content online from YouTube and other similar platforms such as Amazon, Netflix, Hulu, Vudu, etc using handheld devices, tablets and smart televisions. Local content produced by start-ups and small players is often difficult to sell on the traditional broadcasting channels due to high cost and competition. The digital platform gives the much needed opportunity to show-case talent and in a cost effective manner; the use of digital platform is now not restricted to the small studios alone as the bigger studios have also set up their own online channels. A strong and sustainable digital strategy targeting all platforms including apps, tablets, smartphones, social media and YouTube enables the players to make use of its substantial library.



Animation and Digital Visual Effects is the fastest growing segment of the entertainment sector. Along with Information and Communication sector, the potential is immense propelled by the growing domestic demand and multiplying digital platforms needing content. All sectors are bound to see exponential growth over the next 5 years.

- Ketan Mehta
Founder and Managing director,
Maya Digital

30. www.thelocationguide.com, 25 February 2014 India and Canada sign filming treaty and, www.variety.com/author/saharanaman-ramachandran, 18 September 2014, India, China Sign Co-Production Agreement, and AnimationXpress, 7 February 2015, co-production in Animation is a good finance option

31. www.behindwoods.com, 23 July 2014, A first of its kind Indo Hollywood venture

32. www.imdb.com and www.boxoffice Mojo.com

33. www.variety.com 2014, 2 June 2014, Indian Cartoon Firm DQ Targets Hollywood VFX Market

34. www.imdb.com/Geschichten-aus-1001-Nacht and www.melwoodpictures.com, 8 May 2014, Cinedigm Acquires Exodus' Animated Picture "BUNYAN AND BABE"



Key challenges

Lack of awareness and training

Absence of employable resources which is primarily due to low awareness of animation as a career and non-existence of a standardised and quality curriculum³⁵ across the handful of institutes in India is a huge constraint in the animation sector. While sketching is a talent that is honed over a longer period of time, animation needs to be taught. There are only a handful of good schools in India for learning animation, illustration or design and the curriculum is also not up to international standards.

Piracy

Piracy is rampant. Weak IP Regulation and ineffective enforcement discourages players from producing their own IP.

Insufficient government support

Indian animation players lack government support that encourages growth of animation when compared to competing nations such as China, Japan, Canada, Malaysia, U.K., U.S. etc. either through favourable policy or tax rebates and grants.

Delay in delivery

American and European studios contribute to most of the revenues earned by the local animation houses. However, delayed deliveries by some have negatively impacted this segment.

Content

Indian animation content has often been accused of being lacking in originality and good story telling. Steps have been made by Indian animation content-makers to learn from studios like Pixar, DreamWorks and Disney and to develop with highly original scripts and with global acceptability. Another important factor is the mindset of the Indian audience – they tend to discard an animated movie as a ‘cartoon’ film which is an indication that most Indian viewers still think animated films are mostly meant only for the kids.



Lack of education in animation concepts, storytelling, and production pipeline delivered late hindered the growth of the industry. Also the fact that studios are competing among themselves instead of competing as a cohesive group internationally; this along with using pirated technology has hampered the industry a lot.

- Madhavan
CEO,
MADMAX

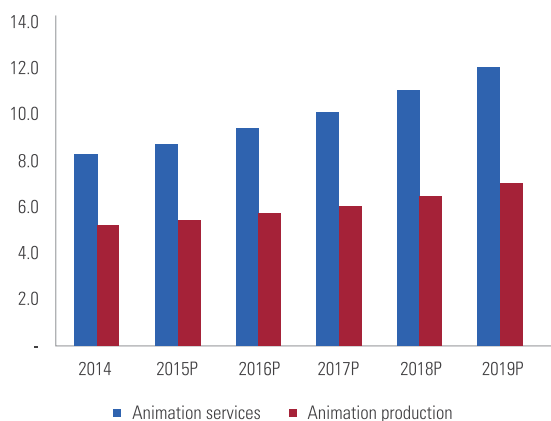
³⁵. Industry discussions conducted by KPMG in India





The Road ahead

Animation industry future projections



Source: KPMG in India analysis

The animation industry has huge potential for content consumption across various mediums, from traditional mediums such as theatrical release and television to new age digital platforms such as YouTube, Netflix etc. 2014 was a testimony to the inclination of Indian audience towards domestic content across mediums. This has necessitated the industry players to work more towards developing, producing and broadcasting new domestic content. While India will continue to be a cost effective and high quality delivery partner for providing outsourcing services to global animation market, timely government impetus could propel this segment to the next level. In the coming years, more and more studios would work towards tapping the demand for animation content which could get further impetus from Government of India's 'Make in India' initiative.

VFX and post production..... the stage is wide open

Overview of the Indian VFX industry

VFX technology has redefined the art of audio visual storytelling; it adds to creativity of directors and cinematographers by enabling them to present their thoughts in innovative ways. More directors and writers are inclined towards projects where VFX forms an integral part of the filmmaking process. Movies such as the 'Krrish' series, 'Ra.One', 'Endhiran', 'Eega' or the more recent releases such as 'Kick', 'Roar: Tigers of the Sundarbans' and 'Creature 3D' and the under-production SS Rajamoli's 'Bahubali' serve as good testimonies to the capability of Indian VFX industry. VFX outsourcing work to India is also growing exponentially as the talent of Indian studios is being recognised worldwide; work performed is increasing in sophistication and more high-end international work is being outsourced to India.

2014 also saw many television shows such as 'Airlines', 'Everest', 'Aryan... India's youngest superhero' and 'Mahabharata'; make extensive use of visual effects. The show 'Aryan... India's youngest superhero' had innovative visual effects that took a year for research and production with more than 40 per cent of the budget spent on VFX.³⁶ Likewise, in 'Chakravartin Ashoka Samrat', VFX forms a vital element for the ancient era look of the show where the studio has created a CG lion which forms an important aspect of the show. The VFX for the show includes set extensions, crowd multiplication, animation and 3D modelling.

³⁶ Indian express, 24 October 2014, A home grown super hero series





In line with the trend over the past three years, this sector continued to grow in 2014 as well and achieved a growth of 18 per cent ³⁷.

Indian VFX industry until some years back was dominated by a few big players and the dependency was more on the outsourcing model with its low margins. There were barriers to entry due to high investment on infrastructure and skilled labour. However, this seems to be changing with the mushrooming of a plethora of small, nimble and talented VFX houses which are producing high-quality work on ads, movies and high profile TV shows. Though big players contribute to the vast majority of the visual effects work, they are no longer the only option.

VFX in India has traditionally been used for creation of special effects such as fire, sunsets, double roles, etc. and we have seen limited VFX centric movies and shows. This now seems to be changing. The Industry acknowledges the potential of VFX and is seen as adopting it in a big way. Some years back, production houses would have to incur huge costs and time on construction of sets or on outdoor shoots; however, with VFX, a set designer can now build a basic structure of the set and balance work can be completed by the VFX studio. VFX gives much more flexibility in shooting, be it locational shots where a scene shot in a studio with green background is later made to look like Delhi, Dubai or Bangalore or effects relating to crowd multiplication, journey shots in trains and cars, weather transitions, colour changes in the environment, among others. Another example is the high octave action movies where with VFX the scenes can be made to look more real which otherwise would have to be done mechanically. Though extensive use of VFX may increase the budget, it could potentially also help save costs as creating images on a computer screen could be more economical than taking the entire cast and crew to an exotic location to shoot. VFX is no longer a post-production activity as film-makers are engaging

with studios in the pre-production stage itself which involves development of the concept and the use of pre-visualisation.

The stage is wide open for the Indian VFX industry as over the years it has grown in size not only in terms of revenue but also the number of VFX studios, film makers and production houses who are now embracing the use of new technology by replacing traditional methods of filmmaking. The global market too is increasingly viewing Indian VFX studios as partners rather than just an outsourcing destination.



The VFX and post-production business has seen consolidation amongst the larger players this year. It's important to ensure there is a cross pollination of talented artists and supervisors with creative innovation and knowledge. This in turn will fuel business growth in terms of both high end VFX and quality output for clients, thereby increasing value for stakeholders in the VFX business. The VFX and Post-production business remains fragmented with smaller boutique setups and unorganised shops emerging and closing down in quick succession after project completion.

- Nishit R Shetty
Vice President,
Production Services &
Digital Post Reliance MediaWorks Limited

37. KPMG in India analysis





Use of VFX in India

In India, one of the earliest films to use heavy VFX was 'Love Story 2050' with 1,200 VFX shots, followed by 'Ra. One' in 2011 which had 2,500 VFX shots; this feat was bettered by 'Krrish 3' in 2013 with 3,500 VFX shots³⁸. In 2014 also, movies such as 'PK', 'Kick', 'Happy New Year', 'Bang Bang' and 'Singham Returns' had a notable amount of VFX shots.

In 2014, 'Creature 3D' and 'Roar: Tigers of the Sundarbans' added different dimensions to use of VFX in Indian films. Prasad EFX, based out of Chennai used CGI to create a creature in 3D, this was a unique creature which had mythological roots and was completely made by VFX. Similarly, in 'Roar: Tigers of the Sundarbans', Anibrain Studio created a CGI tiger which took almost a year to develop elements such as muscles, fur, how the tiger would react, etc, with 300 artists working to deliver 800 VFX shots³⁹. The efforts made by both these movies may not be comparable to Hollywood projects such as the Dinosaur from 'Jurassic park' or the Tiger from 'Life of Pi', however the size and scale of these movies are much less in comparison with their Hollywood counterparts. Nevertheless, it opens doors for many more filmmakers who want to explore challenging stories.

VFX in Indian cinema is not limited to Hindi movies; many South Indian films such as 'Sivaji', 'Endhiran', 'Eega', 'Vishwaroopam', 'Dasavatharam' have been pioneers in using this technology. In the recently released film 'I', in the Mersalaayitten (Issak Taari) song, Vikram's love for Amy was expressed by making him visualise her in even inanimate objects and the transformation from a fish, sprouts and from the water at a dhobi ghat were entirely VFX. The studios in all delivered 1,000 VFX shots which included the bee sequence, electric shock scene, wings in the 'Beast song', the exterior of the house along with the bridge where Amy is taken after being kidnapped, etc.⁴⁰ Also, S S Rajamouli's yet to release film 'Baahubali' would be the first Indian movie in India to spend more than INR850 million on visual effects.⁴¹

However, not all films are VFX centric. A typical VFX centric project has scenes that can take anywhere between four to five months to complete but projects where the effects are blended into the background or surroundings, may require a more subtle approach and lesser time. But despite everything going for it, very few Indian producers or film studios are willing to shell out more than 10 per cent³⁸ of the entire film's budget on VFX as compared to that of a Hollywood high-action or VFX-heavy film which would have a VFX budget of at least 15 to 30 per cent (or even more)³⁸ of the total budget.



Local market is seeing increased use of VFX for delivering an enchanting visual experience. Films like Kick, Bang Bang, Mary Kom, Action-Jackson and PK have lots of VFX. As is the case in the West, VFX is becoming more and more relevant and that genre of cinema is increasingly becoming relevant. Big box office hits are relying on creative and technology enabled story-telling.

- Nishant Fadia
Group COO,
Prime Focus

38. Indianexpress, 22 August 2014, The VFX factor

39. www.animationxpress.com, 31 October 2014, 'Roar'ing VFX by Anibrain brings tigers alive on your nearest

40. www.animationxpress.com, 19 January 2015, Understanding Shankar's 'I'through the eyes of Srinivas Mohan

41. Indianexpress, 7 February 2014, Eega director Rajamouli to spend Rs 85 crore on VFX of Baahubali



Top 10 Bollywood grossers (domestic collection net) of 2014 and 2013 with number of VFX shots

2014 movies	Box office collection INR million ⁴²	VFX partner	Number of VFX shots (approx)	2013 movies	Box office collection INR million ⁴²	VFX partner	Number of VFX shots (approx)
PK	3,395	Riva VFX ⁴⁴	700	Dhoom 3	2,803	Tata Elxsi ⁴⁵	1,500
Kick	2,330	Prime Focus ⁴⁷	1,000	Krrish 3	2,405	Red Chillies VFX ⁴⁶	3,500
Happy New Year	2,033	Red Chillies VFX ⁴⁴	2,000	Chennai Express	2,267	Reliance Mediaworks and Red chillies VFX ⁴⁴	1,300
Bang Bang	1,810	Prime Focus ⁴⁷	1,600	Yeh Jawaani Hai Deewani	1,900	Prime Focus ⁴⁴	300
Singham Returns	1,410	Reliance Mediaworks ⁴⁵	2,500	Goliyon Ki Raasleela Ram-Leela	1,100	Reliance Mediaworks ⁴³	750 plus
Holiday	1,127	Future Works ⁴⁸	750	Bhaag Milkha Bhaag	1,035	Pixion Studios ⁴⁵	160
Jai Ho	1,110	Prime Focus ⁴³	150 plus	Grand Masti	1,025	Pixion Studios ⁴⁵	500
Ek Villain	1,055	Prime Focus ⁴³	200 plus	Race 2	1,020	Prime Focus ⁴³	1,000 plus
2 States	1,040	Reliance Mediaworks ⁴⁵	250	Aashiqui 2	854	Prime Focus ⁴³	107
Humpty Sharma Ki Dulhania	768	NA	NA	Special Chabbis	700	Imagizing Labs	NA



These are interesting times for the Animation and VFX industry globally. There has been a big power shift to countries like Canada and the U.K. and the global scenario will change over the next few years. I am very bullish on what is happening in India. Our quality is improving and if we do things correctly, we can be a strong global destination for digital content creation across the board.

- Jesh Krishna Murthy
CEO and Founder
Anibrain



42. Koimoi.com

43. Industry discussion conducted by KPMG in India

44. www.animationxpress.com

45. www.animationboss.com

46. Indianexpress 22 August 2014, The VFX factor

47. http://www.primefocusgroup.com/work, October 2014, Bang-bang-fox-star-studios and July 2014, kick-nadiadwala-entertainment-grandson

48. www.futureworks.in, 18 June 2014, Futureworks packs a punch with A.R. Murugadoss's 'Holiday'



VFX outsourced work to India

Indian VFX outsourcing sector is growing as Indian studios are moving up the value chain from performing low end work to high quality work for foreign films. With emerging VFX outsourcing demand rising, over the years a number of companies have emerged across India in cities such as Mumbai, Bangalore, Hyderabad, Chennai, etc. These companies own technology advanced studios, employ highly-skilled engineers and are backed by state-of-the-art equipment offering services from 2D animation, 3D animation, storyboards, to product demos, banners, portraits and caricatures. The main reasons for overseas players outsourcing work to India are cost effectiveness, availability of a large pool of low-cost and high-quality artists and large English speaking workforce which effectively overcomes the language barrier.

Over the years, high quality VFX work performed by Indian studios has been recognised globally. This is exemplified by the fact that in 2014, out of the ten movies nominated

for Oscars in the Best Visual Effects category, for six movies namely 'Interstellar', 'Guardians of The Galaxy', 'Night at the Museum - Secret of the tomb', 'Maleficent', 'Godzilla' and 'X Men: Days of Future Past', Indian studios have performed outsourcing services⁴⁹. Double Negative, a merged subsidiary of Prime Focus, won the Oscars and Academy Award in best visual effects category for Christopher Nolan's Interstellar⁵⁰. The developments in the VFX sectors will help growth in terms of revenue and participation in the value chain and help India achieve a leading position in Global VFX outsourcing industry. 'Sin city: A Dame to Kill For' became the first Hollywood movie for which more than 80 per cent of VFX work was performed by an Indian studio, Prime Focus⁴⁹. It was a good example of collaboration work seamlessly undertaken across different teams, different people and different time zones. We present a case study on some of VFX work undertaken by the Prime focus.



49. Industry discussions conducted by KPMG in India and KPMG in India analysis

50. www.qz.com, 23 February 2015, An Indian-owned company just won an Oscar for Interstellar's incredible special effects



VFX and 3D work and techniques for 'Sin City: A Dame to Kill For'

Background

'Sin City: A Dame to Kill For' came out as a sequel to the 2005 movie Sin City and both the original movie and the sequel are based on the cult graphic novels by Frank Miller - Sin City. Director Robert Rodriguez wanted to push the boundaries of what the original movie Sin City (2005) had achieved and hence he shot this version of the movie entirely in Stereo 3D. The movie's look follows one similar to film-noir movies released in the 1940s and 1950s era of Hollywood cinema thus high reliance was placed on technology to work on the movie that required delivering 2,282 shots and 66 sequences. Prime Focus was the VFX and 3D conversion studio and an equity partner. They worked on the concept and production design, VFX and stereo creation.

Key techniques and methodologies

- A large amount of effort was spent on the detailing of the movie. Unlike the first instalment in the series, all the shots in this sequel were shot exclusively on a green screen which meant that the world of Sin City had to be developed from scratch. Creation of an entire world included the minutest elements like sparks from an explosion and wisps of smoke and all the individual assets (or elements) were created from the ground up, right from tables, lights, lamps, switches and so on. Every sequence other than the live action shots were created digitally as well. All the elements had to be textured, lit and composited to look as photo-realistic as possible. Based on the concepts shown in the style frames, the asset team in India built a whole library of elements that were used by layout artists in the movie. One of the technical triumphs of this project was the fact that native photography was able to seamlessly blend with computer generated environments to ensure that the contact points – (where the characters interact with the environment) - worked in stereo. Using the proprietary tools of its 'Hybrid Stereo Pipeline – ViewD™', the studio was able to reduce or increase the volume in the native photography of the characters as required, to produce the best looking stereo for the scene.
- In order to stay true to the original visual style created by Frank Miller, in some scenes, spot colour was isolated like the red of the blood or the blue in a character's dress. In order to overcome the challenge of maintaining a consistent look for the movie, a set of tools was developed in-house to help artists to analyse and maintain consistent image details in both the shadow and highlight of the shots and sequences.
- Each scene was worked on with 3D in mind – from positioning of the Computer Generated cameras during the layout for the best 3D effect, to the choice of the patterns on the wallpaper of the virtual sets to ensure they worked well in stereo.
- Geographically dispersed teams based out of Mumbai and Vancouver consisting of close to 1,500 people worked in tandem on the project 6 days a week for eight months to complete the movie.

Conclusion

Since more than 80 per cent of such a massive and creatively ambitious project was done in India – it marks the true coming of age of Indian VFX.

Source: Prime Focus





What's trending

Ever growing entertainment industry

The filmed entertainment industry in India and globally is considered to be one of the biggest and its growth facilitates the growth of many ancillary industries including VFX. Further, the growth of VFX industry is also to do with the fact that VFX gives an alternative to filmmakers where it's difficult to shoot either due to cost constraints or if it is too dangerous in a live environment. As VFX can probably be used in any situation and scene, most film makers have changed their outlook on film production and most of the films have a minimum of 100 VFX shots⁵¹.



Film makers in India are increasingly adapting and appreciating VFX but they need to be made more aware of the intricacies and nuances of VFX. The more we are able to educate them, the more beneficial the partnership is, as then, the expectations are more realistic and are met, which results in a better final product.

- Merzin Tavaria
Chief Creative Director and Co-founder,
Prime Focus



VFX has become an indispensable part of film making. Increasingly, the film makers of today are exploring the numerous possibilities of VFX. The cinematic liberties offered by VFX allows them to pick up stories from more edgy genres like fantasy, sci-fi, horror and many others. The growing dependence is also due to its other countless benefits like it saves time and cost, assists in film planning and organising, promotes safety, adds more visual appeal, provides opportunities to make corrections in the post production and much more.

- Keitan Yadav
Chief Operating Officer,
Redchillies, VFX

Advancements in technology

Visual effects is a field that constantly grows and evolves as new technologies make possible once difficult tasks. The advancement in technology has made VFX a critical parameter for Bollywood to deliver and surpass the expectations of Indian film makers. VFX technology has become readily accessible to filmmakers with the availability of inexpensive software that runs on non-specialist computer operating systems. Although impressive results can be achieved by using modest desktop devices however for creating state-of-the-art

VFX work, powerful workstations, graphics processing computer power and huge storage capacity is required. The availability of high-performance computing resources and big data storage resources –can now more affordably be accessed through cloud and have played a part in making VFX more viable for cinematic and televisual productions. However, it is the mainstream movies and few big budgets television series that make the biggest demands on technology and spend the biggest budgets to exploit the use of visual effects. From Hollywood to Bollywood, the entertainment movie industry is in a continuous state of innovation with regards to VFX, with competing productions seeking to out-do each other in terms of their visual achievements. Visual effects have always been used in films, but filmmakers now have more technology to play around with and it is impossible to imagine how a few films like 'Endhiran', 'Krrish 3' and 'Ra. One' would look without their visual effects.

Consolidation

Developed players are increasingly looking to move across the media value chain and explore cross media synergies. For example, Prime Focus acquired Double Negative and DAX, the VFX division of Reliance Media Works and Prime Focus merged together.⁵¹ In addition, existing foreign players are also looking to expand their portfolio in India and many others are shortly expected to make an entry into India. With increased digitisation and accountability, Indian animation companies are expected to generate good amount of interest from private equity players and inorganic growth is also likely to be a favoured route for many players.

2D-3D Conversion...is it the future?

It is no secret that many of the 3D films we see are actually shot in 2D and then processed to add the extra dimension. Generally, converting 2D films into 3D is the preferred option as making a movie in 3D using specialised equipment is an expensive proposition. Some of the successes include 'Clash of the Titans', the 'Star Wars' prequel, 'Gravity', and 'Guardians of the Galaxy'. The global audiences' appetite for 3D is escalating; the current trends in Hollywood are reflective of the shift in the consumer preferences.

The increasing use of VFX and 3D in movies has opened a huge market potential for Indian post production facilities. 3D is an important theme since a couple of years now in the Indian movies and has demonstrated its potential with benefits such as enhanced audience engagement, increased ticket prices and the exclusivity of the medium, i.e., the theatres. Though in its infancy, India is making a mark on global 3D map, the conversion market in India is growing up rapidly with some of the major studios setting up conversion facilities to grab market share. The conversion process is gaining momentum in India because the services are offered at extremely competitive prices with no compromise on quality.

51. Industry discussions conducted by KPMG in India



As the concept of conversion is new there is no fixed benchmark in terms of quality, efficiency process and software and to cope with these hurdles, India needs a strong training infrastructure so that the budding artists get the right kind of expertise and exposure by working along with the veteran industry professionals. In a bid of captivating the audience with an immersive 3D experience, major Indian studios are massively investing into infrastructure, technology, manpower to pace up their conversion and to be on par with the Hollywood standards. Today there is an upsurge in the number of 3D films – both first releases and re-releases—and there is a massive opportunity waiting to be explored for stereo 3D conversion.

Road blocks for Indian VFX industry

The problems facing the visual effects industry are serious and complex, as seen by the number of companies failing or working on thin margins to maintain their businesses. Some examples include Rhythm & Hues shutting down operations at the stage of winning a VFX Oscar or a less well known company Look Effects closing down, or consolidating or restructuring, for example, Digital Domain. Globally also, between 2003 and 2013, 21 visual effects companies closed or filed for bankruptcy, yet of the 50 highest grossing films of all time, 49 are VFX centric films.⁵² The problems faced by the industry may be summarised as under:

Budget allocation

In India, there is no shortage of talent, but compared to international VFX, more financial allocation is required to deploy quality special-effects and its detailing. The new technologies such as motion capture, 3D scanning and virtual cameras are available; however, larger budgets are required to gain access to them.

Product nature

VFX companies bid based on the script, treatment or pre-visualisation of the film or parts of it and while the studio may do a test; there is enormous variability, inseparability and intangible servicing of the director's vision. The lack of a tangible product to judge and compare between is a problem for all in the value chain. This intangibility means producers are forced to judge on a range of quality indicators which are secondary to the final product and bundle the work into a unit that competes much more heavily on price than if the final product could be viewed, tested and evaluated before committing. For VFX studios, the intangible product issue increases risk as they struggle to produce what is wanted. VFX suppliers are mindful of the need to meet the unknown expectations of the director and the studio, or risk losing the next project.

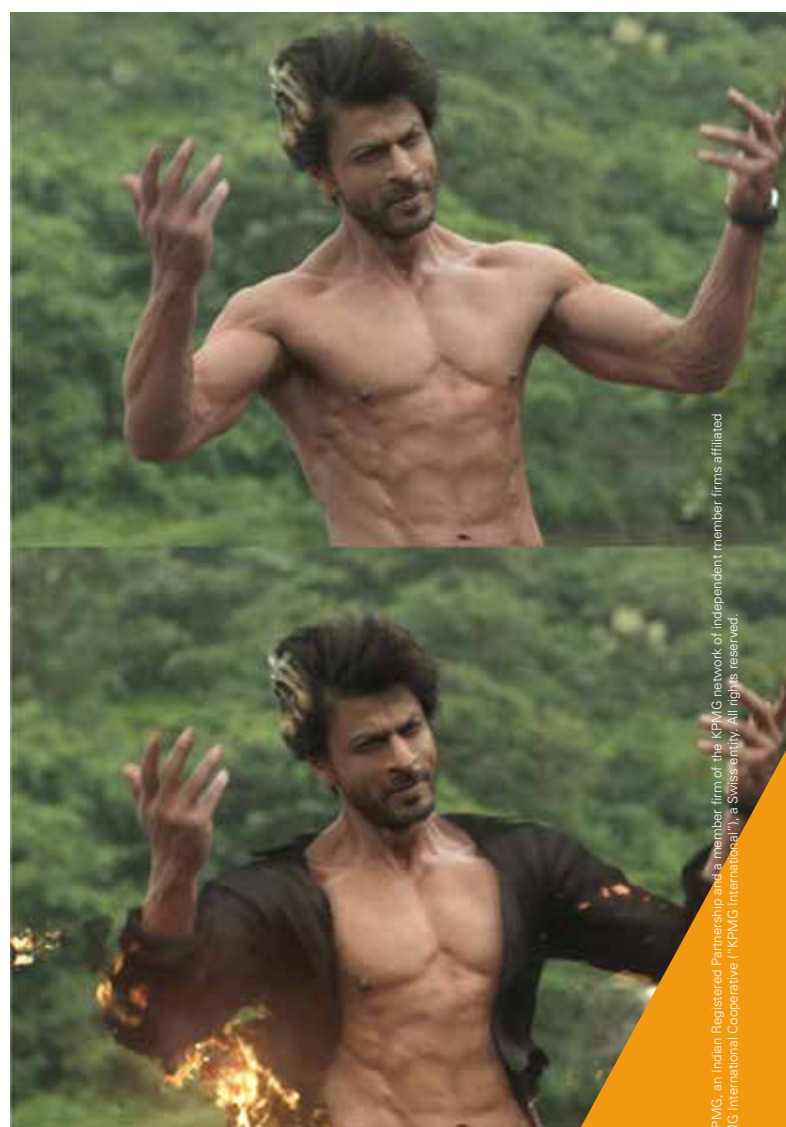
Pricing

Indian companies often have to quote low so that they can compete with other companies that are bidding in

areas with higher subsidies. For many years, the favoured model has been a fixed price, meaning that the work is not on hourly basis or on material plus costs basis. Unlike almost every other part of the film making process, the VFX studios are only paid on delivered work. Also, due to the nature of the work, which is fluid and ever-changing, the VFX of a major film can very easily go over-time and over-budget. The costs of finishing a project invariably fall squarely on the VFX studios which may not have the necessary bargaining power.

Human capital

Artists in the visual effects field work long hours without job certainty and often without benefits or even permanent employment. A visual effects artist working in feature films in particular is likely to be an independent professional, moving from one project to the other far away from the glamour. Also, even trained artists often need to spend a lot of time on the job learning to hone their skills.

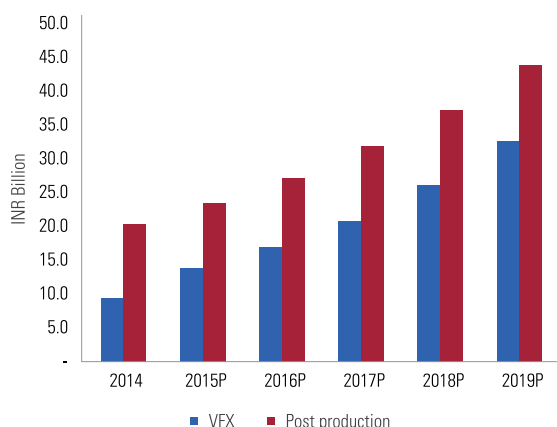


52. www.fxguide.com, 1 December 2014, A-way-forward-for-the-vfx-industry/



Road ahead

VFX and post production industry future projections



Source: KPMG in India analysis

The future is bright for the visual effects artists in India. In terms of creative capability and delivery potential, the Indian VFX industry is catching up very quickly with its international counterparts, the number of international and Hollywood projects that have a significant component of Indian VFX work associated with it are proof of this. Also, with more Indian films using special effects,

one could see a larger VFX play developing in India, instead of it being just an outsourcing hub for foreign films. The movie making value chain has undergone a metamorphosis and it is indeed encouraging to see that mainstream Indian filmmakers plan their production schedules to accommodate the VFX component of the film. This will hopefully pave the way for further integration of VFX within the script, which may eventually lead to creating a film like 'Gravity' out of India.

The next level

With cinema, television, games and marketing embracing technology to widen their reach, there is demand for VFX in each of these fields. With creativity, talent and knowledge about VFX being the core criteria, ample job opportunities are available making a fast career growth possible in this industry. New technology is being launched almost every day and VFX artists will always keep learning new methods of adopting and using such technology. Software development has possibly made the role of a visual effects artist less specialised, however, this does not mean that niche experts will lose their relevance though easier and more efficient tools will enable teams to split work more evenly regardless of individual experience. The biggest revolution in VFX work will be a change in how the effect is created in the first place. Rather than recreating the appearance of things digitally, the physics of movement, light, etc. will be a possibility, bringing about an element of increased flexibility.

This is just the beginning...

In February 2015, the BAFTA® and Academy Award® for Best Visual Effects went to VFX supervisors from Double Negative, for their spectacular work on *Interstellar*. This is particularly relevant to our understanding of the Indian creative services industry and its growth trajectory because last year, Double Negative was acquired by Prime Focus, one of the first Indian companies to enter the business, a company that has now become a leading player in the global market. This is not just a one-off phenomenon: Prana, another Indian VFX provider, now owns Rhythm and Hues, the VFX house that won the Oscar for 'Life of Pi', while Digital Domain, partly owned by Prime Focus, is an old and well established VFX house that won Academy® Awards for VFX work on 'Titanic' and 'The Curious Case of Benjamin Button'. These facts are not mere coincidences, but a true reflection of the new strength and the enhanced capabilities of Indian companies. India is poised for quantum growth in this area, and Indian providers, always known for their business acumen; professionalism and customer centricity, now also have both the technology and the know-how to offer top-of-the-line VFX, 3D and Animation to the world's foremost content markets.

Visual Effects

The prospects for the VFX industry look very bright with several mega-budget VFX-centric Hollywood projects under production, many of them roping in Indian companies for critical components. 'Terminator Genisys', a reboot of the hugely successful Terminator franchise, is under postproduction and is set to release in July 2015. Walt Disney Chairman Alan Horn has stated that 'Star Wars' Episode

VII, currently in the making and due for a December 2015 release, has a budget of approximately USD175 million. This is to be followed up by even bigger budgets, closer to USD200 million, for *Star Wars* Episodes VIII and IX. According to press reports, James Wan's *Fast and Furious 7*, also due for release in late 2015, has a budget of over USD250 million.

What is quite amazing is the speed with which Indian companies have caught up with their western rivals across all aspects in VFX, whether in boosting levels of creative excellence or in promoting cost efficiencies. This allows them to offer western filmmakers huge cost benefits by combining western creative sensibilities with top quality Indian services. Increasingly, we are seeing a sea change in the nature of work being offered to and successfully completed by Indian providers. India used to be recognised for its proficiency at turning out the more process-driven type of work, but this is not the case anymore. More than 80 per cent, of the heavy-duty stereo VFX work for 'Sin City: A Dame to Kill For' was delivered out of India studios. In the next couple of years, we will see Indian companies being signed on for the critical final 20 per cent of work on each project, where enhanced creative skills and technological advances play a crucial role.

2014 also saw Bollywood warming up to VFX-centric films. Today's filmmakers are well exposed to advances on the creative and technology fronts, and they are harnessing the full power of VFX in their story telling. Films like 'Dhoom 3', 'Bang Bang', 'Kick', and 'Happy New Year' are great examples.



3D

2014 was a fabulous year for 3D, a revival that brought the industry almost to the peak it had reached after 'Avatar'. Towards the end of 2013, 'Gravity' changed the tide in favour of 3D yet again and 2014 saw that wave conquering new shores. The most successful 2014 summer releases - 'The Amazing Spiderman 2', 'Edge of Tomorrow', 'Transformers: Age of Extinction', 'Maleficent', 'Godzilla', 'Hercules', 'Guardians of the Galaxy', and 'Teenage Mutant Ninja Turtles' – were all in 3D. This is yet again perfect validation of India's superior techno-creative talent because that is what 3D conversion is all about. Bollywood is yet to take to quality 3D and I hope we soon put quality over quantity and tell stories that can leverage world-class 3D to offer unmatched visual experiences.

Animation

In the area of animation too, we are going to see something of a revival after the sharp downturn of the last couple of years, and India is definitely looking to become a hub for delivery. Indian providers who specialise in animation are also learning some valuable lessons from their western counterparts, one of them being the need to focus on marketing, rather than getting fixated on production issues. This policy also serves Indian companies well from the reverse perspective, i.e., as long as western budgets prioritise marketing outlays, western projects will keep moving eastwards for everything else to take advantage of economies of scale and a low cost base. Indian animation companies can therefore offer an attractive and fully sustainable value proposition. In the past, Indian animation companies that focused on IP creation failed due to lack of local demand and the inability to appeal to Western sensibilities. As our audiences evolve and the local broadcast market expands, we hope to see more Indian animation companies developing more of their own IP with a local flavour, something that the current positive trend is likely to encourage.

Production: Integrated Services

All this will, of course, have a progressive impact on the Media and Entertainment industry's approach to India, and we hope to see India becoming the locus for actual shooting of Hollywood projects as well. Indian studio facilities like Prime Focus, YRF Studios, and Ramoji Film City have world-class centrally air-conditioned fully integrated production and post-production facilities. The YRF studio is designed by Martin Pilchner, a leading name who has designed facilities for celebrity Hollywood directors like Steven Spielberg and M. Night Shyamalan. The Guinness Book of Records certifies that Ramoji Film City is the largest film studio complex in the world, capable of simultaneously handling 20 film productions. Prime Focus' Film City complex has 8 sound stages built to exacting Hollywood standards and has been audited by the MPAA and the Fox Security Group.

The aim should be to build a truly integrated solution for film makers bundling state-of-the-art production infrastructure (sound stages and cameras) with traditional post and high-end creative services (VFX and 3D) along with talented English speaking crew and greater bang for every buck. This is what will make it a compelling proposition for every Hollywood film maker wanting to make bigger and better movies without the studio burning a hole in its pocket.

As film makers across the world become aware of India's capabilities in this regard, we hope to see at least two to three international projects annually being shot in India, generating new jobs and leading to an increase in dollar revenues as well as optimised inventory utilisation.

Government Incentives

Firstly, a Mumbai Film Commission is the need of the hour, to start with. Film Commissions at the state and national levels are necessary to attract foreign investments into our industry and indirectly boost tourism and local economy. Film commissions can implement monetary benefits ranging from cash rebates, tax credits, exemptions, and other forms of financial assistance.

Destinations such as Abu Dhabi and Malaysia have won themselves a head start by offering cash back incentives for expenditure on international projects. The Chinese government has preferential VAT and business tax policies, exempting film production-related exports from VAT. This is a clear opportunity for India, and the government could give the economy a boost by announcing its intention to compete seriously by way of similar incentives and tax benefits and by signing mutually beneficial tax treaties. In the area of animation, the government can also boost IP creation by demarcating and protecting time for locally produced content on TV channels and tightening up as well as enforcing IP laws. We are upbeat about the signing of the Indo-Canadian audio-visual co-production treaty recently, an important first, and one that we hope will lead to other productive bilateral agreements.

Talent Development

It is also vital to keep a pool of new talent growing at all times, as well as to both broaden and sharpen the skills of existing talent. This is critical to the percentage of finished output originating in India. Of course, this requires infrastructure as well and exposure to the best technology. Some organisations have made a start. For example, to make their film, fashion and media institute - Whistling Woods International - truly world class, Mukta Arts has invested in Auro3D immersive sound technology by Barco.

To conclude: the future looks promising and, in our view, exponential growth is almost a given from here on. Wait for further exciting news! This is just the beginning.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Namit Malhotra. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Namit Malhotra
Founder,
Executive Chairman and Global CEO,
Prime Focus





Indian AGVC sector gazing with hope....Make in India initiative

The Indian AVGC sector has over the period of time developed itself into a market that can deliver efficiently high quality content and effectively at reasonable cost and in timely manner; the number of international projects in which Indian animation and VFX studios were involved for outsourced work and performance of local content can serve as a befitting testimony. However, the competition of Indian players in case of animation production is with mature animation markets such as U.S., U.K., Canada, Japan, etc, and in case of animation services (outsourcing) is with other Asian countries like Singapore, Malaysia, Philippines apart from China and Japan. All these major animation markets across the globe are supported by their governments through various initiatives such as subsidy, tax breaks, tax credits, financing support, funds, export incentives, exclusive prime time slot for domestic content, and many more, as against in India where the government support is limited and not adequate for the industry to grow multi-fold.

The Industry believes that the Government of India, through its 'MAKE IN INDIA' initiatives, can give the AVGC sector the much needed vigour. Some of the recommendations by FICCI FRAMES for Budget FY 2015 - 2016 were as follows:

- Ten years tax holiday for Animation, Gaming, and Visual Effects Industry.
- No service tax on studios developing original content.
- **DD Kids:** A channel should be commenced dedicated to kids' content by Doordarshan as DD Kids to promote intellectual property creation in India in the field of animation and other kids' contents.
- **Setting up of AVG co-production Fund under Children's Film Society India ('CFSI'):** The Intellectual properties originating out of India can be co-produced/co-funded by (CFSI). CFSI may retain a percentage of revenue shares from the future revenues in perpetuity in proportion to the investment in the IP. This model would eventually fund itself after 5 years from the revenues generated out of the global sales of these animated properties. An expert committee for selection of projects can be set up jointly between the government and domain experts. The provision of funds needs to be provided for the minimum period of 5 years to 10 years to build a robust foundation of creating original content and registration, protection and exploitation of these IP from India. The coproduction fund may be extended to animation, gaming, VFX (films with a minimum of 40 per cent animation and effects) as well as comics industry
- FICCI recommends for a minimum of 5 years a fund of INR1100 million each year. This fund to be divided into 3 separate heads:
 - INR1,000 million - for Co-production budget which to be awarded to a total of not less or more than 10 projects, with minimum investment being INR50 million and maximum INR150 million co-production funds.
 - INR50 million - grant to be awarded to a total of 20 projects @INR2.5 million per project for the development of stories and ideas into a complete developed bible. This will ensure a continuous nurturing and supply of independent creative projects that will eventually fuel the Indian studios with more options to produce.
 - INR50 million: for marketing budget to manage, administer and run events and processes around the Co-Production Funds & Grants.

This will help the industry immensely and in the next 5 years India can boast of over 100 successfully implemented co-productions and shows, which will be extremely strong original intellectual property out of India, one of the strongest libraries establishing and restoring forms of art, culture and creative styles and designs which will be known throughout the globe. India would emerge a leader in the digital content economy and it will ensure jobs for over four to five lakhs creative, techno creative and artistic youth of the country in the next 5 to 7 years.

CFSI can recover this investment from the following sources:

- keeping Doordarshan (Public broadcasting rights in India) and worldwide terrestrial rights for all these properties; or
- keeping Doordarshan (Public broadcasting rights in India) and a percentage share of all the worldwide satellite broadcasting, Licensing and Merchandising, etc.

This will not only strengthen the cause of CFSI but will give a big boost to creative artists and creative and animation studios in India. Moreover this will help restore the art and culture of India in a significant way.

- **Removal of withholding tax:** There should to be removal of withholding tax on revenues accruing from sales of mobile games in non-Indian markets as well as removal of withholding tax on the development contracts given to mobile game developers outside India. Also, there should be removal of withholding tax paid by foreigners working in India for Indian mobile game development companies
- **Market Development Assistance ('MDA'):** There needs to be a provision of 50 per cent reimbursable MDA for travel and registration fees to international market events. Government needs to extend support under MDA activities for Indian companies to exhibit by setting Indian Pavilions in the world markets. What is needed is to help bringing local production companies to international markets, collect and disseminate information and support creating the infrastructure needed for a healthy media market to develop.



- **Excise duty reduction:** To promote domestic gaming market, excise duty on local manufacture should be brought down from 12.5 per cent to 0 per cent (similar to film and music industry). This will enable Countervailing Duty ('CVD') to be brought to zero also. The effective reduction in taxes would be around 15 per cent. Import duty on consoles (Gaming hardware) to be brought down to 0 per cent to increase the installed base to enable the local developer ecosystem to flourish.
- Animation as one of the priority sectors: Directions should be given to commercial bankers to treat Animation sector on priority and to offer a concessional rate of credit.

Encouragement for the exploitation of self-developed content in the overseas market: Encouragement should be given to entities through reduced tax rates/

incentives for exploitation of self-developed content in overseas markets. Exemptions should be granted to overseas payments to foreign artists stationed overseas from withholding taxes.

- **Minimum Alternate Tax:** The Minimum Alternate Tax (MAT) applicability for units undertaking animation work in SEZ should be withdrawn to encourage export of animated contents.

The Finance Bill 2015 proposes to reduce the tax rate of 25 per cent on 'royalty' and 'Fees for Technical Services' to 10 per cent, which is likely to bring the much needed respite to the animation industry. This will significantly reduce cost of importing technology, software, etc. in case of net of tax contracts. The Indian AVGC sector continues to look upto the Government of India and State Governments with optimism.

How many rights will finally make a perfect right?

Kids are the true building blocks of any nation, while we embark on the journey of creating "Ek Bharat, Shreshtha Bharat, Swaccha Bharat" overall development of kids in India needs to be looked at with a more serious approach.

In today's time and age when the world is becoming a smaller place, time zones and distances are no more a barrier. There is an overload of information that is thrown on us every minute and hence the relevance of information at the right time becomes crucial. 'Right Information' at 'Right Time' is something that we should spend some time discussing which will help the kids consume, understand and appreciate better. In India, Kids content is scarce or let me state that it really doesn't exist if one compares the kind of right culture, history and heritage we have as a country. Perhaps we in India have more Heros, super Heros, characters and winners than most part of the world. But we hardly celebrate them in our country; we have hardly written stories about them and tried to narrate them to the world. They say 'it's never too late'. Need of the hour is to have an exclusive kid's public broadcasting channel that will focus on original animated content for kids. This platform will help in populating and celebrating our Heros and characters through stories that will make us and our kids proud to be Indians. Our kids will get exposed on Indian History, Indian Culture, Indian Folk tales and Indian Traditions before they get trapped under the world wide web (www). They will be far more informed and appreciative of India than what they are today.

To give you a perspective of the present scenario, total Number of Kids' channels in India is approximately 22 including the ones in regional languages. Viewership share of kids' genres is 7.3 per cent, much after Hindi GEC, News Channels and Hindi movies.

The key players among kid's channels in India with a focus on animated content are broadcasting 80 per cent of foreign content and only 20 per cent is original Indian content. There was a time since 1994 till about 2008 when the programming used to be 90 per cent foreign content. The main reason for this situation is the lack of AVGC (Animation, Visual Effects, Gaming & Comics) policy frame work.

While we understand the globalisation era and appreciate the exposure that our kids may get through foreign content, all we had been asking is a right balance between foreign and Indian animated content.

How can we dream of building a strong nation when the value systems of today's Indian kids are being moulded and based on foreign culture as reflected in these shows. Our kids will be unable to understand and appreciate the cultural diversity of India due to erosion of sense of belonging and unable to associate with our cultural roots.

This will also result in the death of rich art forms and culture, heritage, mythology which prevailed through centuries in our own history that constitutes the belief of India as a country.

How the AVGC Policy Framework help Indian Animation:

1. Promote responsible programming in kid's content space.
2. Provide free access of kids' programming in cable dark areas.
3. Emphasise on entertainment with education and vice-versa.
4. Promote rich Indian culture, History and Tradition.
5. Expose kids to our rich heritage of art, music, mythology and customs.

This will also enable Indian content providers sell global rights and take our story overseas and populate our culture and tradition across the world.

Now, having looked at the problem, the possible solution and its merit are very clearly visible.

Going forward we would like Prasar Bharati to start a kids digital terrestrial free to air channel (A kids public broadcasting channel).

We believe Prasar Bharati as a platform can play a pivotal role in the process.

Most of the successful countries globally who have promoted kids content in the best manner have followed this process and results for them have been astounding. With its widest reach, the public broadcasting kids channel with the right kind of programming for kids will be able to lead the way and create a path for nation building just as other successful countries have public broadcasting services for nurturing kids and preparing them for future.



The outcome will not only be confined with development of kids, but will create a huge splash in the overall development of the animation sector in India.

Some of the tangible benefits of this are given below:

1. Indian animation industry will produce more IPs
2. Create new creative & techno-creative job opportunities and new revenue stream
3. Produce local and relevant content
4. Employment opportunities for rural, tribal youth and artisan who are skilled with local art forms giving fresh lease of life to the dying Indian art forms
5. Provide a healthy alternative to kids' formal learning tools.

With its unmatched penetration in comparison to the cable and satellite channels, a public broadcasting kids channel will surely position itself as a differentiator. Quality kids' programming will also generate more viewership and thus attract more advertising revenues.

This is probably the only way to strengthen the AVGC industry and bring about sustainability, stability and growth to the artist community and other stake holders. What used to be the cost arbitrage and sometimes the skills arbitrage that attracted services work to India in the past has moved to other Asian countries. Lack of adequate policies for the AVGC sector in India which is still in its nascent state is the root cause of this situation. A strong national policy as well as state level policies to support the creative, art and performing arts industry is a need of this hour.

The aim of this initiative should be to educate children with our rich and vibrant culture and expose them to cultural diversity of India along with quality entertainment.

The creative, art and performing arts sector fortunately have a lot more intangibles to offer to the India society. This phenomenon of off balance on intangibles may be also contributing to delayed justice for the AVGC sector. Global studios continue to come to India for higher quality output. Growing the domestic market and its potential exploitation is the only answer to save the industry and creative jobs in India.

Right policy, Right content, Right ownership, Right platform, Right distribution is the Right of every Kid in India.

A Perfect Right!

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Ashish S K. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Ashish S K
Founder - PUNNARYUG &
Chairman - FICCI,
Animation, VFX, Gaming &
Comics Forum



'Make in India' has been a resounding success in 2014 across the AVGC sector. 5 of the top 10 films shortlisted for the VFX Oscar plus the BAFTA and VES nominations; VFX for ad films that won the Cannes Gold Lions, British Arrows Craft Awards, 'shots' award; multiple Emmy nominations for TV animation and CGI for a number of AAA game titles – all testify to the quality of Indian productions in M&E's fastest growing sector.

'Make in India' has been successful, in that, locally produced AVGC content has 'powered' revenues of over USD10 + billion for global brands. Indian production entities now need to find a similar success in content for the Asian & Indian markets.

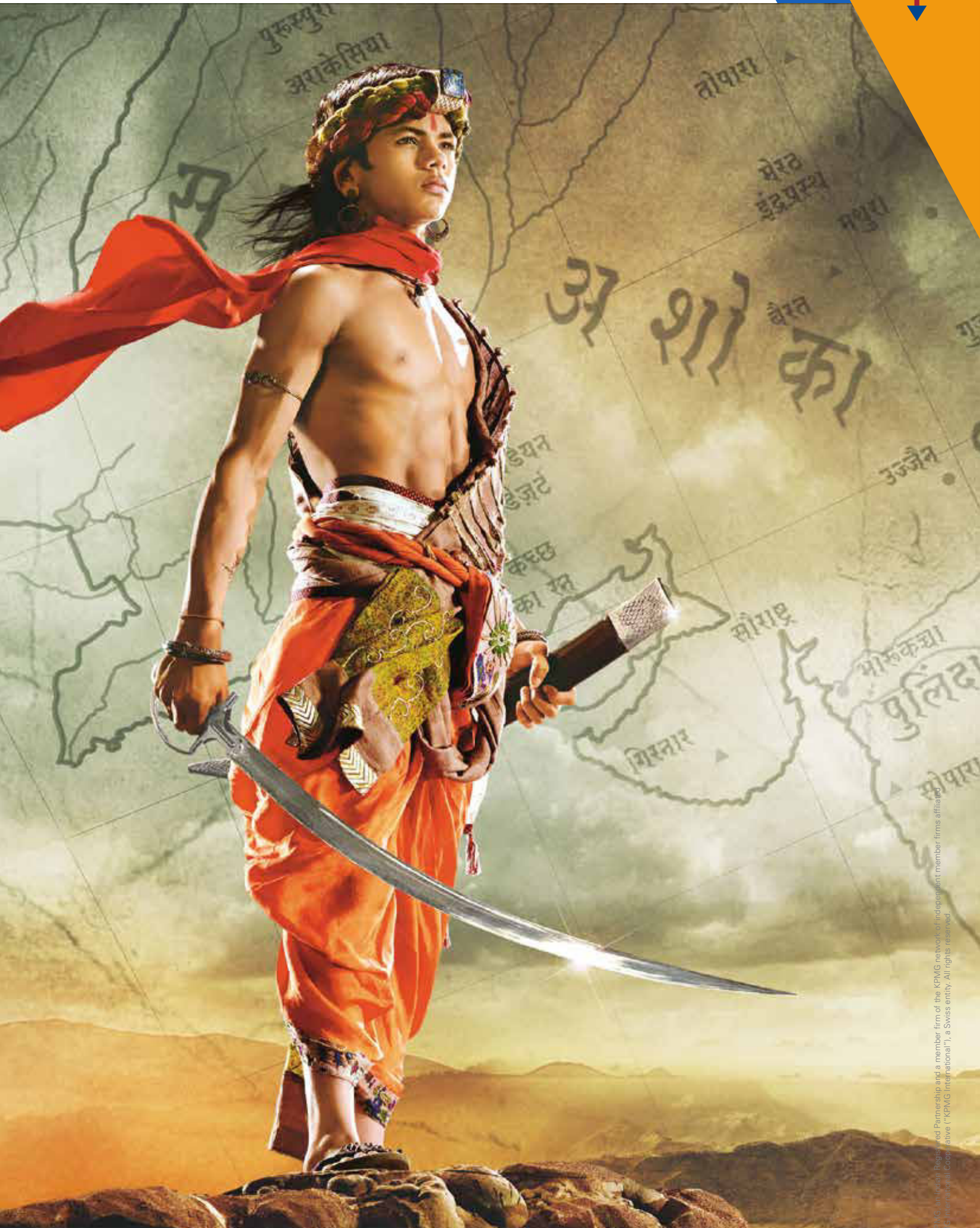
The new digital ecosystem of technologies in the creation, management and distribution of content opens up many opportunities for the next frontiers in the AVGC sector. ▲▲

- Biren Ghose
Country Head,
Technicolor India

Conclusion

In conclusion, the animation, visual effects, gaming and comics sector in India is expected to grow at 16 per cent per cent in the next 5 years and cross INR95.5 billion in revenue.⁵³ Demographic changes are causing a shift in the consumption pattern, favouring emerging markets in Asia and Africa compared to the mature European and North American markets. China, Indonesia and Latin America are generating a huge demand for AVGC content and if Indian companies manage to fulfil the demand from these markets, there will be significant growth in the sector. Collaboration will write the future of the domestic AVGC industry. The kids's space is also offering huge opportunities as can be seen from the growing consumption of digital gaming and animation in films. There are a plethora of opportunities that could benefit the flexible players who can adjust to the changing environment.

53. KPMG in India analysis





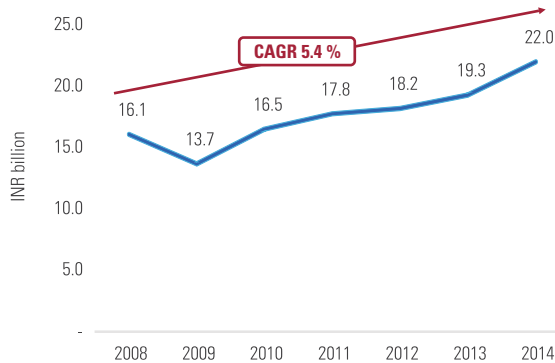
Out of Home Advertising

Sighting success



Outlook for the year

OOH industry size



Source: KPMG in India analysis

The Indian Outdoor advertising ('OOH') industry saw robust growth in 2014. Exceeding expectations, the industry grew by 14 per cent, primarily on the back of election spending, and growth of E-Commerce and transit media. While advertisers spent INR22 billion on OOH in 2014, its share in the overall advertising pie remained largely unchanged at approximately 5 per cent.⁰¹ While E-Commerce was a welcome surprise, and is anticipated to grow in 2015 as well, the general elections gave a welcome impetus to growth. This election saw larger spends by political parties compared to earlier elections. Spends by E-Commerce and internet based business got bigger each successive quarter, peaking in the festive quarter. Telecom players which have been traditionally big spenders in the OOH industry transitioned to smaller towns and cities.⁰²

Spends by other traditional sectors such as Automotive were flat, BSFI stayed away whereas Real estate continued to show resilience. Television channels, films FMCG, and education were also seen spending on OOH in 2014.⁰³

On the flip side, challenges such as lack of clarity on regulations, absence of uniform measurement metrics, and unauthorised hoardings continue and lack of security measures continue to slow down the industry.⁰³

E-Commerce spends increased this year. Some examples of recent campaign are as follows:

Company	Location	Description
Bharat Matrimony.com – Launch of its app ⁰⁴	Mumbai	The company used the OOH sector to promote its app services. The campaign was focused on the Mumbai Metro One and adjoining areas taking about 24 media units at 12 stations
OLX's Freedom Bike ⁰⁵	45 cities covering 10,000 km	Centred around a 12 feet long motorcycle art installation, the 50 day campaign saw riders travel across the country to collect items which was used in the art installation
Flipkart – New Helpline and Mobile app ⁰⁷	Multi-City	The campaign kicked off in Nagpur, Nasik, Jaipur etc. and the second phase saw it expand to metros like Delhi, Mumbai, Chennai etc. A wide range of vehicles, billboards, unipoles, kiosks were used to create visibility
Yebhi. Com – Coffee Shopping ⁰⁷	Delhi and Bangalore	Yebhi.com in association with CCD launched 30 virtual stores wherein the range of products from the portal with their QR codes and Near Field Codes were displayed.

01. KPMG in India analysis

02. www.exchange4media.com, December 31 2014, 2014 could be a springboard for OOH sector

03. Industry discussions conducted by KPMG in India

04. www.afaqs.com, January 27 2015, Bharat Matrimony pushes its app

05. www.afaqs.com, September 19 2014, OLX's Freedom Bike

06. www.afaqs.com, April 22 2014, Flipkart goes big on outdoors

07. www.afaqs.com, May 22 2013, Yebhi.com: Coffee shopping



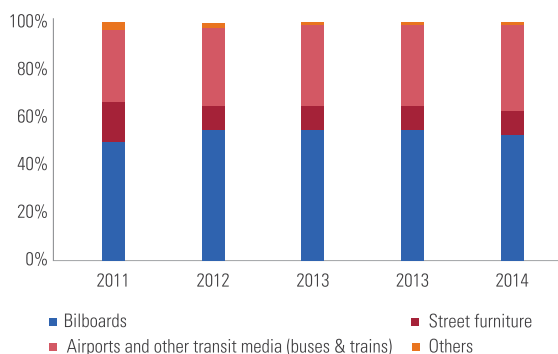
OOH landscape

Metros continue to dominate and enjoy more than 50 per cent of the OOH market share. Inventory utilisation has improved but prices have not seen any significant changes. Tier II and Tier III cities continue to grow, largely on account of development of better infrastructure such as malls, airports, roads, etc. in these cities. Growth in the Tier II and Tier III cities has also been propelled by the lack of adequate inventory in the metros. Advertisers are increasingly focussing on enhancing reach beyond saturated urban spots and we expect that rural markets would be an important part of the OOH media landscape in the coming years. With rural consumption expected to go up, and therefore advertising spends, OOH is an important medium, given the lack of literacy and connectivity (internet and television). Ideas like tricycle advertisement, installing tree guards for plants on roads, putting up banners on buses, etc. and other innovative forms can be used effectively.⁰⁸

OOH formats

Billboards continue to dominate the OOH landscape. However, airport and other transit media has been consistently growing over the last couple of years; a major factor for this growth has been the rapid infrastructure development seen in the country. With the government's focus on infrastructure development, this is expected to continue to boost the outdoor industry in the coming years. Ad spots at locations like the Metro in Mumbai and New Delhi, and the T2 terminal at Mumbai are highly sought after by advertisers. Private airports as well as privately managed metros are better designed for monetising income from advertisements. LED billboards and street furniture continue to grow at a slow pace.⁰⁸

Revenue split by various formats



Source: Industry discussions conducted by KPMG in India

Challenges facing the OOH industry⁰⁸

The industry continues to struggle with local red tape, lack of common measurement norms and inability to attract new talent.

⁰⁸. Industry discussion conducted by KPMG in India

Fragmentation of the market place

One of the key issues is the fragmentation of the marketplace. Absence of any entry barrier, lack of uniformity of regulations and very high competition in the industry, leads to unauthorised sites. The challenge of a fragmented market is lack of focused investments which is critical for the development of the medium. Currently, short-term licenses granted by local municipal corporations leads to temporary structures, and not only removes all incentives to promote long term investments but also forces the industry to think short-term, further compounding the fragmentation. The quality differences between long term concessions and short term ones are highly visible and discernible.

Shortage of talent

Talent acquisition is a challenge across industries and if the OOH industry has to progress in India, fresh talent is constantly required. A fresh perspective is brought in when talent comes from other sectors. Innovative formats, new technologies and focus by advertisers may lead to attracting fresh talent.

Lack of measurement metrics

Lack of adequate metrics helps ensure that it remains a reminder or recall medium as compared to a primary medium like print and television. With cost being a key constraint for advertisers, ROI is a driver. Properly analysed data can result in crucial information for brands which may largely be the deciding factor in designing of their media plans.



There are companies in every city which have their present and future tied to the Out-of-Home Advertising industry with serious financial commitments. It's really high time all these companies came together and backed IOAA for lobbying the Government for fair and equitable regulations, for ensuring compliance with best practices by all in the industry and to establish metrics at the very earliest. Let's all accept once and for all that 'if you cannot count it, you cannot grow it'. Every year for the last 10 years this industry has been talking about changing and then we see it going back into the same well. It's time to climb out of the well. IOAA is there to work for the industry but only with unstinted support of the industry – in spirit, compliances and financially.

- Indrajit Sen
Executive Director – IOAA and
Promoter – Director,
Media, Analytics & Design P Limited



Mergers and acquisitions

Acquisition of Milestone Brandcom by the Dentsu Aegis Network made headlines in 2014. The need for consolidation in a largely fragmented industry has been voiced by OOH players for a long time and this high-profile acquisition perhaps gave a taste of what is to come in future years.⁰⁹ According to unconfirmed news reports, the owners of Madison Media and Madison Outdoor are also looking at selling a stake in their businesses.¹⁰



OOH advertising in India had good growth this year and represents high potential for advertisers with a large young, working and informed population driving the spending on OOH media by the brand owners. The growth has largely been driven by increased spending by sectors such as FMCG, media and entertainment and automotive. These sectors have seen a significant top of the mind recall among large population base of youngsters who spend a significant proportion of their time outdoor and are the main audience for their advertisements.

The overall OOH advertising industry would witness a remarkable growth in the coming years. However, the industry would continue to constitute a small proportion of the overall media industry. Growing number of malls, rise in infrastructure, innovation and technological progress and increasing number of people who spend time outdoor would drive the growth of India OOH advertising spending. The OOH advertising spending in India is anticipated to grow at a high CAGR. Though the largest contributing sector would continue to be physical OOH, its contribution would decline as digital OOH will witness high growth trajectory.

- Mandeep Malhotra
Executive Director,

DDB Mudra Group & President DDB Mudra Max

Efforts taken by the Indian Outdoor Advertising Association to develop metrics for OOH

IOAA has identified an international consulting company to act as Principal Consultant for the project on development of OOH Advertising Metrics in India. These metrics developed will conform to the Global guidelines for OOH metrics as released by ESOMAR (World Association for Opinion and Market Research).

This project will be executed by a Joint Industry Council to be formed as a 'Not-for-Profit' company on the lines of the Broadcast Audience Research Council ('BARC'). The shareholders in the proposed body – Out-of-home Media and Audience Research Council – OMARC – are proposed to be IOAA, representing OOH Media Owners and Specialist Agencies and various Advertiser bodies and also major advertisers.

The project's single biggest advantage is the measurement of 'Likelihood to see' for OOH site's versus an 'Opportunity to see' currently provided by other media metrics. While traffic counts on roads where sites are located provide the gross exposure, this 'Eyes On' ratings provide the actual number that are likely to see the site. This measurement metric is a result of research conducted in the U.K., Europe and the U.S., involving eye-tracking studies, mapping brain activity and extensive field studies with different configurations of formats, sizes, placements, traffic speeds, mode of transport et al. This in my view is an established global standard for measuring OOH media.

Upon conclusion of these proposed studies, which will first be done in the top four metros, the industry will get a list of all legal, licensed sites in each city together with the 'Eye-On' ratings for each, traffic counts of major stretches, reach and frequency of advertising campaign plans and the cost per thousand TG reached. Thus, OOH will then be completely comparable to a TV, Print or radio campaign. This will in turn lead to rational budget allocations by advertisers instead of simply gut feel or historical spends, as is the case now.

The project is now in the phase of final evaluation, finalisation of funding and formation of OMARC.

Indrajit Sen -
Executive Director,
IOAA and Promoter,
Director, Media, Analytics
& Design P Limited



Unless otherwise noted, all information included in this column/ article was provided by Indrajit Sen. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India

09. www.exchange4media.com, 31 December 2014, 2014 could be a springboard for OOH sector

10. <http://articles.economictimes.indiatimes.com>, 20 February 2015, Sam Balsara revives talks to sell Madison World's 75 per cent stake in Madison Media and Outdoor



Bullish on OOH

OOH revenue growth continues to accelerate!

2014 gave us a glimpse of the trend that is emerging with respect to OOH advertising, globally. OOH Advertising has been boosted by a combination of factors like new categories spending on OOH media, political spending and increased spending by major industry verticals.

Outdoor Advertising has been growing by around 15 per cent with all formats of the medium benefitting from the growth- from traditional billboards to street furniture to airport and ambient media. Sectors like real estate, media and entertainment (television, film posters, newspapers and magazines), FMCG, jewellery and education have been heavily spending on OOH Media. E-Commerce was a welcome surprise entrant to the OOH media space.

Going by the WARC 2015 ad spend forecast, the biggest increase in ad spends in 2015 are predicted to come from India and that further reinforces the fact that OOH will see good growth.

Media planning and evolving OOH landscape

The power of Out of Home is growing and media planning is evolving. Designing consumer conversations -using strategically placed OOH media with captivating creative - is now the key to launch powerful and seamless campaigns for brand building.

Industry sources claim that traditional methods of advertising have become less effective as consumers spend less time in places where marketers have traditionally had an advantage in reaching them. Consumers spend money, while they are going about their daily routine, they are also actively looking for information. So that makes OOH emerge as a more effective medium.

Regulation, consolidation and measurement

Government regulations are critical to the growth of this industry. We hope, with increasing importance of this medium, the government will bring more uniform regulations.

The OOH industry has always suffered because of the fragmentation that exists in the industry. Nevertheless, with larger players coming together under the unifying umbrella of IOAA, a lot of transparency will come into the industry. IOAA will take up issues and matters concerning the industry to local authorities to form universal policies for the industry as a whole. We can see a lot of changes in the way the OOH players are functioning. There is definitely a change in the mindset. Media asset owners are increasingly betting on long term tenders and strategies that boost the OOH industry as a whole.

IOAA is also working towards building an Audience Measurement System for Outdoor Media. Metrics will allow us to compete even more effectively with other media; will prove our true worth in a media plan and attempts like these will help us aggressively market our medium as a whole.

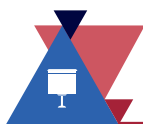
Laqshya as a company has always believed that it is imperative that Outdoor Industry gets an audience measurement tool to give a better sense of ROI to advertisers. We are working very closely with IOAA and other industry players to deliver what could be a game changer for the Industry.



Alok Jalan -
Managing Director,
Laqshya Media Group

Unless otherwise noted, all information included in this column/ article was provided by Alok Jalan. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.





My perspective on OOH

Outdoor advertising works as a major catalyst between mobility and sales apart from long-term Brand Building. Repeated familiarity, exposure and retention influences customers when they are out of home and are most likely to make a purchase decision. It is probably the only media which gives people something new, colorful, 'larger than life imagery' while they are on the move.

An important point to be observed here is that almost all OOH licensing authorities continue to license the media at exorbitant rates. This causes the licensee to price the prime sellable media high and at times creates a demand supply gap. Rational rates by a licensor will help the end users to get the media at a good price, leading to demand, increase in units and therefore growth of the otherwise almost stagnant industry.

The growing investment in infrastructure (roads, malls, commercial and office spaces, airports, Metro, bus shelters, LED billboards, street furniture, etc.) will offer more and innovative opportunities. Separately, digitisation of media, location based advertising, possibilities of interactivity, engagement, innovations offers immense potential for media to grow exponentially.

In the near future, OOH industry requires much higher levels of analytics (like measuring Return on Investments) to be able to successfully compete with digital (online/mobile) advertising.

Outdoor Media envisages a variety of skills. It is undoubtedly a tedious process to get the right talent, but not impossible. One can always identify people from related industries that will match with the requisite skills. This I believe is extremely important for the growth of the OOH sector in India, in order to get fresh perspectives. One has to be on the search constantly and keep meeting new people who are passionate about their work and future. Apart from this, it is also essential to invest our time to further train our existing talent and prepare them for the future. This mixture of acquiring new talent from related industries and training the existing ones is the true path of growth for this sector.

There is a wide gap in getting trained manpower. The industry needs to create opportunities for upgrading skills, where people could enroll for their self-development. All these could lead to certification. All the courses being run by various institutions focus mainly on creative content. There is a need to develop focussed programmes for outdoor, so that the industry can benefit as a whole.

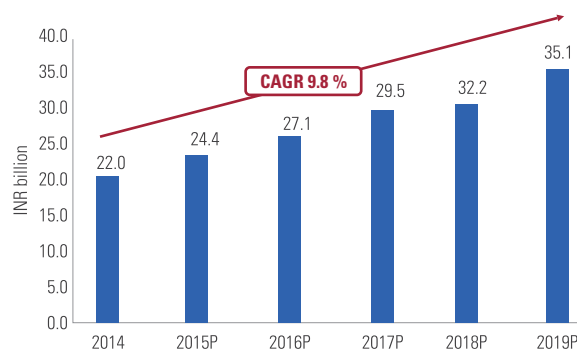
For the OOH Industry to grow, it is very important that the Advertising Agencies come up repeatedly with path breaking ideas, and for that to happen the brands need to pay them well. Since the value of OOH business is much less in comparison to Print/Television, the OOH Agencies require a minimum 15 per cent margin to survive. For a brand to assume that some agencies can do work at 3 per cent commission clearly means that the agency is cutting corners. To achieve higher level of output and transparency, brands must realise that there are actual costs and reasonable profits an agency is required to operate on. Reasonable margins will also ensure better talent is developed and hired.

Hiyav Bajaj -
Managing Director,
TDI International India P Limited



Looking ahead

OOH Industry size



Source: KPMG in India analysis

With positive sentiment in the market we expect the OOH industry to grow at a CAGR of 9.8 per cent in the coming years to reach 35.1 billion in 2019¹¹. Transit media is likely to grow at a faster pace, however it would continue to constitute a small proportion of the overall media pie. Growth in 2015 is expected to continue – key drivers are e-commerce, auto with over 50 launches expected, the 4G roll out, government initiatives and infrastructure growth. Media sector spends is also likely to increase due to sporting events.

Technological advancements and newer avenues for advertising may increase in 2015 and this may prove critical for the OOH sector. Digitisation of the OOH media in India has been long overdue and industry leaders expect that the coming years would see the requisite technological upgrades to the OOH display units.¹¹ Since the key focus is on creating an interactive platform for the audience, such digital upgrades can add to the OOH industry. OOH would also see amalgamation of the digital platforms with standard OOH vehicles. Synchronising with new technologies to give a more 360 degree marketing solutions would be the primary focus for the industry. Many industry players believe that the impact of digital platforms would be one of the most important factors for the future.

11. Industry discussion conducted by KPMG in India



Sports

Let the games begin...



Introduction

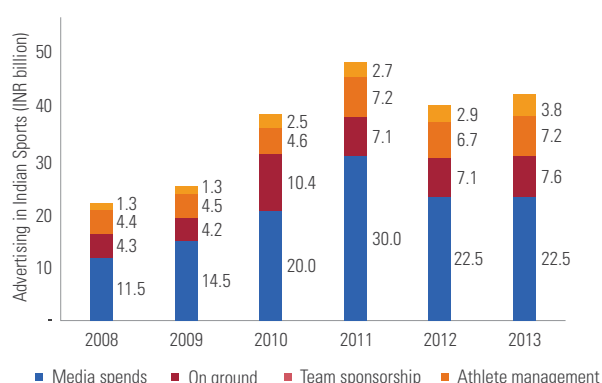
Blurred lines in defining the sports industry

The sports industry encompasses several different segments including sporting goods (manufacturing and retail), sports apparel, amateur and professional sports, recreational sports, health and fitness clubs, high school and college athletics, outdoor sports, sports businesses such as sports marketing firms, the sport sponsorship industry, sport governing bodies and sports tourism. By such estimates the global sports industry today is estimated to be worth USD600 to 700 billion⁰¹. Given the large size of the sports sector and its association with several other industries such as education, real estate, infrastructure, tourism, manufacturing and retail, there is no worldwide standard for a definition of the 'sports industry'.

Revenue from sporting events is estimated at USD80 billion globally growing at a CAGR of 6.5 per cent over 2009 to 2014. It includes revenues from media rights, sponsorships and ticketing⁰¹.

The market for advertising in sports in India was estimated at INR41 billion in 2013 growing at a CAGR of 14 per cent from INR21 billion in 2008⁰². It consists of on ground advertising, team sponsorship, athlete sponsorship and media ad spends on sports. Licensing and merchandising contribute INR2 billion⁰³ to the sports industry in India. Gate revenues make up another revenue stream but its contribution to the sports market in India is relatively low compared to media ad spends and sponsorships⁰⁴.

Advertising in Indian sports



Source: Sporting nation in the making, Growth & Potential of Sports in India, SportzPower Group/M ESP, 2014

Young population and increasing consumption expenditure driving growth in sports

Sporting events have been popular throughout history, and have gained greater viewership with bigger stadiums and TV broadcasting of domestic and global events. Annual sports viewership⁰⁵ in India reached 276 million in 2014. But the sports genre accounts for only 2.4 per cent of total TV viewership and 4.3 per cent of AdEx revenue in the Indian TV industry, much smaller than the general entertainment genre⁰⁶.

Consumption of sports in India is driven by a large young population and increasing disposable income. An increase in consumption demand is supplemented by a rise in television and media penetration, and coverage of domestic and global sporting events by dedicated sports channels. The number of sporting leagues in India has also increased in recent years.

The median age in India is around 27 years⁰⁷ and around 64 per cent of the population is expected to be in the working age group by 2020⁰⁸. This provides a large and growing target segment for sports in India. Moreover, an increase in percentage of middle class and rich households (households with annual income greater than INR2,00,000) from 6.1 in 2001-02 to 14.5 in 2009-10⁰⁹ has increased the number of people with an appetite for sports consumption. The middle class alone is expected to increase to 41 per cent of the population by 2025¹⁰. There has also been an increase in the average share of educational and recreational activities in the annual household consumption and it is estimated to increase from 5 per cent in 2005 to 9 per cent by 2025¹⁰.

Increasing penetration of television and internet provides easy access to sports viewing other than in-stadia viewing. It has also enabled access to global sports events. A wide variety of sports and sporting events are available to choose from around 18 sports channels in India. The increase in number of sports channels in turn has been spurred by digitisation which has removed capacity constraints providing the audience a greater variety of viewing options.

A good start to non – cricket sports

It is interesting to look at the growth of sports other than cricket in India. Many sports have grown well over the last half decade. A survey on the popularity of sports in the Indian online community reports that while 85 per cent of respondents followed cricket in some manner, an estimated 44 per cent followed tennis, 41 per cent followed football (soccer) and 32 per cent followed badminton¹¹. With economic development, sports viewership in a country usually moves from single sport to multi sport. Africa and the Indian subcontinent have been traditionally dominated by football and cricket respectively. However, with greater economic development, India is seeing a growth in other sports as well¹².

01. Winning in the business of sports, 2014

02. Sporting nation in the making, Growth & Potential of Sports in India, SportzPower Group/M ESP, 2014

03. Media Route 26 India, MPA, Issue 5, 4 December 2014

04. Industry discussion with KPMG in India

05. Annual viewership here refers to the sum of weekly GVTs (Gross Viewership in Thousands), which is calculated as the sum of the (viewers x frequency x universe) for each event

06. This however does not include viewership and ad revenues from IPL broadcast on Sony MAX which is accounted under Movies genre

07. The World Factbook, CIA, Retrieved on 20 March 2015

08. India is set to become the youngest country by 2020, The Hindu, 17 April 2013

09. How India Earns and Spends, NCAER, Rajesh Shukla, 2010

10. Economic Intelligence Unit, retrieved January 2014

11. The Sports Industry's Emerging Opportunities, SMG Insight, 2012

12. Evolving a new positioning paradigm, CampaignIndia, 21 March, 2014



Table 1: Annual sports viewership in India

Viewership in India (in million)#*	2012	2013	2014
Cricket	205	223	254
Football	137	127	215
Wrestling	158	108	162
Kabaddi			128
Tennis	119	68	124
Hockey	78	53	107
Car/Bike racing	97	58	96
Boxing		36	93
Basketball	65	33	89
Badminton	43	19	89
Golf	65	27	64

Source: Sports Indians Watch, Business Standard, 12 November 2014

Viewership refers to sum of weekly GVTs which is a factor of number of viewers and frequency.

*Wrestling includes WWE & TNA figures. 2012 data is till week 43 only. Since there were five universe updates in 2013, data from the last quarter has been taken. Figures of Kabaddi are of Pro Kabaddi League 2014. Sports viewership in a year varies with the type and number of events held.

Interest in other sports is further enhanced because of better performance of Indian sportspersons in other sports at an international level. India's medals tally doubled between the last two Olympics games, with six medals won in the 2012 London Olympics, including two Silver and four Bronze medals¹³. At the Commonwealth Games, while India's medals tally decreased from 101 medals in 2010 to 64 in 2014, this was due to a decrease in the number of sporting events, from 21 to 14¹⁴. Tennis, badminton, hockey, golf, shooting, chess and wrestling have seen Indians excel at several international tournaments.

Coupled with the improved performance of Indian sportspersons in international competitions, this increase in TV viewership numbers has led to an explosion in the Indian sports industry. The success of hosting international sporting events such as the Indian Premier League (IPL), Commonwealth Games and Indian Formula One Grand Prix has placed India in the list of countries that are witnessing fast growth in sports business, and this had led to the creation of a number of league-format tournaments.

League formats have helped in increasing popularity of sports

Globally, the leagues system has served as an important way for companies to enter the sports sector. A sports league creates several opportunities for private companies in domains such as league management, franchisee, broadcasting and sports videos production houses, advertising, sports infrastructure such as multipurpose venues, player management, licensing and merchandising.

One of India's most successful league in terms of viewership and revenues has been the Indian Premier League (IPL), which is based on the English Premier League (EPL) format. The league was launched in 2008 by the Board of Control for Cricket in India (BCCI) with eight city franchisees. Though it is still small in comparison to some of the biggest leagues of the world, it has been able to achieve success in a short span of time, which other mature leagues could not manage to do. The evolution of IPL as a brand is an example of successful product innovation, which effectively combined entertainment and sports. The Twenty20 (T20) format of IPL has made the sport more popular and convenient to watch for cricket enthusiasts. The success of the IPL, which is estimated to have had a viewership of 191 million people¹⁵ and ad revenue of INR8 billion¹⁶ in 2014 has led to the creation of several other league-format sporting events, such as the Indian Badminton League, Hockey India League and the recently launched Pro-Kabaddi League. The inaugural season of football's Indian Super League has been fairly successful as well.

Cumulative reach of Pro Kabaddi League was 435 million compared to 560 million for IPL in 2014. Football's Indian Super League was close with 410 million¹⁷ cumulative reach. The new domestic sports leagues however require significant management efforts over a period of time to get established and be successful.



13. Olympic.org, retrieved March 2015

14. Thecgf.com, retrieved March 2015

15. Sports Indians Watch, Business Standard, 12 November 2014

16. Will brands hit the ball twice? Impactonnet, 02 February 2015

17. And we played cricket too, Times of India, 28 December 2014



Table 2: Cumulative reach of sports leagues in India

All India Cumulative reach# (in million)	2014
IPL	560
Pro Kabaddi	435
Indian Super League	410
FIFA World Cup	159
Hockey India League	123
Indian Badminton League	63
NBA	59
Wimbledon	55
EPL	33
Calcutta Football League	24
I-League	11

Source: And we played cricket too, Times of India, 28 December 2014

Cumulative reach refers to the number of individuals within the target group who viewed the tournament over a certain period of time, including duplication



With the advent of professionally-run sports leagues and corporatisation of Indian sports, combined with a tinge of migrating international best practices on and off the field of play, there has been a definite shift in the sporting culture of youth in India. A new generation of fans have started following sporting events like kabaddi, tennis, hockey and football in addition to cricket, leading to the evolution of newer business models and ingenious financing structures. This will further lead to unlocking the true potential of the entire sports value chain and will ensure a healthier and socio-economically prosperous India.

- Mr. Karan Ahluwalia
President & Country Head,
Media & Entertainment, Fine Arts,
Luxury & Sports Banking Group
YES Bank



Ecosystem to support sports development in India

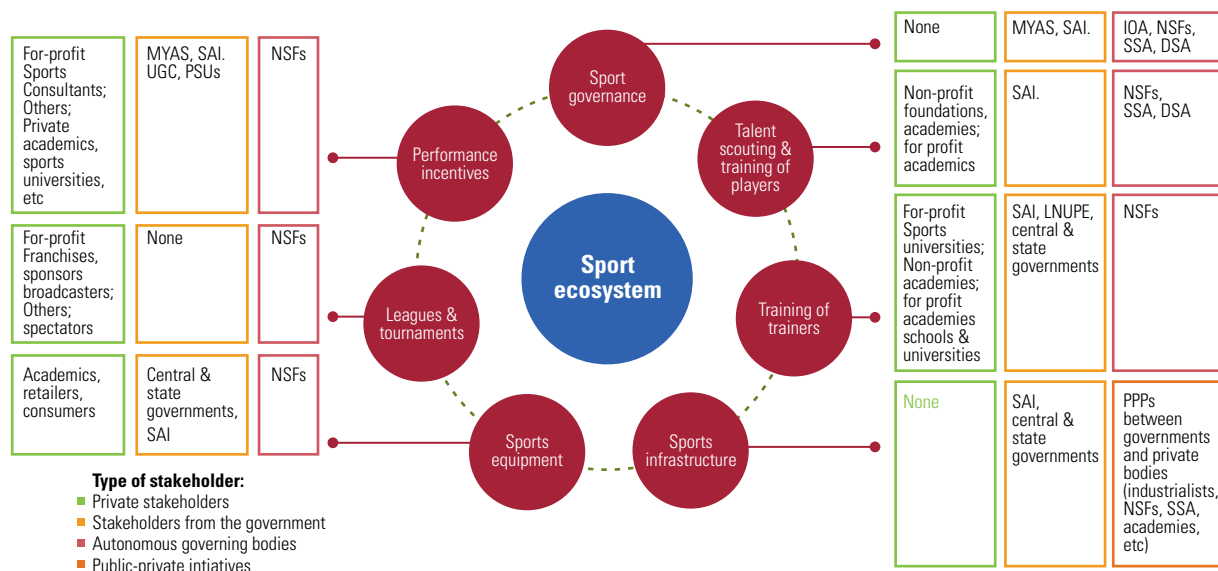
However, in order to sustain the growth in sports and sports-related businesses, a flexible regulatory and policy framework that is able to realise synergies between various segments of sports needs to be developed. This in turn requires the sports ecosystem and its stakeholders to be recognised under the purview of a dedicated industry of sports which can provide impetus to an organised and professional business environment for sports in India.

Table 3: Agencies in India's sports ecosystem

DSA	District Sports Association
IOA	Indian Olympic Association
LNUPE	Lakshmbai National Institute of Physical Education Gwalior
MYAS	Ministry of Youth Affairs and Sports
NSF	National Sports Federations
SAI	Sports Authority of India
SSA	State Sports Associations
UGC	University Grants Commission



Sports ecosystem in India



Source: KPMG in India analysis

The sports industry in India has the potential to grow both in terms of direct revenue streams as well as through interactions with other industries such as education, tourism, retailing, etc. An immediate indicator of the potential is the increasing interest of broadcasters in the sports segment and the success of established and new sports leagues in India. Presence of competitive sports, innovative presentation for inclusive viewing and entertainment and integrated ecosystem can help achieve the growth potential of sports in India.

Sports Broadcasting in India

Strategy for Broadcasting Sporting Events

Adjusting the male skew to more inclusive viewership

There has been a surge in the number of sporting events broadcast in the past few years. These events include tournaments and leagues played at state, national and international levels. Several international tournaments and leagues played at the regional or global level are now telecast in India bringing in a larger and much diverse audience. Males form around 60 to 65 per cent of viewers and are expected to continue to be the main target segment. However, the number of female viewers has been increasing¹⁸. 57 per cent of the viewership of ISL and 53 per cent of the viewership of Pro – Kabaddi League was made up of women and children¹⁹. Broadcasters are supplementing the sports with other entertaining and informative pieces to make the program more inclusive.

Getting to the right content mix

With the rise in number of sporting events, sports channels are covering several sporting events in their annual calendar. It consists of a mix of marquee events from domestic and international leagues, major tournaments along with minor domestic leagues and tournaments.

Star Sports has revamped itself with an array of uniformly branded eight channels to showcase a variety of domestic and international sports both cricket and non – cricket and in English as well as Hindi. While international cricket matches featuring India will make up 65 per cent of Star Sports 1, Ranji matches, university and women's cricket and international cricket matches not featuring India will form 50 to 60 per cent of content on Star Sports 2. This will enable Star to nearly double its cricket content which is the major revenue driver for sports channels in India. Star Sports 4 will feature other sports which include international football (soccer), European soccer leagues, badminton, tennis, and Formula-1 racing. The new Indian leagues which include hockey, badminton and soccer will be telecast on Star Sports 1 to 3 to reach a larger audience. Such a strategy enables Star Sports to increase its cricket content as well as broadcast non – cricket sports which are seeing increasing traction²⁰. There is also an increasing trend towards multi-sports channels, as the viewership of different sports are increasing and sports channels are vying for TV rights across sports. Star has seen a shift from having a cricket specific channel in its cluster to multi-sports channels. It enables Star to broadcast both international and domestic cricket content simultaneously as well as gives it flexibility to show

18. Industry discussions with KPMG in India

19. And we played cricket too, Times of India, 28 December 2014

20. Star unifies branding for sports, Business Standard, 5 November 2013



different sports across different channels. This can be attributed to the large investments made by Star to purchase rights for domestic and international cricket, football, tennis, badminton etc. On the other hand, Neo has rebranded its cricket specific Neo Cricket to Neo Prime on account of reduced live cricket properties and surge in volume of several sports²¹. Ten however, has sports specific channels with Ten Cricket for cricket, Ten Action for football and Ten Golf for Golf broadcasting. Availability of sufficient single sport media rights and a definite viewership base for that particular sport drives the presence of sports specific channels. This helps advertisers to target a specific audience, for example luxury products have tied up with Ten Golf. Although, digitization and lower costs of distribution make single – sport channels more viable than before, it can take some time to evolve in India and reach the popularity of golf and tennis channels in some developed countries.

Regional language boost to broadcasting

Another strategy to target a specific audience is the language of telecast. Hindi and other regional languages increase the audience reach for sports as English has a limited audience. Star Sports 3 replicates Star Sports 1 in Hindi. In 2014, it telecast the domestic football league - Indian Super League in five languages. Its regional TV channels were used to telecast the league in Bengali, Kannada and Malayalam apart from English and Hindi broadcasts. During FIFA World Cup 2014, Bengal accounted for half the country's viewership mainly because of regional language feed by Multi Screen Media on its Bengali general entertainment and film channel Sony Aath. Hindi broadcast of the Pro Kabaddi league on Star Gold also helped take the cumulative reach to 435 million for the event²². Other than using regional sister channels for feed in local languages, sports channels may spin off separate regional language sports channels if the demand picks up.

Finding a niche

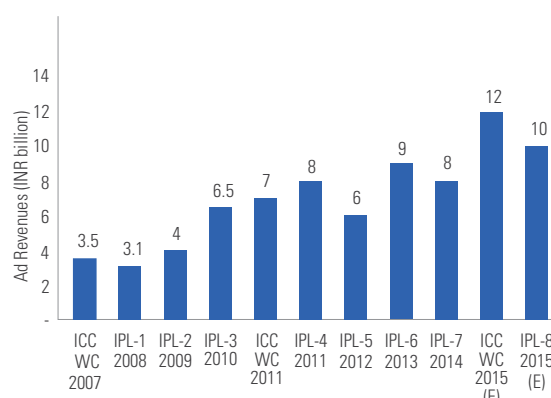
While cricket is the marquee property for several channels, sports channels are developing a niche for themselves with the mix of different sports and type of events they broadcast. Sony Six for instance is focussed on cricket, football, basketball and fight sports. IPL is the major cricketing event for the channel and is supplemented by one off other cricket tournaments. Sony Six has positioned itself as the broadcaster of major international football tournaments with the rights of 2014 FIFA World Cup, Euro 2016, Confederations Cup 2017 and 15 to 20 other smaller tournaments under FIFA and UEFA. National Basketball Association (NBA) is another major property which shows high potential especially among the youth including girls and has seen a significant increase in viewership. To cater to this segment, Sony Six increased the volume of the event substantially and focussed on promotional activities at the college level. Fight sports is another example where Sony Six has targeted a specific market segment – semi urban areas in

North India consistently. These have helped the channel to garner increased viewership of around 181 million in 2014, 40 per cent of the audience was between 15 to 35 years and 45 per cent were females²³.

Revenue and Profitability model Still an ad driven revenue model

Media spends on sports, most of which is on TV, increased from INR11.5 billion to INR22.5 billion over 2008 to 2013 at a CAGR of 14 per cent²⁴. In mature markets subscription is the main revenue driver for sports channels, contributing nearly 60 to 90 per cent²⁵ of the revenues. However in India advertisements still account for nearly 60 per cent²⁵ of the revenues of sports channels, mainly driven by cricket which is the largest revenue spinner and accounts for nearly 80 to 85 per cent²⁴ of the total television sports media revenue. Non-cricket sports provide live sports content around the year which gives advertisers a regular touch-point to their target segments. Revenues from advertisements in any year vary depending on the tournaments and series held during the year. Cricket mostly forms the peaks whereas the troughs are being evened out with non –cricket sports and non live cricket content. In 2011, ad spends on TV for cricket was estimated to have crossed INR20 billion²⁶. In 2015, ad spends from the world cup and IPL alone are expected to be around INR22 to 25 billion²⁷. Ad revenues for non cricket sports are only a small fraction of cricket revenues. In 2013, ad revenues from Indian Badminton League and Hockey India League were INR0.9 billion and INR0.7 billion²⁸ respectively.

Ad revenues from ICC World Cup and IPL



Source: Will brands hit the ball twice? Impactonnet, 02 February 2015

21. Neo Cricket set to rebrand as Neo Prime, IndianTelevision, 2 June 2012
 22. Star India to air Hero Indian Super League in 5 languages, Business Standard, 18 September 2014
 23. Evolving a new positioning paradigm, CampaignIndia, 21 March 2014
 24. Sporting nation in the making, Growth & Potential of Sports in India, SportzPower GroupMSP, 2014

25. Industry discussion with KPMG in India
 26. ICC World Cup, IPL estimated to garner television ad spends of Rs 2000 Cr, Exchange4Media, 21 January 2015
 27. Will brands hit the ball twice? Impactonnet, 02 February 2015
 28. Badminton and hockey leagues manage to attract viewers, Business Standard, September 2013



Advertising and Sports Broadcasting: Sports channels are popular among advertisers because they offer an involved male audience which is the target segment for many categories including automobiles, financial services, telecom, etc. It results in a higher ad rate to viewership ratio compared to other genres. Lately, E-commerce has emerged as a significant category for sports channels. New product launches and timing of the sports event also decide the advertising content for example; financial services are bigger spenders in events held in February and March²⁹.

Sports content drives subscription revenue

Sports is also used as a lever to drive subscription revenue³⁰. Often, subscribers will subscribe to channels or upgrade their cable/DTH packages just to have access to a particular tournament or season. It has a knock-on effect on the subscription and ad revenues of sister channels. As a result sports become an important component of a bouquet of channels and most of the major channel bouquets in India and internationally have strong presence in sports genre as well. Moreover, given the high investments in purchasing rights for sports content, a bouquet of channels is better positioned to derive benefits from its sports channels compared to a standalone sports channel. Digitisation and unbundling of channels are expected to further increase the subscription revenue for sports channels.

New revenue streams

Increasing internet penetration and the number of smart phone users have created a market for online viewing of sports in India. Broadcasters are using their websites and apps as platform for online streaming of cricket, football, F1, hockey, basketball, tennis etc. Live streams and full replays are usually accessible with subscription passes while other video content on editorials and reviews are accessible for free. Increase in 3G and 4G usage, broadband penetration and omni-channel experience across various devices can increase online streaming of sports. As the value proposition is established and strengthened there can be growth in the subscription revenues from this segment which is still predominantly ad driven^{29,31}.

Beyond the conventional, broadcasters today are trying different business models. Star for instance was a not just a broadcaster but a partner of IMG Reliance in Indian Super League with 30 per cent ownership. It shows the broadcaster's intent to be a partner in developing the new league as a long term investment. The aggressive marketing across the Star network and the virtually assured broadcasts of each of the ISL matches across the Star Sports electronic and digital platforms ensured healthy viewership across the Indian target demographic. On the flip side, however, and unlike the IPL, broadcasting rights revenues do not exist in the revenue sharing model with franchisees³².

Favouring growth over profitability

Content cost is one of the largest cost element for sports broadcasters followed by the cost of marketing the telecast and production cost.

Content accounts for 70 to 90 per cent of the total cost and the cost of media rights are increasing substantially with every renewal exerting greater pressure on margins²⁹. But, the limited availability of sports content creates the need to bid higher for the media rights especially for marquee properties. Marketing costs form the next big cost item and is necessarily higher in per cent terms for new leagues compared to the established ones. Marketing also demands greater time and effort inputs from management.

High content costs impact the profitability of sports channels but the industry takes a long term view on sports with the current phase being an investment period. This is keeping in mind the growth potential of the segment and its knock on benefits on sister channels. Complete addressability and flexibility in pricing sports content can further increase the returns from sports; even for high cost content like cricket given its penetration and popularity.

Critical Success Factors for driving interest in sports events and channels

Although there has been a surge in sports viewership in India, it is still very low compared to countries like the U.S. and the U.K. On an average Indians spend only 4 per cent of daily TV viewing time on sports whereas it is nearly 12.5 per cent in the U.S. and the U.K.³³

Content is a major limiting factor in sports broadcasting. Unlike in entertainment space where IP can be created, sport broadcasting depends on buying IP or taking content from federations. The limited number of events is the pie that everyone wants a share of, making it highly competitive and costly. Newly introduced leagues and international sports are expected to widen the content availability. However, mere live telecast of events does not guarantee revenues and profitability and broadcasters are developing new ways to monetize the content rights.

Good quality of broadcast with multiple viewing angles, graphics, and conversion to HD enhances the viewing experience and increases viewer retention time. Sports is also a major factor for migration to HD viewing which is a high value market. Star Sports, Sony Six and Ten Sports all have HD channels for sports. Star Sports is looking to start 2 channels in HD in addition to the existing two, to mirror the bouquet of channels in standard definition³⁴. Number of HD households in India stands at 4 million in 2014 and is expected to increase significantly in a short period of time³⁵. Broadcast in regional languages have helped to significantly increase the number of viewers. It also helps the advertiser in geo-targeting. Moreover, regional companies are able to advertise on the regional feed channels at one-fourth the rates for national TV ad spot³⁶.

29. Industry discussion with KPMG in India

30. Prime time for sports channels, Business Standard, 29 June 2012

31. Master of his game, Business Today, 7 July 2013

32. Indian Super League: Soccer in a new league, The Economic Times, 11 October 2014

33. Television begins to look beyond cricket, Business Standard, 12 November 2014

34. Star India to launch two HD channels on February 1, Business Standard, 28 January 2015

35. All our channels are profitable except sports, Television post, 18 February 2014

36. ICC Cricket World Cup: Experts give thumbs up to Star's geo targeting strategy, IndianTelevision.com, 31 January 2015



Viewers today have the option to view sports from across the world and different time zones. Inconvenient time slots for live matches are a major hindrance to sport viewing. Video on demand, online streaming and deferred telecasts are increasingly being used to give the audience flexibility in viewing as per convenience.

Sports channels are also innovating for greater involvement of viewers with the game. Alternate content such as talk shows which provides debates and analysis of games by sports analysts and former sportspersons accompany nearly every major event. Quizzes, series of shows on players and sports based fiction are some of the new content being aired in addition to matches. This is also an attempt to provide entertainment which can make the shows more inclusive and increase the female and children viewership along with the core male audience.

Phase 3 and 4 of digitisation, flexibility for the viewers in choosing their subscriptions and freedom for the broadcasters in pricing can provide greater revenues as well as profitability to the broadcasters.

One of the biggest factors in realising the growth potential of sports in India will be ensuring that audiences continue to flock to stadiums. Stadium attendance develops loyalty to sports, league and teams, and can drive revenue from merchandising and memorabilia. It also acts as a driver for TV viewership. Growth in domestic leagues and investment by the team owners, sponsors, broadcasters and federations in improving the in-stadia viewing experience is a step in the right direction.

On the rise: Sporting leagues in India

Growing number of domestic leagues

Commercial success of IPL has inspired leagues in several non-cricket sports as well. A summary of major sporting leagues in India is given in Table 4.

While IPL is still far ahead than the other leagues in terms of money and growth, the other sporting leagues have potential for higher viewer and advertiser participation going forward. However, some of the **key challenges facing the sport of non-cricket leagues in India include:**

Poor investor confidence

For instance the Indian Badminton League (IBL) suffered a loss of INR25 crore in the opening season in 2013 owing to investors pulling out casting doubt on the return of IBL with its second season. However, despite no play in 2014, the IBL is set to return in 2015³⁷.

Lack of industry status

Provision of industry status could lead to an organized sports industry leading to higher available capital, newer sports businesses, additional revenue streams for stakeholders making leagues commercially viable ventures.

Lack of a culture for sports

Sporting leagues in India are designed to last just a couple months every year. However, many major sporting league seasons in the world last for longer durations every year. Sporting leagues need to become year round (or at least 3 to 4 months a year) ventures. Apart from the benefit of a longer engagement with viewers (allowing the building of a larger fan base and culture for the game), this also touts the idea of sport becoming a year round profession furthering the advent of sports businesses.



37. IBL 2015 to be held in April, Mumbai Mirror, 2 December 2014



Table 4: Major sporting leagues in India

Name	Indian Premier League	Hockey India League	Golf Premier League	I-League	Indian Super League	Indian Badminton League	Pro Kabaddi League
Sport	Cricket	Hockey	Golf	Football	Football	Badminton	Kabaddi
Promoters/Founders	BCCI	Hockey India	Shiv Kapur & Neeraj Sareen	AIFF	IMG-Reliance	BAI, Sporty Solutionz	Mashal Sports (Anand Mahindra, Charu Sharma)
No. of Franchisees	8	6	8	11	8	6	8
Team Composition	Min. 16 players, Max. 11 foreign players in squad and max. 4 in playing eleven, min. 14 Indian players in each squad	24 players (10 foreign & 14 Indian)	4 (1 international, 1 Indian, 1 from Asian tour and 1 from golf tour of India)	Allowed to register 4 foreign players but can field a maximum of 3	Min. 14 domestic players, Min. 7 foreign players, 1 Marquee player, Playing 11 allowed to have 6 foreign players and 5 domestic players	Max. 11 and min. 10 players including a junior player and four foreign players. The ceiling on foreign players in a contest is three while no individual plays over two matches	Max. 12 players, Min. 9 Indian players and up to 3 foreigners
No. of Seasons	7	3	1	8	1	1	1
No. of Matches	75	34	-	192	61	90	60
Time Period	April to May	January to February	February	October to May	October to December	August	July to August
Total Prize Money	USD4.2 million	USD0.4 million	USD0.4 million	USD0.1 million	USD1.3 million	USD1 million	USD0.2 million
Franchisee Fee (per annum)	USD6 to 14 million	USD1.7 to 2.5 million	-	-	USD2.5 million	USD0.6 million	USD0.3 million

Source: KPMG in India analysis





Revenue model in leagues

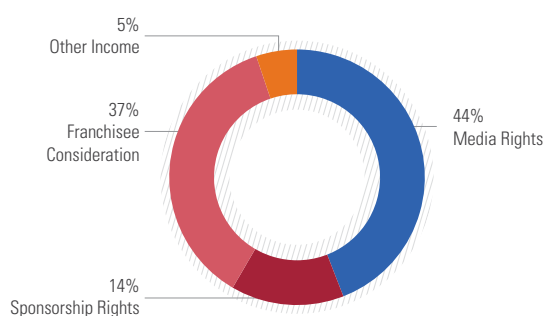
Major sources of revenue for any league come from media rights, sponsorships and revenue from franchisees. Share of franchisee consideration in IPL has increased from 30 per cent³⁸ in 2010-11 to 37 per cent³⁹ in 2012-13 with a corresponding decrease in the revenues from sponsorship rights. Income from media rights and other sources have nearly the same share in 2012-13 as in 2010-11.

Major sources of revenue in a league

Media Rights	Sponsorships	Revenue from franchisees
TV broadcasting rights	Title sponsors	Franchisee fees
Theatrical rights	Ground sponsors	Share of gate revenues
Internet rights	Umpire sponsors	Share of local revenues
Marketing support	Official drinks sponsors	
	Blimp sponsorship	

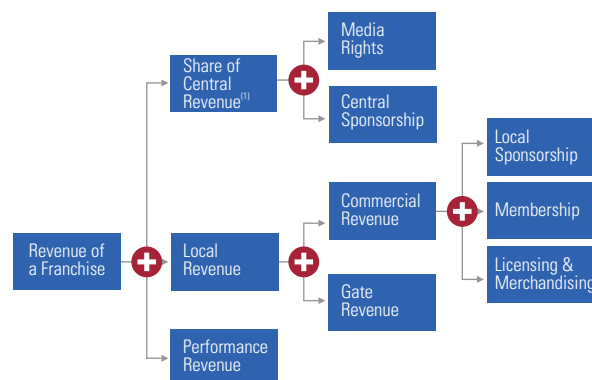
Source: Industry discussion with KPMG in India

Break-up of IPL revenue (2012-13)



Source: BCCI Annual Report, 2012-13

Revenue sources for a league franchisee



Source: Industry discussion with KPMG in India

Major sources of revenue for any league franchisee are a share of the central revenues, local revenue and performance revenue.

Share of central revenue

This includes a percentage of the revenue to the league from media rights and central sponsors like Pepsi in the IPL. In India, media rights are a major revenue sources both for the league and the franchisees. channels are expected to further increase the subscription revenue for sports channels.

Local revenue

Local revenue for a franchise entails revenue from match day ticket sales (gate revenue) and commercial revenue that includes funds from franchise sponsors, merchandise sales and revenue generated from membership with the franchise club if any. However, revenue from franchise sponsors makes for a majority of the commercial revenue. Sports merchandise sales is a fast growing segment with INR2 billion in retail sales in 2013⁴⁰. Moreover, contribution of gate revenue to overall revenue of franchises is low due to inexpensive ticket pricing, especially in non-cricket leagues. This is in contrast to leagues abroad where gate revenues are a significant contributor to a franchisee's revenue.

38. BCCI Annual Report, 2010-11

39. BCCI Annual Report, 2012-13

40. Media Route 26 India, MPA, Issue 5, 4 December 2014



How can leagues be further popularised/monetised

Some of the critical success factors of a league in India are identified below:

Players

Involvement of top players of the world creates interest in the viewers and increases the quality of the game. The IPL is a successful example of the same. On the other hand, I-League is struggling to attract top players resulting in poor viewership.

Marketing

An effective marketing campaign is another critical factor in making the league popular. Again, the involvement of various celebrities as brand ambassadors or owners in the IPL contributed to generating larger viewer interest in the league. In fact, the marriage of the Indian entertainment industry and cricket has aided in making IPL a commercial success.



Merchandise, ticket sales, social media capitalization are some of the tangible streams to assuage the popularity of a franchisee on a monetary scale. Player trading is a lucrative proposition, however, it should be part of a cyclic investment back into the teams' talent management strategy. Given India's recent league revolution, we are still some time away from realising the true potential of merchandise and ticket sales, what is important is to create brand equity as evangelists of organic change to India's sporting ecosystem. DoIT Sports Management through Dabang Delhi and Dabang Mumbai is actively pushing for grassroots development programs in schools/colleges to discover and support the young and talented with positive energy as our mission. ▲▲▲

- M. S. Radha Kapoor
Founder & Director,

DoIT Sports Management (India) Pvt. Ltd.

International leading practices in stadium infrastructure⁴¹

The fact that good a quality stadium is essential in attracting fans (provided the quality of play is competitive) stems from the following statistics:

- Italian stadia are relatively old and see a 61 per cent utilization despite a competitive quality of play.
- In contrast, owing to the 2006 FIFA World Cup, Germany has a lot of modern stadia and the German Bundesliga witnesses a stadium capacity utilisation of 88 per cent

Table 5: Stadium building trends

Common Amenities	Semi-common Amenities	Occasionally
In-house restaurants & bars	VIP underground parking	Retractable roofs
Conference facilities	Hotel	Nightclubs
Corporate boxes	Loge boxes (Semi-enclosed boxes accommodating 4-12 guests)	Offices
High end catering	Music arena	
Merchandising outlet	Exclusive corporate tier	

International Case Study: Verizon Center- A multipurpose sports venue⁴²

The Verizon Center is a multi-purpose sports and entertainment venue with a seating capacity of 20,000 seats and is home to the NBA's Washington Wizards, the NHL's Washington Capitals, the WNBA's Washington Mystics, and the NCAA's Georgetown Hoyas men's basketball team. The Verizon Center is the result of a USD7 billion redevelopment plan, that was launched 17 years ago by sports entrepreneur Abe Pollin, who envisioned a new sports arena in downtown Washington as opposed to the older U.S. Airways Arena that he operated, which was too difficult to get to, since it was situated in the suburbs of Washington DC, and also out of date. The Verizon Center boasts of 100 plus luxury suites, a high-definition centre-hung scoreboard, an indoor basketball practice facility and 10 dressing rooms. This is supplemented by a variety of concession stands and restaurants. The arena also houses various sports bars and grills, clubs, the Volkswagen Theatre, a fitness centre and a salon. Since its inception, the arena has hosted high profile sporting events like the 1998 Stanley Cup Final, the NBA (2001) and WNBA (2002, 2007) All-Star games, and the 2003 World Figure Skating Championship, besides being the venue for numerous family shows and concerts. The stadium has served host to more than 36.5 million people who have attended the 3000 plus events organised at the venue.

41. European Stadium Insight, 2011

42. Business of Sports, 2014



Funds for development of Verizon Center⁴³

Supporting funds during the development of the arena came from the arena naming rights deal that were sold to Washington based MCI Inc. for USD44 million, over 20 years, and the arena was subsequently named the MCI Centre (after Verizon Communications took over MCI, the arena was renamed the Verizon Centre), multiyear deals with corporate sponsors and the sale of the arena luxury suites that were priced USD100,000 to 175,000 in 1997. The Verizon Centre is considered a commercial success.

Governance framework

It is seen that leagues which are run with the support of the approved federation have been able to sustain. The ICL failed due to lack of support from BCCI and WSH is facing similar troubles due to non-recognition of the founding federation as the official national sports federation of hockey itself.

Stadium Infrastructure

Quality of stadium infrastructure improves the viewing experience, hence increases the level of interest in the sport. It is important to create supporting infrastructure like restaurants, bars, fast-food chains, merchandise, stores, books and music stores, etc. to develop stadiums into popular entertainment spot for the family. Hike in ticket prices subsequent to rise in viewership, organizing multiple sporting events and entertainment shows wherever possible can help monetise stadium infrastructure.

Fan base

An effective strategy to increase a franchisee fan base is engagement of respective franchises with local community. This helps generate greater TV viewership, increase attendance of matches and sale of merchandise.

Performance of national team or players at international level increases the interest in the game, hence the league.

League timing

The tournament should be held at a time when there is no clash with international tournaments that could divert a significant section of the viewers, many players are available and weather is suitable for holding matches.

The length of games and timing of matches (conducive for family viewing) are also important factors to consider, both having further helped significant viewership of the IPL. Other factors may include spectator friendly broadcasting such as better viewing angles and broadcasting in Hindi and English.

Case Study: Packaging of the Pro-Kabaddi League^{44,45}

The inaugural season of Pro Kabaddi League (PKL) enjoyed a high cumulative viewership of 435 million in 2014 making it the second most watched league in the country.

A multi pronged strategy was employed by the promoters of PKL:

- Making Kabaddi an aspirational sport
 - Aggressive pre-event marketing by Star through Star India Network to create awareness of player and game rules
 - Prime time airing of action and packaging as a viewer friendly product. In fact, 53 per cent of PKL viewers were women and children
- Ensuring good stadium experience
 - The promoters have made significant investments in building quality infrastructure for the game
- Catching attention of a new generation of TV viewers
 - The promoters laid emphasis on using state-of-the-art technical equipment to ensure a better viewing experience
- Celebrity endorsements
 - Several Bollywood and sports celebrities were roped in for promotion while one of them owns a team as well

Lack of industry status to sports

For sports to sustain in India as a business, it is imperative that the nature of its ecosystem moves from a 'non-profit' one to a 'for-profit' one. The onset of leagues is creating opportunities for several sports-focused businesses that are important in driving the sports ecosystem and commercial viability of leagues and sports entertainment. Some of these businesses include:

- League management
- Sports broadcasting and sports video production houses
- Quality sports infrastructure development that enables venues to serve as multi-purpose sports and entertainment centres
- Player management and consulting services to businesses in sports industry
- Licensing, sports retail and merchandising.

43. Business of Sports, 2014

44. The secret to Pro Kabaddi League's Success, The Times of India, 27 August, 2014

45. Marketing lessons from Pro Kabaddi League, Nichell/IMA, 10 September, 2014



Industry status can provide impetus to an organized and professional business environment which supports the sports ecosystem and its players. In addition, a flexible regulatory and policy framework can help realize synergies between various segments and sustain the growth in sports and sports related businesses.

Lack of organised sports sector has inhibited for-profit ventures in sports

- A strong and profitable sports ecosystem is essential to the growth of sports teams and leagues. The profitability of league franchisees in India is especially challenged by the lack of growth of additional revenue streams. Examples of potential revenue streams, other sports segments that could aid growth of league system in India and their current challenges include:
 - **Franchisee training academies** serve as a potential revenue stream and also as a tool to engage the local community. This helps in building a fan base and promoting culture for the particular sport aiding long term viewership, more popularity driving more franchisee sponsorships and also breeding of quality domestic talent. However, lack of industry status makes it difficult to acquire capital for building academies and drawing out contracts affecting scalability. This in turn has had an effect on the quality of local trainer talent (due to lack of demand for trainers and lack of quality sports training/educational institutes) forcing academies to rely on expensive foreign coaches.
 - **Player trading** is an important revenue stream for franchisees the world over that stems out of selling players from franchisee academies
 - **Merchandising** as a significant potential stream is stymied by rampant counterfeiting, low fan affinity, team sports being still in nascent stage, cost and quality issues
 - **Sports infrastructure** serving as multisport and multipurpose entertainment centers is currently lacking in India. State of art stadium infrastructure is key to attracting more crowds (and thus help increase gate revenues), aiding infrastructure monetization and thus driving the creation of more such stadia. Factors preventing the development of this industry include:
 - Tenders not being able to differentiate between special/niche sports infrastructure companies and general civil construction companies for sports infrastructure development jobs
 - Classification of sports infrastructure companies is still not very clear
 - Current duties on import of leading technology and materials results in 30 per cent⁴⁶ addition to cost of materials

- Due to lack of industry status, sports infrastructure companies are considered general construction companies which inhibits their ability to raise funds and attract talent.
- Difficulty in acquiring loan from banks

- **Sports consulting firms/alternative sports careers** though on the rise are still at a nascent stage in India owing to lack of sports related education programs such as sports marketing and management. Only 15 per cent Bachelors in Physical Education and Masters in Physical Education graduates continue with a career in sports owing to the lack of professional sports opportunities due to unorganized sports industry. Quality human capital dedicated to the sports industry is essential in driving innovation for sports businesses, promoting sports as a year round profession and serve as back up careers for professional sportspersons.



Dabang Mumbai (DM) has put a great deal of emphasis on development of local mumbai talent and local coaches. 5 juniors from mumbai were part of the DM team. DM has entered into a tie up with Bloemendaal hockey club to develop school talent and raise the standard of local coaches. After a long time I actually saw a houseful mumbai hockey stadium for the DM home matches. DM took a lot of efforts to make it a great stadium experience for the fans at the home matches

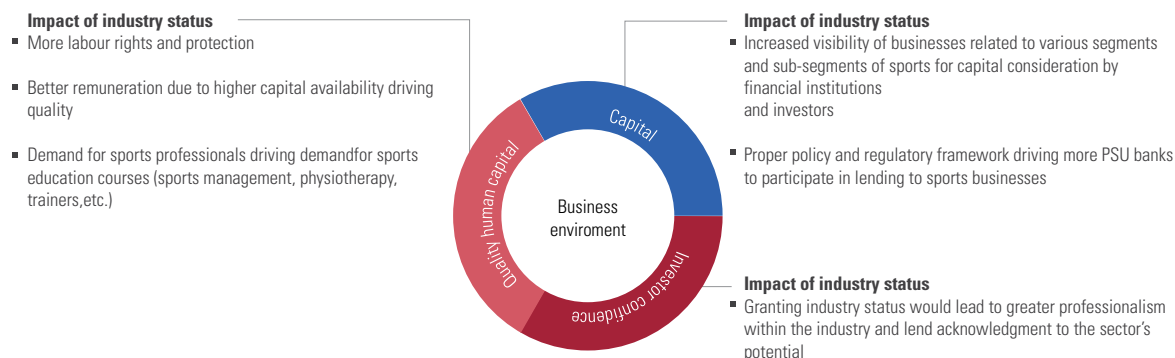
- Mr. Viren Rasquinha
Strategic Advisor & Mentor,
Dabang Mumbai (former India Hockey Captain)



46. Industry discussion with KPMG in India



Key drivers for a successful business environment for sports



Source: Industry discussions with KPMG in India

Availability of capital, investor confidence and human resources that can innovate and drive quality are the main elements that shape an environment conducive to growth of business and a sector writ large. Granting an industry status could provide impetus to growth of the sports ecosystem by having the following impact on the elements identified above:

Capital

The likely benefits and impact of the industry status on capital availability may be summarized as follows

- Proper policy and regulatory framework and RBI guidelines to the Banks for funding sports industry could result in more PSU banks and other financial institutions participating in lending funds thereby increasing the capital availability.
- Moreover, a definition of sports industry that identifies various components and players of the sports ecosystem could enable framing and grant of fiscal and other incentives encouraging investment. Identification of various segments of sports under an industry definition could also increase their visibility enabling them to attract capital.
- Also, organized industry under a proper regulatory framework could benefit from better risk mitigation frameworks and strategies and therefore industry status could also lead to industry representatives being able to work with insurance business in the design of more customized and efficient terms of insurance.

Investor confidence

Granting industry status could lend acknowledgement to the sector's potential and also clearly define the components comprising the sports industry. This coupled with policy initiatives and regulations could drive greater professionalism and hence increase investor confidence.

Quality human capital

Industry status to sports could incentivize professionals willing to associate themselves with sports to make a career out of it as:

- Higher capital availability could result in higher remuneration benefitting professionals as well as sports businesses looking to acquire quality talent. This could also drive innovation
- Policies defined on labor rights and protection as a safeguard for professionals in the sports field.

Industry status to sports could therefore drive demand for quality sports professionals. This in turn could have an impact on other sports sectors as well. For example, demand could drive greater uptake of sports educational courses such as physical education, sports management, sports medicine resulting in proliferation of leading sports education universities and research facilities that could benefit the sports ecosystem as a whole.

Sports industry in India is poised for growth with increasing demand from viewers. Cricket has been and will continue to be one of the most important sport in broadcasting industry. However, non – cricket sports are gaining viewership with the launch of several domestic leagues. Interesting league formats, regional language broadcasts, better production quality and online platform can drive increase in viewership. Digitisation, complete addressability and flexibility in pricing can drive revenues for broadcasters. And a sustained effort by various stakeholders in developing sports talent, in stadia viewership can be critical for the long term growth of sports industry.



Live Events

Coming alive



Overview of the industry

Despite a significant change in economic mood, the Live Events industry continued to grapple with the same set of challenges and issues in 2014 as they did in 2013. The general positive change in economic and industrial sentiment, after the new government took office, made companies in the sector upbeat about the future. Companies – both Indian and MNC – and the government started to engage in live events activity more prominently after the elections. Yet the need for change in the regulatory, infrastructure and taxation framework, currently impeding the growth of the live events sector, remains unresolved.

This chapter seeks to capture the trends in the organised segment of live events which we have broadly subdivided into five subsectors –

- 1. Meetings Incentive Conventions Exhibitions (MICE)** – Mostly a B2B activity, MICE comprises primarily corporate-driven engagement events for vendors, customers, employees, dealers, sales and business associates. Conventions and exhibitions in India are also primarily B2B events organised around industry verticals and by industry associations. B2C exhibitions – and B2C segments of existing exhibitions – are also gradually emerging in India.
- 2. Event IP (Intellectual Property)** – IP events are defined as activities wherein the ideation, creation and execution rights are held by media or event companies. IPs are primarily periodic in nature and are generally associated with a particular genre – with music, arts, literature and film being most prominent in India – or interest groups such as biking, automotive or neighbourhood activity.
- 3. Brand Extensions** – Live Events based on brand extensions help accentuate brand salience and recall in the minds of the viewer. The primary reason to segregate it from a pure IP stems from the fact that these events are closely related to the original brand and is used to strengthen category membership. Brand Extension Live Events are mostly owned by media conglomerates that seek to extend the brand's promise and success from print or television or radio to live events.
- 4. Activations and Experiential Marketing** – Included within 'below the line (BTL)' activations and experiential marketing (EM) is marketing activity focussed on customer engagement through ground events and brand-centric activity. They serve as valuable touch points for brands to create a real time and two way communication platform; providing important 'touch and feel' of the brand to consumers.
- 5. Entertainment Zones/Destination Parks** – A fast emerging category for live entertainment, entertainment zones and destination parks covers captive activity areas from bowling alleys, kids activity centres, live performance clubs, sports and gaming areas in malls, to amusement parks and theme parks. As the segment is very nascent, and has overlaps with retail and tourism, the chapter has mapped the trends rather than size it.

Exclusions

The fragmented nature of the industry – especially in personal and social events - hindered sizing of the sector. Industry guesstimates suggest that the unorganised segment of live events comprising personal, social and political event management could be up to ten times¹ greater than the organised segment. This segment impacts, supports and benefits travel and hospitality, security, beauty and healthcare, beverages, catering, banquets, food, retail, artists, media and press, and several million small and individual entrepreneurs across the country. The live events industry estimates that (i) this segment is growing at over 20 per cent year-on-year and is virtually immune to economic slowdown and (ii) it helped many organised players weather the downturn of 2011-13⁰¹.



To be profitable and keep growing in the events industry, one must focus on sustainable growth. This is a personalised business where client demands full attention of the agency owner, no less. Many agencies are now suffering because overheads have eaten away their margins.

- Rajiv Jain
Chairman and CEO,
Rashi Entertainments

The largest event of 2014 was the general election in India. Touted as the world's second most expensive election after the 2012 US Presidential polls⁰², the general elections energised event management companies. While reports have suggested varying numbers on the overall amount spent on the elections, there seems to be industry-wide agreement that event management and ground activity was almost one third of the total media spend. A case in point – driven by an event-savvy prime ministerial candidate – the BJP adopted the latest technologies in sound, light, pyrotechnics, TV coverage and stage; Mr Modi was presented and positioned prominently in rallies across the country⁰¹.

Besides political and social events, the chapter also excludes sports events such as the IPL and ISL. With the mushrooming of many sports leagues in the country – and some achieving considerable success – there is no doubt that sports management and events related to sport are reaching significant scale. Yet sports in India, barring cricket, remains primarily a television activity. The sports landscape in India is covered separately in this report

01. Industry Discussions conducted by KPMG in India

02. www.ibntimes.com, April 11 2014, India's 2014 election to cost USD5 billion, second only to price tag for 2012 US presidential election.



Growth Drivers in 2014

Industry discussions indicated 2014 was certainly much better than 2013; which was marked by an economic slowdown. The first half of 2014 was not much better than 2013. Once there was a stable government in place, with a leader perceived to be business-friendly, key industries such as automotive, media companies, mobile devices, information technology, PSU and consumer products started to spend on events. The government itself – through mass outreach programs like ‘Swachh Bharat’, ‘Beti Bachao’, ‘Make in India’, etc – started ambitious event based spending. Similarly, consumer spending – which is key to IP events, destination parks and entertainment zones – saw a significant uptick in the second half of the year which coincided with the year-end festive season. Industry discussions revealed that the industry as a whole grew by 15 per cent over 2013⁰³.

Growth, however, was not uniform across the industry or regions. Traditional big spenders in MICE and activation such as financial services, telecommunication services, white goods, and cement remained muted. Jewelers’ spends on live events and sponsoring IP reduced considerably. The northern and western states of India, especially Tier II and III cities, saw better growth in both activity and spends in 2014 compared to southern and eastern states. The smaller northeastern states such as Nagaland, Meghalaya, Mizoram and Sikkim emerged as niche event destinations.



All things being equal, and with no serious internal or external shocks, I am looking forward to a return of the high growth we enjoyed in the mid 2000's. It will give us the opportunity to focus back on our real expertise instead of having to desperately chase the marketing rupee. It's certainly true that post-recession saw our industry lose control of its destiny to the client side. We're looking forward to clawing back some of that lost ground, whilst connecting ever closer to the actual consumer on the ground through the delivery of high quality ticketed IPR. ▲▲

- Martin D'Costa
CEO - 70 EMG
Director - India Bike Week, Zambhala

EM budgets grew their share of the advertising pie as brand managers allocated larger portions of spends⁰³. As companies start to have more targeted communication for their brand, activations would continue to grow. The increased spends, however, marked a shift from one-off event management to full-fledged campaigns with brand managers seeking Pre Activation, Activation, Post

Activation activity and well as digital integration. Coca-Cola India, for example, follows a paid-owned-earned-shared media strategy that lays emphasis on ‘brand experience’ rather than just brand visibility. The event agency has to now take responsibility for creating a buzz around the brand as they become an integral part of ideation and not only execution.

Much of the growth in live events was driven by the explosion of IPs and brand extensions. For example, there are approximately sixty Literature Festivals in India, Bangladesh, Bhutan and Nepal with two to three fests being added annually⁰⁴. At the present moment, new and existing players are coming up with IPs in the space of music, art, awards, neighborhood activity, habits and passions such as driving and biking, and business. The growth in IPs and Brand Extensions is likely to continue for the next few years as IP owners discover newer categories and geographies. Most of these are unprofitable, or breakeven after receiving private and HNI support. It is quite clear that successful IP or Brand Extensions will be created by those that can take many years of losses.



Indian consumers and brands both are looking at new avenues of entertainment with music and comedy being at the forefront. We feel the time has come where Live industry if approached with a 360 degree mindset can truly leverage the potential of numbers that a country like India has. I believe Live can be the next big growth driver of the M&E industry. ▲▲

- Jaideep Singh
Sr Vice President and Business Head,
Integrated Network Solutions, Viacom18 Media
Pvt Ltd

One of the major growth drivers for the industry has been the increasing propensity of the government or companies to try out new formats and avenues to engage: with the citizen, consumer, internal client, or NRI target group. The integrated organisation of Pravasi Bharatiya Divas and Vibrant Gujarat Summit in Ahmedabad combined a convention, exhibition, B2B and B2C with G2C. Large companies are using destination parks and entertainment zones for team building exercises and brand launches. No longer is traditional media like print, television or outdoor sufficient for the launch of an automotive brand. Every auto launch is led by actual test drive experiences. Sports, television and film celebrities are being used extensively for awards show, and internal and external company events.

⁰³. Industry Discussions conducted by KPMG in India

⁰⁴. Interviews with organisers of Jaipur Literature Festival, Kolkata Literary Meet plus Industry Discussions



The government is adopting technology very fast. In both procurement process and use of modern equipment, government departments are now at par with the private sector. This is very encouraging to event management companies in this sector.

- Sanjeev Kapoor
CEO and Owner,
Scorpio Event Management



Key themes

Integration of Live Events with traditional media vehicles

2014 saw an increasing trend of Live Events becoming key to a brand or event promotion. It was an integral constituent and not just an add-on medium through the year. Although event agencies are yet to 'get a seat at the planning stage' of a brand's spend, some clients or sponsors are bringing them in a stage or two earlier in the planning process⁰⁵. This trend stems from the fact that companies are looking to build campaigns and not just organise standalone events so that there is a sustained impression of the brand in the minds of the consumer. Event agencies are also looking at either developing or bringing creative capabilities into their fold so that they could provide a holistic solution to clients. As brands create more experiential communications, events are becoming an important part of the exercise – especially through activations -which now form an integral part of a comprehensive communications campaign.

Increased focus on Tier II and Tier III

Tier II and III cities are increasingly realising their potential as key micro markets for sponsors, activation of brands and event companies. And 2014 may have marked the shift. Goa and Pune have traditionally been 'destinations' for large format events, brand launches and IP's alongside the six Tier I cities⁰⁶. The high domestic and international tourist population – and the willingness to spend while on holiday – makes Goa a unique venue for cutting edge music and film events as well as beverage and alcohol launches. Pune's proximity to Mumbai and its high student population offers a fertile test market for food, beverage, music, electronics, telecommunications, fashion and youth segment brands and IP's.

Other emerging cities include Jaipur (Jaipur Lit Fest), Surat (Smaash outlet and launch city for the new BMW), Kochi (Wonderla amusement park and the Biennale Art Festival) and Shillong (multiple music festivals). Premium automakers are now regularly launching products through

test drives in cities like Ludhiana and Aurangabad before coming to the metros. The consumer in these cities is highly aspirational and loyal to their 'first brand or experience' as they are in the cusp of the modern metro boom. Brands are increasingly looking at activation exercises – and destination parks, experience zones and IP's are looking to locate – in these cities to create an emotional connect with the consumers.

As demand grows, event agencies have tried to expand their expertise to these markets. Traditionally large event and media companies are clustered around Mumbai, Delhi and Bangalore: close to the client, sponsor, venue or talent. They are now being compelled to build their supply chain and vendor base in Tier II and Tier III cities. Event companies are trying out various strategies to incorporate competencies in these areas. Various methods – of either building competency internally by opening new offices or partnering with local agencies – are being tried. Building internal competency can be time consuming and companies face the risk of losing business; while partnering with local agencies usually entails loss in control, lack of standardisation, vendor quality, logistics etc. The spurt of business from Tier II and III cities has highlighted the gap that many larger agencies face.

Leveraging digital platforms

Digital and social media marketing have been the buzzwords for Live Events across various sub sectors; they reached a crescendo in 2014. Brands are now seeking a digital element in all activations and event agencies are playing catch-up to build competency in this area. IP's and brand extensions are using digital platforms as key promotional tools, allocating increased marketing budgets and setting up dedicated teams. Digital initiatives bring in an element of measurability and ROI which otherwise seems to be a contentious issue with live events.

05. Industry Discussions conducted by KPMG in India

06. KPMG in India analysis



Brand managers, IP and Brand Extension owners are looking at digital offerings along with activation to serve three objectives⁰⁷:

- To create an opportunity to see.
- To create an opportunity to converse.
- To create an opportunity to forward.

Digital and social media marketing is now mandatorily used to amplify reach, and is a relatively inexpensive way to 'sustain the buzz' and conversation around the campaign, especially when coupled with an event initiative. With events turning to campaigns and IP/Brand Extensions to experiences, digital marketing helps in activation of the audience much before the actual event as well as sustain the buzz post the event. For annual IP and brand extensions, this sustains the audience interest throughout the year in the form of a digital community. It is estimated that in 2014 brands, government campaigns, film and TV launches, IP and brand extensions spent 85 to 90 per cent more on digital marketing over 2013⁰⁸. This trend is expected to accelerate through 2015-16. This has compelled event agencies to add creative and digital-savvy personnel to serve the client while IP owners – who have been traditionally active in the digital space – are looking at strengthening their presence in building online communities around the property.

Continued highly fragmented nature of the industry

The event business continues to be highly fragmented, possibly more than it was in 2013. This can be attributed to low barriers of entry. The slowdown in the economy in 2011-13 accentuated this trend. Large event and media companies cut back on manpower. And some talent saw it as an opportunity and formed their own businesses. Brands and sponsors were also compelled to cut margins and go to smaller, newer agencies for activation and MICE.

The industry – especially regional brands and sponsors – unfortunately still support smaller operators which operate at very low margins thereby hurting established agencies and overall lowering of quality as well as innovation. Intense competition and lack of standard quality barriers hurt the mid-tier agencies most. Several have called back operations, become 'jobwork' agencies to larger peers, or simply splintered. In the long term even clients and sponsors realise that such fragmentation is unwanted as this holds back agencies and IP owners from investing for the future or in new technology.

Low barriers of entry and newer agencies, on the flip side, ensures more choice for the client and possibly provides differentiated thought and creative content. IPs for example have witnessed an explosion in almost every aspect of media and entertainment. This is good for consumers across income and regional spectrums; and for sponsors, as they made multiple choices in every

genre or region. Despite being a highly fragmented industry, the general belief is that there is very little scope of consolidation in the Live Events sector. While multinational advertising and media groups have taken small steps at acquisition, an overwhelming majority of agencies and IP owners are independent and promoter owned with no immediate interest in M&A.

Rise in sentiment but no real tangible benefit

Industry discussions indicated a positive change in sentiment after the change in government. 2013 was marked by the economic slowdown and policy stagnation, and the first half of 2014 remained the same. Soon after the elections, event associations and live event companies were quick to represent the industry's wish list to the new government. Despite the active lobbying not much seemed to have changed in regulatory terms in 2014.

Event companies believe that an overall policy encouraging economic development would trickle down to live events. Some segments of industry started loosening their purse strings soon after the new government took office; the government itself made several policy announcements which would benefit event agencies. There has, by some accounts, been positive changes in the level of transparency, professionalism, quality requirements, and agency experience in government projects. Yet the red tapism still keep the biggest agencies away from such projects.

Recognition of Live Events as an industry has been a long standing demand; this would help in proper resolution of challenges and issues bleeding the industry, besides making them eligible for structured finance. Other challenges like infrastructure, multiple licenses, archaic regulatory framework, and an adverse tax structure have been dogging this sector, and there is hope that new government has the will to address the issue. Rise in sentiment among brands and sponsors is good for the sector, though tangible business benefit is likely only to be realised in 2015.



⁰⁷ Industry Discussions conducted by KPMG in India

⁰⁸ Average value taken from over fifteen industry interviews



Involvement of Celebrities

Celebrities continued to be a major resource for IP and brand extensions, but brands are increasingly asking for more celebrity involvement with customers and media. Industry experts believe the 'celebrity-involvement' model would continue but with the increasing number of media vehicles, traditional activities for the celebrity are changing. In 2014 brands wanted more celebrity involvement in performing at award shows, engaging with consumers in product, showroom or store launches and in 'paid' social media.

Many regional brands with national aspirations (south Indian jewellery brand launching in Punjab, for example) or a less know foreign brand (Taiwanese mobile brand, for example) have been more aggressive in the use of celebrities. Celebrities give the brands national or regional recognition and the credibility associated with the celebrity transfers quickly to an unknown brand. The rising cost of celebrity endorsement is going to undergo rigorous ROI scrutiny by both the brand and event agency in 2015.



Key trends across live events sub sectors

Integration of Live Events with traditional media vehicles	↓	↑	↔	↑	↔
Increased focus on Tier II and Tier III	↔	↔	↑	↓	↓
Leveraging the digital platforms	↓	↑	↑	↑	↔
Continued highly fragmented	↓	↔	↔	↔	↔
Rise in sentiment but no real tangible benefit	↑	↔	↔	↓	↔
Involvement of Celebrities	↓	↑	↔	↔	↓
	MICE	IP	Activation/EM	Brand Extensions	Destination Park

↑ High ↓ Low ↔ Moderate

MICE – Meetings, Incentive, Conference and Events

The 'meetings' industry is becoming an important element of the global economy as it facilitates commerce, and influences transportation and hospitality industries. The sector is shifting towards 'destinations'. The success of the sector is still intertwined with infrastructure like airports, roads, hotels of the destination hosting the event. It is the interface of the tourism as well as the live events industry.

Industry experts believe that India lacks both macro and micro level infrastructure to support the latent demand for inbound MICE industry. China is driving the MICE industry in Asia Pacific by building world class venues and

then attracting large tour groups and corporates⁰⁹. The approach seems to be reverse in India where the event is conceptualised first, and then an available venue is selected for the event.

Thailand – a much smaller economy – has at least three convention venues of global scale. Venues like Impact (profiled below) are larger and more sophisticated than the HICC. This possibly explains why Thailand leads India in MICE¹⁰. Industry insiders believe India has much greater potential given its large domestic market and diverse geography. It needs four to six venues such as HICC to realise that potential.

09. Industry Discussions conducted by KPMG in India

10. KPMG in India Analysis



	Hyderabad International Convention Centre ¹¹	Impact Muong Thong Thani ¹²
Established	2012	1999
Owners	Accor, EMAAR Properties PJSC Dubai and Telengana State Industrial Infrastructure Corportaion Limited	IMPACT Exhibition Management Co Ltd., a subsidy of Bangkok Land Public Company Limited ¹³
Location	Hyderabad, India	Bangkok, Thailand
Distinction	It is the first purpose built and state-of-the-art convention facility and has been the winner of the 'Best Convention Centre' National Tourism Award by Incredible India three years in a row	One of Asia's largest complexes consisting of an arena, convention centre and exhibition halls
Acreage	15 acres with Pillar free main hall of 6480 square metres divisible into 6 smaller halls and pre-function foyer area exceeding 6500 square metres	Spanning over 140,000 square metres of indoor space housing the world's largest column free hall and also ballrooms, arena etc.; approximately twice the size of HICC
Facilities	<p>37 break out venues with private workspace for organisers, 16 seater registration area</p> <p>Service pits every six metres with power, water, air conditioning etc.</p> <p>Car parking space for over 1000 cars</p> <p>Connected to Novotel Hyderabad Convention Centre, a 287 room international business hotel</p>	<p>Impact Challenger – 3 halls of combined space of 60,000 square meters</p> <p>IM PACT Exhibition Centre - 8 halls of 47,000 square metres</p> <p>IM PACT Arena – 4000 square metres with 11000 capacity</p> <p>Royal Jubilee Ballroom – Thailand's largest Ballroom with an area of approximately 5,450 square metres</p> <p>Novotel Bangkok Impact – 4 star hotel with 380 ultra-modern rooms</p>
Prominent Events	Hyderabad Fashion Week 2013, AppFest 2012, Marketing 3.0 2012, Femina Miss South Final 2010 etc.	Asian Games, Grammy Wonderland Concert 2012, Thailand Mega Show 2013 etc.

Government policies – both state and central – have a major impact on MICE. Macro-economic policy framework like taxation, infrastructure and monetary policy are major parameters on which the attractiveness of a destination is measured. Although on an overall basis, the problems of regulations, venue and taxation still affect MICE across India, steps taken by individual state governments like Kerala, Goa and Rajasthan have proved successful in attracting corporates¹⁴.



The impact of digital and social media is still limited in MICE. Personal relationships, motivational programs and a mix of education and entertainment are key endeavors as the audience is captive. ▲▲

- Brian Tellis
Chairman,
Fountainhead Events



11. <http://www.hicc.com>
 12. <http://impact.co.th/>
 13. www.thailand-events.com
 14. Industry Discussions conducted by KPMG in India



Kerala

Kerala is one of the most popular tourist destination in India and also a hotspot for MICE. The tourism industry in Kerala is estimated at INR220 billion¹⁵ in FY 2013-14. Much of it comes from the MICE sector with many corporates making a beeline for the state. With its geographical diversity of backwaters, beaches and hills, Kerala provides an ideal destination. With the increased state Government focus on making Kerala a 'year-round destination', it is likely to become one of the top draws for inbound International and domestic conferences.

While a majority of the industry is suffering under taxation pressures, the state government, in its annual budget gave tax concessions to the tourism industry. This includes reduction in luxury tax to 5 per cent on hotels during June to August to promote off season. The Government also reduced taxes on convention centers and auditoriums with a daily rent exceeding INR20,000 to 10 per cent. These moves are likely to facilitate the growth of MICE¹⁶.

However, In September 2014, the Government issued a ban on liquor in the state. Under the new rule, two kinds of licenses would be available – a full bar license and a beer and wine license. The first license allows sale of hard liquor while the second is for milder beverages. Only Five Star hotels were allowed to operate with a full bar license, while non-Five Star establishments were mandated to close shop from September 12 2014. Immediately after the announcement many groups shifted their planned meetings and conventions to other regions. Coincidentally Sri Lanka saw a major spike in its tourism revenues during the period following the Kerala ban¹⁷. Subsequently, in December 2014, the 'ban' order was substantially diluted and new licenses are being issued.



MICE in India

The challenge of infrastructure and good venues still hinder the growth of MICE industry in India. The Live Events and MICE sector is hopeful that the new government's push in making India a desired destination for investment and manufacturing, MICE would find attention. The visa-on-arrival scheme for visitors from 150 countries is expected to benefit MICE¹⁸. 2014 showed significant domestic MICE activity as Indian groups preferred domestic destinations over usual favorites such as Thailand, Hong Kong/Macau and Sri Lanka¹⁹. Emergence of better hotel and banqueting facilities, food and distance (quicker and shorter events) helped the domestic inbound business grow substantially. Non-traditional venues such as amusement parks and nature reserves gained prominence in 2014. The government itself – with large format events such as Pravasi Bharatiya Divas and Vibrant Gujarat Summit – was a significant driver for inbound MICE.

Within MICE, the outbound incentive segment is showed good growth. Indian companies looked to utilise incentive travel as a business tool to reward high

performers and external channel partners. However from pure entertainment trips, these events have become more educational, and brand loyalty and 'team building' exercises.

2014 also saw green shoots in the Indian exhibition market. The year started very well for event companies with Auto Expo – world's second largest and Asia's largest automotive show – New Delhi with over 1500 exhibitors from 23 countries. For the first time Auto Expo 2014 created a B2C segment which saw footfalls exceeding 550,000 over seven days²⁰. New B2C exhibition concepts such as ComiCon India saw substantial growth in both attendees and exhibitors²¹. Trade fairs remained muted until the second half of the years both delegates, exhibitors and sponsors waited for election results. Except government backed events, trade fairs did not recover until the end of the year. 2015 is expected to see 25 to 30 per cent growth over the last year and many event agencies are gearing up to serve that¹⁹.

15. <http://archive.financialexpress.com>, September 9 2014, Sri Lanka ready to steal a march over Kerala's Rs. 22000 crore tourism industry

16. <http://archive.expresstravelworld.com>, January 30 2014, Kerala announces major tax concessions for tourism in budget 2014

17. <http://articles.economictimes.indiatimes.com>, September 6 2014, Tourism business in doldrums as Kerala issues liquor ban

18. www.financialexpress.com, March 14 2015, Union Budget 2015-16 gets mixed reaction from tourism industry

19. Industry Discussions conducted by KPMG in India

20. <http://auto.ndtv.com>, February 11 2014, Auto Expo 2014 receive footfall of 5.61 lakhs

21. Interview with Comicon India and REED plus industry discussion



Vibrant Gujarat summit 2015 - 'Davos of the East?'

Vibrant Gujarat Summit (VGS) is an example of how government institutions are creating events with experiential elements. The Government of Gujarat started the "Vibrant Gujarat Summit" in 2003 as a biennial investor summit. VGS's mandate has evolved from re-establishing Gujarat as an investment destination to being a global business networking event. VGS is now a round-the-year activity with seminars, conventions, panel discussions, lecture series, exhibitions, regional meets and forums being organised on topics of global relevance.

The 7th edition of VGS – held in January 2015 at Gandhinagar – was inaugurated by the Indian Prime Minister and attended by political and business leaders around the globe, including the Prime Minister of Bhutan, the Prime Minister of Macedonia, the United Nations Secretary-General, the United States Secretary of State and the President of the World Bank Group. The event was attended by 25,000 delegates from 110 countries; the largest ever in VGS history.

VGS is now made up of industry and country seminars, networking events, and 1-on-1 meeting opportunities. Over the three days, 10 seminars were organised on topics ranging from defence to CSR, food processing and food security, to smart cities; 14 country-specific seminars were organised with support from diplomatic missions of various countries; and it also provided a platform for interaction between the private sector and the government bodies. The Global CEO Conclave, a part of the Vibrant Gujarat Global Summit 2015, witnessed participation by more than 300 global business and political leaders.

Alongside VGS, the government also organised for the first time the Vibrant Gujarat Global Trade Show 2015 (VGGTS 2015). Spread over an area of 125,000 sq. meters, it had an exhibition area housing 17 domes with over 1300 stalls and more than 2000 companies showcasing products in more than 25 sectors. Over 2 million visitors and over 2,500 international delegates participated in the exhibition.

To achieve this level of scale, VGS and the "Vibrant Gujarat" brand was promoted extensively on electronic and print media. Advertisements were placed in leading dailies and magazines across the world such as Forbes, Financial Times, The Economist and The New York Times, besides those in Indian titles. Outdoor advertising in billboards across major Indian and global cities were carried out. Social media marketing using Twitter, LinkedIn and Facebook was used and all major events during VGS were webcast.

Additionally, the organisers tied up with leading International and domestic airlines and premium hotel chains to publicise VGS through their in-house magazines. Thirty roadshows across international, national and state destinations, as well as 110 seminars and conferences, were organised as a lead up to VGS.

This year's VGS, according to industry experts, shows the change in the attitude of government in the ideation, planning, promoting and executing the event.

Source: KPMG in India Analysis

Some illustrative domestic MICE events of 2014 were:

MICE	Venue	Description
Google – Annual Corporate Holiday Party ²²	Golconda Resort, Hyderabad	Google organised the party for its Hyderabad associates and their families which was attended by 1200 guests. The event theme was 'Casino'
Morgan Stanley – Company Quarterly Meet ²³	La Patio, Mumbai	Themed around 'Motivation' around 250 employees attended the event. Motivational speaker Makran Gokhale conducted series of activities based on the theme for the evening.
Tata Motors – Annual Suppliers Conference ²⁴	Renaissance Convention Centre, Mumbai	The conference was for two days with three stages in a single hall, 48 artists backstage. The event had many engagement activities for over 450 guests.
Nissan – Belgian Dealers Incentive ²⁵	Delhi, Ranthambore, Jaipur, Udaipur and Mumbai	8 day trip to India for the company's Belgian dealers. The company also organised a trip to the Pushka Fairs which was abuzz with the sights and sounds of India
Fidelity National Financials – Annual Day Celebrations ²⁶	Bangalore	The company celebrated its annual day with a Hawaiian Theme party. The celebration spanned 5 days. The venue setup and engagement activities were in sync with the theme. The event had a fashion show, musical performances, performances by Dance Troupes etc.
Blue Star – AMC Customers Meet ²⁷	ITC Grand Chola, Chennai	The event saw team from Bluestar enlightening the invitees with the journey of Bluestar and also the various facilities and details of services. The organisers put up an illusionist act and an act by quick change artists.
Intex – 1000 crore celebration ²⁸	Lalit Golf and Spa resort, Goa	The three day event had an array of events to mark the occasion with many entertainment acts and activities for the guests to engage in. There were extensive use of surf boards, drape lights, bright installations, and props to accentuate the theme.

22. www.eventfaqs.com, December 30 2014, Google throws Annual Holiday Party for its Hyderabad associates

23. www.eventfaqs.com December 17 2014, Motivational boost for Morgan Stanley employees

24. www.eventfaqs.com, December 17 2014, The Tata Motors Annual Suppliers Conference 2014 concludes in Mumbai

25. www.eventfaqs.com, December 8 2014, Nissan's Belgium dealers explore the Indian terrains

26. www.eventfaqs.com, December 3 2014, Brand Promotions executes Hawaiian theme fest for Fidelity National Financial

27. www.eventfaqs.com, November 18 2014, Blue Star organizes its first edition of AMC Customers Meet 2014

28. www.eventfaqs.com, October 16 2014, Intex celebrates its 1000 crore milestone



MICE is intrinsically linked to tourism industry, and the regulatory framework that defines tourism impacts MICE deeply. As per ICCA Statistics, the main triggers for selecting MICE venues include Hotels (44 per cent), Exhibition Centers (24 per cent), University (23 per cent), others (9 per cent). Hotel infrastructure plays a major role in driving MICE forward and it has been an industry demand for many years to strengthen the present hotel infrastructure. According to a Cushman and Wakefield Report 52,000 new hotel rooms are expected to be added in the next five years with a total inventory rise of 65 per cent by 2017. NCR will add 1/3rd of the hotel rooms being added, whereas Kolkata will see a 105 per cent rise – the biggest number – by adding 3813 rooms to its existing inventory.²⁹

IP events

IP-events continued to be the growth driver for the Live Events industry like last year. The sector saw addition of new events primarily in music, awards category, literature and food, and continued success of some marquee properties. Live performances continued to drive the non-film music scenario in India as audiences could choose from a plethora of events and genres – Blues, Rock, Classical, EDM, Sufi and Indian independent. Literary meets such as Jaipur Litfest, and similar multiple events in Kolkata, Delhi and Mumbai continued to grow in scale and attendance. Neighbourhood activity such as Raah-giri in NCR, Bandra Festival and Equal Streets in Mumbai and Cycle Day in Bangalore started to make real impact.

As Event IPs grow in popularity and increased the scope of audiences, sponsors see an opportunity for two way engagement. In 2014 sponsors and advertisers moved from plain vanilla sponsorship to tailor-made events with a better brand fit. The year also saw the strengthening of city-specific event organisation with regions and cities being identified with IP activity. Goa has become synonymous with biking and music – especially EDM – along with Shillong; Jaipur and Kolkata with literature; and NCR and Mumbai with comedy, neighborhood, fashion, film and art events. Deeper penetration of Event IPs into Tier II and II increased as states and event owners collaborated to market the activity: the Sufi music festival in Jodhpur and Hornbill in Kohima being cases in point.



Kalam completed four editions – and its most well-attended edition – this year. Balanced programming, English and Bengali writing, debutant and star writers, popular and literary themes make Kalam a unique draw for the audience. We have corporate sponsorship growing at 25 per cent plus every year; despite free entry this enables us to invite several writers from abroad which adds immeasurably to the event. . ▲

- Malavika Banerjee
Director,
Kolkata Literary Meet

Several properties have also penetrated India's college and school circuit. Sunburn and Supersonic already have campus brand extensions and multicity tours. Quiz and knowledge formats backed by Mondelez, Coca Cola and Tata have been succeeded with the omnichannel route – in campus and on television – for years now. Riding club events – such as the India Bike Week in Goa – are now regularly being hosted at office complexes and IT parks. In 2014 the market for film awards hosted abroad – such as IIFA – remained strong. The year also marked a revival of the 'Bollywood show' market which was subdued for the past three years. The IIFA Weekend 2014 was successfully hosted in Florida. 'The Happy New Year Slam Tour' across five locations, led by the film's cast, was a resounding success on the back of pent up NRI demand. At least five or six such large format tours are in the works in 2015³⁰.



29. www.cushmanwakefield.co.in, January 31 2014, 52000 hotel rooms will be added in top eight cities by 2017

30. Interview with Mohamed Morani, Managing Director, Cineyug Group of companies



Jaipur Literature Festival

The ZEE Jaipur Literature Festival has grown into the world's largest free literary festival; attracting over 270,000 footfalls in 2015. The five day festival – in its eight year now – is a riot of color, energy, ideas, music, controversy, discussion and debate. This year the festival brought together over 450 speakers and performers, including Nobel Laureates, Pulitzer, Booker and Commonwealth prize winners, Sahitya Akademi awardees, Heads of State and writers from over twenty-five national and international languages at the heritage Diggi Palace, Jaipur.

The ZEE JLF emphasises the philosophy that the arts know no language and have a universality that allows the viewer a window into the exotic and the unknown. Each year a slew of themes allow visitors to explore the philosophies, economies, politics, languages, sociologies, traditions, histories, art and culture of countries across the world. The Diggi Palace, in this context, offers a unique and perfectly blended setting.

The festival launched in 2008 with 70 authors and 5000 footfalls, doubled its attendance each year and hit its peak in 2015 with 270,000 footfalls. With minimal marketing spend the festival has grown through word of mouth with each visitor, author and press person spreading the word and being a goodwill ambassador through India and key countries across the world. This year 47 per cent of the visitors were from Jaipur and Rajasthan, 27 per cent from Mumbai and Delhi, 15 per cent from other parts of India and 11 per cent from the rest of the world. Internationally we receive 33 per cent from U.S, 23 per cent U.K, 17 per cent Australia, New Zealand, 3 per cent Hong Kong, Singapore, 1.5 per cent UAE. Almost a third of our visitors are below 21 years, 40 per cent between 21 and 35, and 20 per cent from 35 – 55 years. We are proud that Harvard Business School created a case study led by Prof. Tarun Khanna on the "JLF phenomena".

In 2015 we focussed on an enhanced digital strategy with an outreach program targeting key markets through competitions, online content development, blogs, etc which has resulted in 750 million Twitter impressions, 700,000 page impressions, over 200,000 minutes of online viewing on Youtube. Over 500 accredited press gather to cover JLF from India and across the world with an estimated PR value of INR2 Billion worth of coverage through news reportage, editorial content, lifestyle and feature stories. International press coverage included New York Times, Washington Post, Telegraph, Independent, Times, China Morning Post, CNN, BBC, ABC, and all Indian publications.

Sponsorship, sales and other revenue has grown from INR1.2 Crores in 2008 to 15 Crores in 2015 which is still way short of the festivals needs and targets. We estimate the "economic impact" of JLF for Jaipur and its economy to be around INR25 Crores this year. While Literary IP such as the JLF will always struggle for funds against "Bollywood" or pure entertainment and music options, we do see niche audience and corporate support to help us keep growing.

The Jaipur BookMark – a B2B activity bringing together global publishers, agents and associated businesses returned for a second edition. The platform is a place for the global publishing community to come together and discuss issues and challenges faced by the industry, focus on translation rights as well as India's rapidly changing digital and print publishing landscape.

The festival venue continues to transform itself. From being a low end Bread and Breakfast Diggi is now an upper end heritage hotel with an enhanced capacity of over 80 suites and rooms. Having reclaimed acres of its traditional land around the hotel it has created a slew of additional facilities for festival visitors.

The Festival continues to be a champion for the Freedom of Creative expression allowing speakers to debate issues and throw light on some of the most difficult problems that the world faces today, from bigotry and racism, through politics and religion, inequity and inequality. The festival believes that education alone can be the bridging gap in an unequal society and its imperative for festivals such as these to be open and accessible for all. The Jaipur Literature Festival will see brand extensions in 2015 to Southbank Arts Center in London and Boulder, Colorado in U.S.

Disclaimer: Unless otherwise noted, all information included in this column/article was provided by Sanjoy Roy. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Sanjoy Roy,
Managing Director
Teamwork Arts



Indian Event IP is reaching an inflexion point. According to industry sources, majority of events that have survived the first five years are becoming profitable and sustainable. Event owners admit, having funded many years of losses, their events are now beginning to breakeven³¹. They are beginning to branch out from their original cities and format and become multi-format, multi-city events; and in some cases going international.

The use of digital and social media to keep the audience community engaged through the year seems to be showing results. This is valuable to sponsors and advertisers. At the same time, according to industry experts, ticket sales are increasing rapidly (especially with comedy and music genres) with sponsor/ticket revenue split approaching 50/50 in the case of successful Event IPs.

31. Industry Discussions conducted by KPMG in India



Growth is coming from more number of events and in different formats. The overall size of the market – in terms of consumers - hasn't grown much in the last year though ticket prices have grown slightly. Within the genres, comedy has a more universal appeal and is driven by Youtube.

- Ajay Nair
CEO,
OML

As the number of events rise, differentiation has become a key concern. Overkill of events in every genre is considered to be one of the most challenging issues in Event IP. While this is natural in a fragmented and unorganised industry with low entry barriers, event owners strive hard to create a separate personality in this crowded market through content. The problem is compounded by the fact that most of the events – across genres and regions – cater to the same SEC A+ and A segment. The industry expects a shakeout in 2016 and 2017 with six to eight high profile Event IPs surviving in each vertical nationally³². Additionally there will be plethora of smaller city or neighborhood based events supported by a niche local community.

Key Advertisers and Sponsors

Event IP attracted major sponsors in categories such as FMCG, retail and e-commerce, automobile, consumer durables and mobile devices. Alcohol companies continued to spend heavily on music and fashion events. Large Indian groups like Mahindra, Tata, Hero and Aditya Birla have started backing Event IPs tactically and reflecting the brand's personality³³. The prominent spenders with Event IPs in 2014 were Hero MotoCorp, Micromax, Airtel, Vodafone, Diageo-USL, Tata Motors, Maruti Suzuki, Videocon and Hindustan Unilever.



Live entertainment industry has been growing steadily in the country and with youth population standing at 600 million, India is the 4th largest domestic consumption market in the world. Sunburn, for example, is rated as big as Tomorrowland and Ultra Miami. EDM events such as Sunburn are an indispensable youth platform and ticketing revenues have been doubling yearly. Such events are beginning to add new revenue streams such as merchandising, fashion, personal care products and digital. And all this is just the beginning...

- Harindra Singh
Vice Chairman and Managing Director,
Percept Limited



32. Industry Discussions conducted by KPMG in India

33. KPMG in India analysis



Standalone Indian Event IPs are yet to gain world scale in revenue terms despite the rapid growth in attendees. Lower ticket prices and venue constraints are cited as the main reasons by industry experts. The following table shows a comparison with Sunburn – a successful EDM IP – and a similar event in Europe called Tomorrowland.

	Tomorrow land ³⁴	Sunburn ³⁵
First Event	2005	2007
Venue	Boom (Belgium)	Goa
Extensions	U.S., Brazil	Sri Lanka, Dubai
Event Owner	ID&T	Percept India
Total tickets sold	360,000 ³⁶	~140,000 ³⁷
Revenue	~104.5 million Euros	~ INR1220 million
Cost of Tickets	237.50 Euros for 3 days ³⁸	INR9250 (plus taxes) for 3 days
Prominent Sponsors	Deloitte, Mazda, Stimorol, Brussels Airlines, Hello Bank, Coca Cola, Maes, Red Bull, Desperados, JIM, Studio Brussels, Smirnoff, Lipton, Lotto, Telenet, Radio Contact, Vallformosa and others.	Hero Motocorp, Micromax, Kingfisher, Quikr, Provogue, Jabong and Smirnoff among other local brands.

Challenges

Despite being the fastest growing sub sector within Live Events, the sector faces considerable challenges beyond internal competition. The industry believes it can grow 35-40 per cent year on year if these concerns are addressed.

Organisers uniformly cite lack of venues in metro cities as the number one challenge for the industry. This has compelled live acts and performances to move to the outskirts of a city. The decline in general infrastructure in the outskirts – lack of signage, roads, hotels, and transportation – limits the event's potential. The industry rues the fact that India does not have adequate concert spaces in India similar to Wembley in London, Madison Square Garden in New York, Impact Bangkok or The Coliseum in LA.³⁹ The government is considering providing sports infrastructure and heritage venues to event owners; and a notification to that effect is expected shortly. In Mumbai, after many years of discussion, the NSCI Sports Complex in Mumbai has been leased out for public events to an event agency.

The lack of venues and infrastructure is further compounded by a regulatory maze across central, state and local authorities. On an average an event organiser has to go through 20 to 30 licenses and permissions before an event can get off the ground. The promise of 'single window' clearances from state governments in Goa, Maharashtra, Karnataka and Rajasthan is yet to be fulfilled, according to industry discussions. Event owners are also concerned about the tax burden – mostly entertainment tax – and excise inspections which sometimes make the event unviable.

Finally, the rising cost of artist and performers is posing a threat to the Event IP business. In many cases this constitutes 50 to 60 per cent of the total cost of the event⁴⁰. Top acting and singing talent is commanding and receiving their fee demands but, in the long run, weakening the Event IP's profitability and sustainability. Many of live music festivals, which have international artists as their headline act, have been affected by this rising cost along with rupee depreciation. The true potential of Event IP will unlikely be achieved unless these challenges are quickly addressed by industry and government.

34. www.tomorrowland.com

35. <http://sunburn.in/>

36. <http://www.billboard.com/articles/columns/code/5908407/tomorrowland-sells-360000-tickets-in-under-an-hour>

37. <http://articles.economictimes.indiatimes.com/December 19 2013, Sunburn music fest in Goa expecting 1.4 lakh footfall>

38. www.wikifestivals.com

39. <http://rollingstoneindia.com, November 10 2012, Stage Fear - How organizing a fest can be a staggering exercise and why venues are moving out of city limits>

40. Industry Discussions conducted by KPMG in India



Taxation

Event management companies provide a bouquet of services (set and décor, infrastructure, sound, light, video, venue logistics, etc) which are contractual in nature, involving a number of external services and third party involvement. With respect to these services provided by event management companies, conflicting views are being taken by their clients at the time of withholding of taxes for the services rendered, i.e. whether taxes need to be withheld under s. 194J or 194C of the Income-tax Act, 1961.

In this background, it will be relevant to note that pursuant to the inaugural of Indian Premier League in 2007 in India, the CBDT had issued a Notification that services rendered by 'Event Managers' in relation to sports activities would be covered under the definition of 'professional services' under s. 194J of the Act, which lead to a brunt of higher taxes being withheld by client of such event management companies.

As one may appreciate, the nature of services rendered by 'Event Managers' in relation to sports activities vis-à-vis other activities are quite distinguishable. Thus, the industry is awaiting an appropriate clarification from the CBDT which will put to rest the conflicting

views taken by clients. Further, it is of paramount importance that the clients too ascertain the dominant intent of the contract entered with such event management companies prior to making any payments and withholding of any taxes.

Another issue relevant to the industry is the availability of ATA Carnet facility which permits duty free temporary admission of goods into a member country without payment of customs duty and fulfillment of other formalities. As per the Indian customs law, the ATA Carnet service is available for temporary import of specified goods for display or use at events such as trade, industrial, agricultural or crafts exhibition, charitable events, educational events, governmental events, business events organised by companies, etc. The scope of customs duty exemption is restricted to the list of specified goods for use in specified events and does not cover import of equipment for film production by the film industry. Since the equipment imported by film producers is highly expensive and the incidence of customs duties on such imports is significantly high, the scope of the customs exemption under ATA Carnet needs to be widened.

Source: KPMG in India Analysis

Brand extensions

Established brands – especially those owned by media conglomerates – are incorporating elements of Live Events to accentuate their traditional media offering. The events are an extension of the brand values and provide platforms for companies to strengthen brand's value and personality, add new audiences and increase salience. Financially too these events help in widening the commercial net by bringing in more sponsors; and by partnering brands seeking a cross media platform. If the events are televised – which they almost always seem to be – it helps in bring increased viewership as well as sponsorship. Times of India pioneered Brand Extensions in the Live Events segment through Filmfare (Filmfare Awards) and followed it up successfully in several genres including fashion (Femina Miss India), business (ET Corporate Awards), radio (Mirchi Music Awards) and lifestyle or glamour (Zoom and Bombay Times, respectively).

Media houses, industry experts aver, have a natural advantage over others in creating Brand Extensions successfully. To begin with, traditional media houses have well-known brands with credibility and a loyal readership in place. Secondly they have the ability to promote the event aggressively through their existing outlets. This is an edge since non-media event owners need to spend close to 18 to 20 per cent of their budget in marketing and promotion⁴¹. Thirdly, with existing and new sponsor relationships, they are able to offer cross platform solutions offering higher value to brand partners.



The key success factors for a property such as Filmfare Awards are not taking our equity for granted. We continuously worked on it. We changed, in fact transformed, the show every year to stay ahead. We always reminded audiences about the stature of the Black Lady – Bollywood's Oscar -and we have had fantastic partners in Sony TV, Idea and now Britannia. ▲▲

- Tarun Rai
CEO,
World Wide Media

Like Event IPs, Brand Extensions run the risk of overkill – in genres such as music awards, films awards, food, fashion and personality awards and year-end automotive awards – as there may be room for only four to six events in each vertical. Successful and landmark Brand Extensions have been created by the Living Media Group (India Today Conclave), ABP (Infocomm), Outlook (Traveller Awards) and Indian Express (Star Screen awards). These are now profit centers and growth drivers for the media house, as their traditional business starts to slow. Starting 2014 many media houses are taking their Brand Extensions regional. Radio Mirchi, for example, extended their MMA awards to North India with the introduction of MMA Punjabi⁴² adding to its already existing portfolio of Bollywood, Bengali, Tamil, Telugu, Kannada and Malayalam.

41. Interview with Wizcraft, Fountainhead Events, Worldwide Media plus industry discussion

42. www.mirchimusicawards.com



Brand extensions that made a mark in 2014 –

Event	Sponsors	Type	Description
Times of India – Social Impact Awards ⁴³	Aditya Birla Group	Awards - Social	Started in 2011, the award celebrates the efforts of people or organisation in saving the environment and empowerment of people. Awards in 5 categories – Health, Environment, Advocacy and Empowerment, Livelihoods and Education
Economic Times – Young Leaders – B School Edition ⁴⁴	Aditya Birla Group	Awards – Education	Launched in 2011, the program is touted as India's largest platform to identify the country's future corporate leaders. There are various phases of the event culminating in the final where the participants are interviewed by doyens of the corporate world.
Hindustan Times Leadership Summit Award ⁴⁵	Aditya Birla Group, NDTV, GMR, Yes Bank, Google etc.	Summit	The Summit provides a platform to leaders from various fields to come and share ideas to propel the future growth of the nation. The 2014 edition saw notable speakers like Sourav Ganguly, Aamir Khan, Kailash Satyarthi etc.
Star Parivaar Awards		Awards – Television	Star TV celebrates the characters of the television series through its award with categories like Best Bahu, Best Bhabhi etc. awards.

Experiential marketing

Indian and multinational brands continued to increase their experiential marketing (EM) spends. Several industry experts say that the ratio in 2014 between traditional media (or the Above The Line segment) and EM is 2:1, the best it has ever been. Many large advertisers in sectors such as automotive, telecommunications, media and mobile devices are moving spends from traditional print and television to digital and BTL say industry experts. EM coupled with on-ground brand activation and digital engagement is one of the most dynamic sub sectors within Live Events. The freshness with which brands are coming up new and innovative ways to interact directly with customers led this sub sector to achieve a 22 to 25 per cent growth in 2014 over 2013⁴⁶.



The death of quality events will be the finance departments of clients. Millennials are happy to pay for their passions, if the government supports us we could be having 365 large format festivals every year in various parts of India.

- Roshan Abbas
Managing Director,
Encompass

Established brands are said to be becoming risk averse in using traditional media as they foray into rural India and Tier III cities; this has led to increased brand activation and other experiential marketing initiatives in these regions. The positive effects of MNREGA -a government sponsored rural employment scheme -and the telecom revolution continued to increase spending power in

the village, and companies in mobile devices, food and personal products, healthcare and automotive used EM to reach these consumers. In addition, 2014 saw several regional brands increasing their footprint across the country through EM. The theme of regionalisation played out positively for event agencies in the luxury segment too. Premium brands from cars to consumer durables to electronics and real estate followed the consumer to Tier II and III cities benefitting event agencies in smaller cities.

Many agencies, however, cited bandwidth issues to expand in these markets while others felt the lack of trust in the local unorganised partners hindered such forays⁴⁷. Companies are increasingly looking to align the local partners, train them with the established practices, and develop vendor bases.

Integration was evident in 2014. Events became integrated with other media vehicles – especially digital and also with outdoor and print – to deliver a holistic brand experience to the customer. 2014 also saw other media platforms devising their own activation. Radio companies – which have the scope of running targeted campaigns in their license area – started to offer EM solutions in Tier II and III cities. Notable among them is Big Live/Big FM (RBNL) offering activation solutions in media dark areas of Bihar, Jharkhand, UP and Chattisgarh. Integration, including social media, design, generating customer leads and post event reporting, would continue to be the major focus for larger agencies as they shift from being mere event organisers to solution partners to brands. Industry experts believe digital and social media would be a game changer as it will bring the flexibility in approach. Measurability and ability to tweak the campaign in real time in response to consumer feedback is one of the most important advantages of digital intervention for EM.

43. <http://timesocialawards.timesofindia.indiatimes.com/>

44. <http://etylbschool.com>

45. <http://htsummit.hindustantimes.com>

46. Interview with Candid Marketing, Phase1 world, DDB Mudra plus industry discussion

47. Industry Discussions conducted by KPMG in India



Key Advertisers

The EM spenders were largely divided into national brands such as Vodafone, Maruti Suzuki, Tata Motors, Samsung, HUL, Procter and Gamble, Godrej, Mahindra and the Aditya Birla Group and regional brands in categories like real estate and jewellery. New brands in e-commerce, fashion and apparel, mobile devices and

financial services used EM as a major brand building tool across Tier I, II and III cities. Health foods and drinks and personal products continued to lead EM initiatives in the rural segment.

Some illustrative EM programs in 2014:

Events	Date	Location	Event Description	Celebrity Involvement
Nike and Jabong.com 'Day of Play' ⁴⁸	December 2014	Mumbai	A football tournament for young footballers in the age group of 13 to 20 preceded by a two day Football camp	Baichung Bhutia and Subrata Pal
Durex and MTV – Rex Talk ⁴⁹	December 2014	Web Based Event	Nationwide campaign to encourage youth to engage in an open conversation about safe sex through a web-based reality show 'Durex MTV Rex Talk'	Ranvir Singh
Kellogg's Breakfast Pledge ⁵⁰	January 2014 (10 month long)	Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata	Nationwide campaign to gift 400,000 breakfasts to children across the designated city.	Juhi Chawla and Sakshi Tanwar

GSK's Horlicks Swasthya Abhiyaan (HSA)

GSK Consumer Health Products has been focusing on rural markets with Horlicks. The company set a milestone to reach 50,000 villages in five years serving 200 million consumers through activation. The two focus areas was to build Distribution (availability) and Demand (drive consumption). The marketing program to address the two key focus areas also had to make social impact.

HSA was the rural initiative formulated by GSKCH and its agency Impact Communications. Its ties in with GSK's global mission "To do more, feel better and live longer", to bring health and vitality to Indian villages as well as the providing the framework for introduction of other GSK health products. The initiative is a consumer centric and distribution backed program (channel development and demand generation to happen in tandem) that reaches small villages, creating a viable, sustainable and high growth business while improving the health and well-being of the community.

HSA has several stages and sub programs integrated and embedded in rural community eco systems of the target markets. The initiative has a lean format driven by a single person equipped with intelligent tools for monitoring, data capturing and reporting. It was layered in three phases:

- 1. Announcing Arrival** – The initial phase was to sign up the stakeholders on the company's side and launch the mission.
- 2. Building Brand with the Community** – Several programs were undertaken to increase the brand salience among the targeted customers. Most of them were centered around the welfare of the segment through GSK products such as:
 - a. School Contact Programs – Horlicks Day**
A monthly program in the schools, 'Horlicks Day' was aimed at inculcating health and hygiene practices creating kids as the agents for change for community health.

b. ASHA/Anganwadi's Contact Program – Mother meet

The meets brought into focus the relevance of nutrition as a vital link to health. It was to mobilise the mothers in the community through HSA Mothers meet.

c. Rural Medical Practitioner (RMP)

RMPs were enrolled in HSA who conducted health check camps in schools etc. Also they prescribed Horlicks and Sensodyne in the patient recovery space.

d. Horlicks Parivar Program

A monthly engagement is sustained through weekly out-bound IVR service.

e. Mobile Sakhi

A dedicated service for Pregnant Mothers

3. Alternate Channel Development

– The campaign sought to develop alternate channels with the use of technology wherein proper monitoring of the stocks could be done on a month to month basis.

HSA is one of the primary examples of successful brand activation in the rural markets. The success of the initiative has not only entailed brand building for GSK in new regions but also tangible business development as the HSA covered villages showed significant business growth as compared to non-HSA villages. The initiative not only entailed building brand recognition in media dark areas through proper stakeholder activations and on ground activities but also proper monitoring execution of the initiative aimed at changing the mindset of the villages on health and nutrition ensuring community building. This remains a prominent success story in rural and experiential marketing and in the agency's participation in ideating, conceptualising, executing and reporting.

{With inputs from GSK and Impact Communication}

48. www.eventfaqs.com, December 24 2014, Nike and Jabong.com create a football frenzy with 'Day Of Play'

49. www.eventfaqs.com, December 2 2014, Durex and MTV partner for World Aids Day

50. www.eventfaqs.com, November 28 2014, Kellogg's gifts breakfast to 4 lakh children across India



Experiential is the buzzword in automotive marketing today!

Till the mid-2000s luxury automotive marketing was a sedate exercise combining “classy” brand advertising in selected newspapers and magazines backed up by last mile connectivity through dealers and some subtle automotive reviews.

The Indian car buyer, however, has always been an emotional buyer – more than the budget what matters to them is the appeal of the vehicle to the family unit – and the new age marketers were quick to learn. With luxury brands paving the way for a “family sale deal”, the mass brands were quick to join the bandwagon. A car launch was no more just a stage, light, show and reveal for the media or glossy full page ads. Agencies and brand managers realised that the focus shifted from reviews on print and TV to making the target base believe in the brand and the product even before it even hit the roads. Making the customers feel special has become paramount in an automobile campaign.

Also, thanks to a burgeoning market in existing markets and a new breed of buyers beyond conventional markets, marketers are redefining strategies. Regionalisation and small city activity, specifically in Tier II and III cities, customers need to experience the brand promise first hand. Event agencies that can help brands reach out across the nation deploying multi route teams for maximum coverage in the most efficient way, at the most ideal locations, per stage, per city are ones benefitting most.

Brands like BMW and Mercedes Benz are now reaching out to a whole, new set of buyers through a scientifically crafted exercise that begins with a digital identification of potential buyer groups. They are then invited along with families to experience their new cars as well as enjoy a whole set of experiences designed to include spouses and children. Event agencies are expected to deliver vehicle launches that offered an experiential connect for the media and the consumers. They are also expected to offer insights and contribute towards lead generation and conversion.

For example, both potential and existing customers are invited to this three day event called the BMW Experiential Tour 2015. The 15-city exercise commenced in Surat and will go on to cover Ahmedabad, Gurgaon, Chandigarh, Jaipur, Mumbai, Pune, Indore, Vijaywada, Hyderabad, Chennai, Bengaluru, Kochi, Delhi and Lucknow. All this was set in a pop-up luxury showroom experience set in a dynamic concept and never ever seen in the country before. Philipp von Sahr the President of BMW Group India commented “With this unique initiative, we wish to take a step closer to our customers and make them experience ‘Sheer Driving Pleasure’ in the true sense!” Mercedes plans to launch ‘Luxe Drive’, a customer engagement initiative blending driving experience with gourmet and haute couture. Starting with Chandigarh, Surat and Jaipur, this programs will see celebrity chefs prepare meals and fashion designers showcasing wares to the entire family during a test drive session.

Launch budgets are extremely subjective and confidential to the brand in question. But more budgets are being allocated towards brand activation campaigns. Harley Davidson is moving from 50-50 ATL/BTL split in 2013 for brand and store launches to almost 75-25 in 2015. Adoption of global practices is also becoming de rigueur. Technology has played a crucial role in all modern day automotive campaigns. Many ideas – such as biking/owners’ clubs and merchandising fostering loyalty – are inspired by global innovations coupled with some simple local engineering and focussed social media.

Till not so long ago, experiential marketing exercises for auto were largely confined to malls and office campuses. But with even realtors setting up Experience Centers for their premium luxury apartments and luxury automotive brands literally taking to the streets and dirt roads, the experiential marketing industry is busy redefining its frontiers.

{With inputs from Showtime Group and Shobiz Experiential Communications}

Entertainment zones and destination parks

Although not as developed as the West or even the rest of Asia, theme parks, amusement parks and entertainment zones in India are slowly but surely gaining traction. This segment has been included in Live Events because of the overlaps in entertainment, live acts and consumer behavior. Many in this industry believe they are closer to the travel and tourism industry while some believe this industry is akin to cinema exhibition and multiplexes. This segment covers a wide range of “destination” and “entertainment” options ranging from bowling alleys and kids’ fun zones in malls to large format amusement parks. The common themes running through all of them are:

- Family and friends segment as a consumer;
- Targeting the same share of wallet of the consumer;
- Provide experiential and novel entertainment which is fully out-of-home: and

- To encourage repeat/multiple visits by the same consumer.

Industry insiders differentiate their offering largely based on time spent and money spent at the property. In an amusement park the consumer tends to spend a full day and spend between INR1200 to 2500 for rides and refreshments. In mall-based entertainment zones the time spent is between 2 to 3 hours and spend per head is in the range of INR500. Theme based formats – such as gaming and sports – require 3 to 4 hours with an average spend of INR700⁵¹. Industry experts are consistent in their view that these live entertainment options are giving multiplexes and other F&B a stiff challenge.

51. Interview with Wonderla Holidays KidZania, SMAAASH plus industry discussions



The Indian amusement park consumer looks at safety and security, hygiene factors and relevance of attractions. Apart from high capex at set up, we need to keep investing regularly in maintenance, updating rides and thrills to keep the consumer interested. To expand the market state governments must offer assistance in building better infrastructure. After all amusement parks is economic activity creating local employment and generating tourism for the state.

- Arun Chittapillay
Managing Director, Wonderla Holidays



The Indian consumer today is well travelled, has more money in his pocket and is willing to spend it on different ways to inspire, educate and motivate their kids. However when we look at kids' focussed attractions they are based on rides and coin operated arcade games. They focus on entertainment only. Edutainment theme park formats globally have become popular and are coming to India, as they are designed to bring together learning with fun, adding to the development process of the child.

- Viraj Jit Singh
CMO,
Kidzania

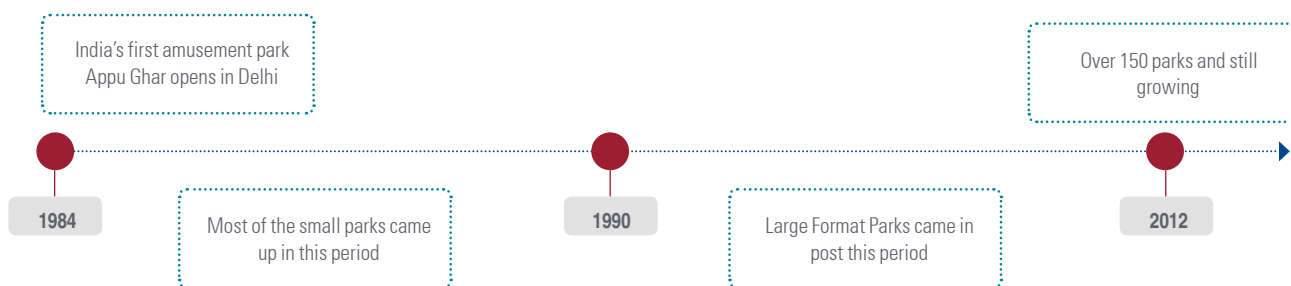
The evolution of malls and large urban spaces in India helped grow the entertainment zone business. Almost all entertainment zones are located within a mall or in the vicinity of markets. Companies like Smaaash, KidZania or PVR BluO provide theme based activity for the entire family and also have food and beverage options. Kingdom of Dreams in Gurgaon is another example of a Bollywood-themed live entertainment destination with food, beverage and retail offerings. Almost all malls in Tier I and II cities have a kids' zone. Multiple factors are contributing to the 29 to 32 per cent growth in 2014 for this segment: a growing 'mall culture', an increasing ability to spend, the experience of family time together and a safe, indoor environment.

The amusement park industry in India is almost two decades old with the opening of Appu Ghar in 1984. Expansion in this sector happened in the early 1990s with EsselWorld in Mumbai, Nicco Park in Kolkata, and Ramoji Film City in Hyderabad. There was a distinct lull in activity for almost fifteen years till Wonderla set up outside Kochi, followed by another unit in Bangalore, and Adlabs Imagica on the Mumbai-Pune expressway. Kingdom of Dreams – a live entertainment cum leisure destination – was established in 2010 and is now reaching scale in terms of attendees and revenues. While amusement parks entice guests with novel and thrilling rides, a format such as KOD seeks to do the same with Bollywood-themed stage shows performed live on stage.

This sector came back into the limelight due to significant fund raising and subsequent IPO activity in 2013 and 2014⁵². Today India boasts of a few large scale and many small concept driven destinations which cater to the consumer's time and ability to pay. Though still in its infancy, the nature of the business is quickly evolving and adapting to the Indian consumer. Many amusement parks are moving to provide live entertainment on weekdays to attract greater footfalls, and also target schools, colleges and corporate groups for incentive and meetings.

Amusement parks are a highly capital intensive industry – with an average investment of INR700 million and an acreage of 40 acres – many players either look at foreign investors or the government as partners. While a 50-acre park such as Wonderla Bangalore required capex and land investment of INR2,000 million, a larger format park such as Imagica over 130 acres has cost INR13,200 million. Returns take between six to eight years and require support from the government – roads, infrastructure, tax breaks, and land acquisition – which has not been forthcoming⁵³. Initially the parks focus on consumers in their 300 km catchment area. In 2014 the big thrust was on tying up with inbound domestic tour operators to bring in multi-day holiday package groups and include the park as a stop in the holiday package circuit.

Timeline of Evolution of Amusement Parks



52. <http://economictimes.indiatimes.com>

53. www.protviti.in



Industry Size

According to Indian Association of Amusement Parks and Industries (IAAPI) the amusement industry in India is worth over INR25 billion and is expected to reach INR54 billion by 2020 and is expected to grow at 15 to 20 per cent. Much of the growth can be attributed to (i) a change in consumer habits (increasingly looking at live and active entertainment); and (ii) widening of the consumer base from SEC A and A+ to SEC B and C. Industry experts also

expect growth to be driven by two macro level changes: a change in mall activity in India with those housing entertainment zones attracting higher footfalls than those without (as retail increasingly moves online); and Indian families taking more frequent weekend breaks. Both are expected to benefit entertainment zones and amusement parks, respectively.

LIVE is Alive!

Live Events are magical. They envelope you, excite you and convince you that life is worth living. Events and experiential marketing are the youngest facets of the Indian entertainment industry. And yet, almost overnight no one can do without them.

Large media houses have publication titles and channel platforms of their own and are building event brands in order to connect with their audience while at the same time creating experiences on ground.

Television channels have made television events a part of their content programming, while at the same time events and activation are used as part of the marketing mix to reach viewers, channel partners, advertisers and cable operators.

If media conglomerates have succumbed to the lure and excitement of events and experiential marketing, no brand or marketer can afford to stay away.

The new paradigm of integrated marketing increasingly gives live experiences larger head-room and long term leg room. Every marketing plan today features "live" in its mix. It comprises sponsorships, activation, promotion, lead generation, displays and exhibitions; at minimum a launch event is mandatory. At the more evolved marketers have embraced experience platforms, varying

from sports, Bollywood music, EDM music, fashion, cricket, non-cricket, people-engagement such as marathons... and are working with event experts to create platforms that are invested in by the principal advertiser.

Google, Twitter, Facebook, webcasts, online auctions, online engagements are today a constant and events and activation are providing them fodder to stay eventful and alive.

Truly, the world has changed. Events are regular fare, constantly being challenged to be "eventful"; and that it must always be in order to stay unique, differentiated from all else and salient enough to be memorable.

There was a time, a couple of decades ago when one had to explain what an event manager's services include. Now, the event manager has to contend with rising expectations from both the client and the need to be better than the constantly increasing competition.

One of the challenges is that entry barriers are low and decisions about event engagement are too often left to procurement departments rather than the marketing wizards. Too often the lowest price wins. Every failure causes heart burn and belief in events and experiential marketing suffers as a consequence.





The multiple challenges that face the youngest child of the entertainment and media industry is lack of government recognition and understanding.

- There's a need for single window clearance to avoid the multiple hurdles and government red tape that hinders every event, irrespective of size. Police permissions and other approvals are held back till the last minute and sometimes withdrawn
- IPRS and PPL music permissions need to be rationalised and streamlined. The lack of transparency in rights licensing system is pushing event managers into non-compliance.
- The need for infrastructure such as convention centres, large auditoriums, indoor stadiums for events and multi-purpose facilities as existing sports facilities rarely allow their use for events.
- The taxation burden is increasing. TDS deduction on which refunds don't happen, entertainment tax which varies from 0 per cent to 60 per cent and waivers that are arbitrarily decided, constantly increasing service tax which needs to be paid in advance while clients delay payments because of various reasons; multiple octroi points while infrastructure needs to be moved across the country, the list is endless and always increasing.
- Recognition of the Events and Live entertainment business as an industry to facilitate long-term bank loans for development.

Across the world, governments invest in creating live experiences and events as they are considered as the heart and soul of a city's culture. The situation needs to improve in India with Government taking a proactive stance in addressing the issues challenging the industry.

There's a need for a new world order. A one in which event companies work along with government to create an events calendar that drives tourism and related industries such as airlines, ground transport, hotels, tourist retail outlets etc.

Despite the hurdles, the innovativeness of the industry's leadership has been key to driving growth. As the purse strings got tighter marketers looked for more accountability and flexibility, live event experiences and experiential marketing provided the best answers and least waste in spends. The success of the live sector in the recession-ridden economy has made it both recession-proof and at the same time poised for higher growth in an economy that is energised and buoyant.

India is no longer enough as the market place. Besides travelling across the world executing MICE projects, high profile weddings and product launches for Indian clients, the leading players have begun to set up their own offices in key locations around the world. London, Singapore, Dubai are some of the key markets. The creativity and flexibility of Indian companies along with deep practical knowledge of technical is providing distinction and an impetus for this growth.

Today, the World is our Stage! And one day we hope we can say, The World is Not Enough!

Disclaimer: Unless otherwise noted, all information included in this column/ article was provided by Sabbas Joseph. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India

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Entertainment Management
Association (EEMA)



Road Ahead

Industry experts are unanimous in their view that two sets of challenges need to be overcome for Live Events in India to achieve its full potential. The first set pertains to macroeconomic factors and the regulatory environment. Excessive permissions, high rates of taxation, lack of venues and infrastructure, lack of incentives and recognition, and India's safety and security perception abroad are cited by event companies as major hurdles. The second set pertains to issues of the industry itself. Lack of quality talent, excessive competition due to low entry barriers, and absence of measurability standards are the internal reasons mentioned by industry leaders. As the sector matures and moves up the value curve, some of these issues will get resolved. Till then growth will be limited to 15 to 18 per cent per year instead of 25 to 30 per cent that is achievable⁵⁴.

54. Average value taken from over 35 industry interviews.





Deal volume and value in 2014

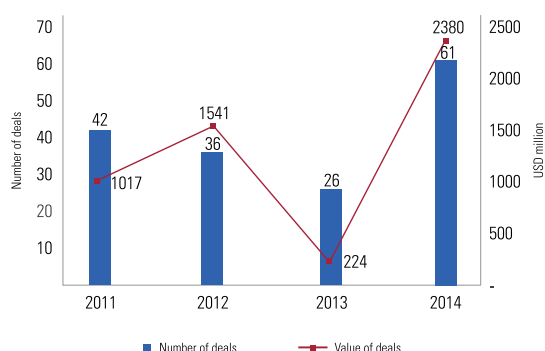
Digitally active



The overall mergers and acquisitions (M&A) activity in India increased in 2014 from approximately 950 deals, with a value of approximately USD39 billion in 2013 to 1,177 deals with a value of approximately USD48.4 billion⁰¹ in 2014.

Deal activity in the media and entertainment industry followed a similar trend in 2014, with 61 transactions versus 26 transactions in 2013. Deal values increased from USD224 million in 2013 to USD2,380 million in 2014.

Trend of investments in M&E (volume and value)



Source: Mergermarket, Capital IQ accessed on 2 February 2015

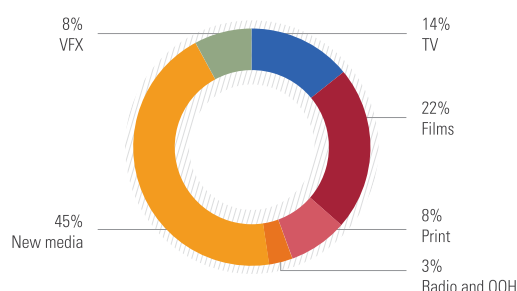
Despite the fact that 2013 showed a slowdown in transaction value and volume due to concerns regarding economic uncertainty, industry trends such as availability of credit and financing in the sector, a growing middle income population, steady increase in advertising and distribution revenues, etc. have led to an increase in the value of activity in 2014⁰². Investment in the media and entertainment industry continued to grow on the basis of a few significant themes such as market consolidation, portfolio diversification, digitisation and capital raising for expansion. Notable marquee transactions for 2014 are as follows⁰³:

- Reliance Industries Ltd. acquisition of Network18 Media & Investments Ltd. and TV18 Broadcast Ltd. for USD1,167 million and USD257 million respectively
- Acquisition of BIG Cinemas by Carnival Films Private Ltd. for USD111 million
- Acquisition of Reliance MediaWorks Ltd. by Prime Focus Ltd for USD61 million
- Acquisition of Radio City by the Dainik Jagran Group for USD60 million.

Most private equity investments have been in the digital media space. Marquee transactions in 2014 include⁰³:

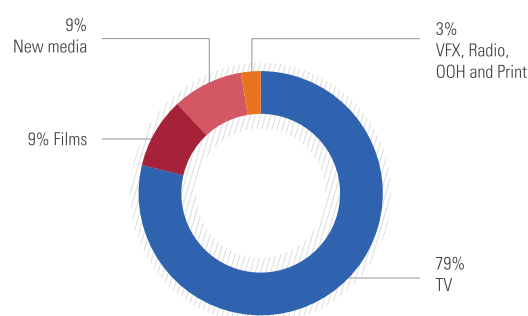
- Silver Eagle's acquisition of a 33.5 per cent stake in Videocon D2H for an approximately USD300 million
- The Carlyle Group invested USD59 million in Newgen Knowledge Works
- Bessemer Venture Partners invested USD38.5 million in Hungama Digital Media Entertainment Pvt. Ltd.
- SAIF Partners invested USD25 million in Bigtree Entertainment Pvt. Ltd.
- SoftBank Capital invested USD5 million in InMobi.

Breakdown of deals in M&E in 2014 (By volume/sector)



Source: Mergermarket, Capital IQ, accessed on 2 February 2015

Breakdown of deals in M&E in 2014 (By value/sector)



Source: Mergermarket, Capital IQ, accessed on 2 February 2015

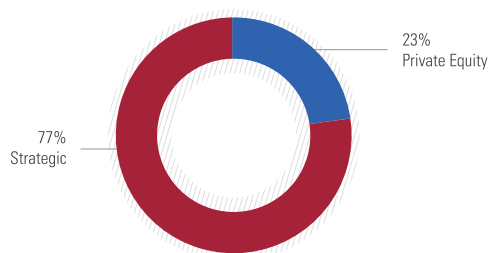
01. Grant Thornton Deal Tracker, 2013 and 2014

02. LiveMint, 03 July 2014, 'Media and entertainment sector may see more deals'

03. Mergermarket, Capital IQ accessed on 2 February 2015

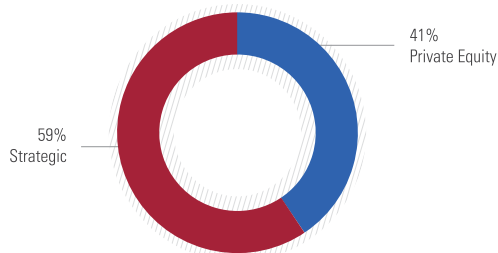


Breakdown of deals in M&E in 2014 (By value)



Source: Mergermarket, Capital IQ, accessed on 2 February 2015

Breakdown of deals in M&E in 2014 (By volume)



Source: Mergermarket, Capital IQ, accessed on 2 February 2015

Deal volume in 2014 can be predominantly seen in the digital sector, one of the fastest growing segments in this industry. It continues to ride the wave from 2013, wherein 42 per cent of all sector transactions were in the digital space. Strategic and Private Equity investors primarily invested in digital marketing, digital entertainment, social media, e-retail, e-publishing, and mobile applications space. Deal activity in the television and films space has been primarily on account of market consolidation.

Television

The television segment, one of the largest segments in the media and entertainment industry, did not see much deal activity in 2014, in terms of volume. However, this segment constituted 79 per cent of deal activity in terms of value.⁰⁴ This is primarily because Reliance Industries Limited (RIL), through Independent Media Trust, acquired control of Network18 Media & Investments Ltd. and its subsidiary TV18 Broadcast Ltd. for USD1,167 million and USD257 million respectively. The transaction will enable RIL's Jio Infocomm to get access to broadcast, digital and e-commerce content for its 4G mobile data services platform.⁰⁵

With the government regulations potentially allowing foreign direct investors to own up to 49 per cent stake in news channels, it is expected that other large business houses may be interested in acquiring news channels.⁰⁶

As per Telecom Regulatory Authority of India's (TRAI) regulations on channel aggregators, broadcasters cannot bundle their channels with that of other broadcasters while offering them to Cable and DTH operators. However, broadcasting companies belonging to the same group can bundle their channels. The new regulations led to the disbandment of several joint ventures which were acting as channel aggregators, such as that between Star-DEN and Zee-Turner, Viacom 18 and Disney India and Sony MSM and Discovery India. As a result of the regulation and the dissolution of channel aggregators, negotiating power of smaller broadcasters will decrease since their channels cannot be bundled with those of the larger broadcasters. This may lead to further consolidation in the industry.⁰⁷

The TRAI has better defined the relationship between broadcasters and distribution networks and recommended that broadcasters cannot have a stake in more than one DTH operator or Cable operator at a time. If these recommendations are implemented by the government, it may lead to some media groups to exit their investments in either Cable or DTH segment.

TRAI has recommended that broadcaster investment cap of 20 per cent in a DTH operator be removed making it possible for companies to increase their stake in the DTH companies.

MSOs have also begun to focus on updating their systems to cope with Phase III and Phase VI of digitalisation which will require significant investment by MSOs in digital head-ends and other back-end infrastructure apart from STB costs. Funding may become a challenge as private equity firms will be cautious on account of the operational issues faced by the MSOs as well as the fact that revenue benefits from Phase I and II are not yet apparent.

04. KPMG in India analysis, Capital IQ accessed on 2 February 2015

05. The Hindustan Times, 30 May 2014, 'RIL to acquire control of Network18'

06. LiveMint, 20 January 2015, 'Publishers, broadcasters welcome FDI—up to 49 per cent'

07. Business Today, 12 February 2014, 'TRAI ruling hits content aggregators'



Following were the major transactions in the distribution space.⁰⁸

- Silver Eagle's acquisition of 33.5 per cent stake in Videocon D2H for an estimated USD300 million
- Hathway Cable & Datacom Ltd. raised USD49.45 million by private placement of shares.

Furthermore, it can be seen that investment in television production has continued to garner interest of foreign investors. This is primarily due to the expansion of the sports entertainment industry in India, with the introduction of sporting leagues, such as the Indian Soccer League, Indian Kabbaddi League, and the Box Cricket League, etc. It is expected that this trend will continue with this expanding presence.⁰⁹

Print

Deal activity in this segment was driven by the theme of consolidation and portfolio diversification¹⁰

- Exposure Media Marketing Pvt. Ltd. acquired Consumer Magazines Division from Media Transasia India Ltd. (MTI) to get access to titles such as Travel and Leisure South Asia, Better Homes and Gardens, Sports Illustrated and Child. MTI publishes more than eight special interest magazines, focused on a wide variety of interests
- S. Chand & Company Pvt. Ltd. acquired a majority stake in Saraswati House looking to expand into new avenues of publishing such as Hindi, Sanskrit, French and Arts and Crafts
- GBN Media Pvt. Ltd. announced that it has received USD2 million in equity funding from new investor DOIT Creations Group.

Radio

Large, national level radio operators are gearing up for the much awaited Phase III auctions. The third phase of FM expansion is looking to expand the scope of the airwaves to more than 800 stations and nearly 300 cities.¹¹ Additionally, FM radio channels will be allowed to carry news bulletins of All India Radio in unchanged form.¹² Moreover, TRAI has recommended increasing FDI limit for FM radio services to 49 per cent.

Many players are expected to enter new markets through M&A rather than going through the auction process. This is likely since the cost of setting up and running a station, as well as getting the required licenses is high for smaller players in India. It would also be an opportunity for players to enter the market that are not open for auctions. Local players will be looking at M&A to enter

the metropolitan cities like Mumbai and Delhi.¹³ This trend of consolidation has commenced with acquisition of Radio City by the Dainik Jagran Group. By adding Radio City to its portfolio, the Jagran Group is able to access an organised operator with an already established presence in large metropolitan cities such as Delhi, Bangalore and Mumbai as part of its network of 20 stations. We could see the trend of market consolidation continue, as smaller players drop out or get absorbed by larger players looking to expand into new geographies.¹²

Phase III auctions expected to start in April 2015, and there will be significant investment needed for renewing licenses and buying new frequencies. Next Mediaworks Ltd. announced a private placement of common shares for gross proceeds of USD1.1 million.¹⁰

Films and animation and VFX

This segment experienced a high level of interest from strategic and private equity players in areas of cinema exhibition and post production. Transactions in this segment are driven by market consolidation.

Carnival Films Pvt. Ltd. acquired BIG Cinemas for USD111 million and HDIL Entertainment Pvt. Ltd. for USD18 million. They also acquired Stargaze Cinemas from Network18 Media, to become one of the largest cinema chains in India.¹⁴ Inox Leisure Ltd. acquired Superior Films Private Ltd. for USD30 million to expand its presence in New Delhi.¹⁰ Additionally, Fun Cinemas was acquired by Cinepolis India Private Ltd., in order to enter into the Indian market.

Sri Adhikari Brothers Television Network Ltd., Abundantia Entertainment, High Ground Enterprise Ltd., B.A.G Films and Media Ltd. and Encash Entertainment Ltd. raised more than USD10 million from various investors. Tribune Digital Ventures Singapore Pte Ltd. acquired Whats On India Media Pvt. Ltd. for USD35 million.¹⁰

There has been an increase in the use of visual effects and animation not only in films but also big budget television shows and commercials. Animation studios are working in collaboration with each other to execute big projects. There is scope for consolidation between players as demonstrated by the acquisition of Reliance MediaWorks Ltd. by Prime Focus Ltd. for USD61 million.¹⁵

Advertising agencies and digital media

The number of active internet users was 213 million in October 2014 which is expected to reach 269 million by June 2015. Mobile internet users have garnered a substantial base among the internet users. As of October 2014 there were 159 million mobile internet users.

08. Capital IQ, accessed on 2 February 2015

09. LiveMint, 03 July 2014, 'Media and entertainment sector may see more deals'

10. Capital IQ, 2014 accessed on 2 February 2015

11. Exchange4Media, 04 December 2014, 'Standalone FM operators ride the wave of expansion with Phase III auctions'

12. Radio and Music Biz, 01 July 2014, 'Date of Migration for Phase II FM Broadcasters to Phase III extended to March next year'

13. Radio and Music Biz, 15 October 2014, 'Auctions will be followed by few M&A in the Indian radio industry'

14. LiveMint, 18 July 2014, 'Carnival Films to acquire 3000 screens'

15. Business Standard, 2 July 2014, 'Reliance Group to merge entertainment arm with Prime Focus'



Among the active internet users, 84 per cent access social networking sites, 61 per cent access for purchasing products online and 63 per cent access internet for online transactions. Among the rural active users 73 per cent access content related to entertainment.¹⁶

Marketers are focusing more on spending their media budget on different avenues such as search ads, display ads, mobile ads, email ads, social media ads and video ads. Digital advertisement spend in India was more than USD450 million which accounts for approximately seven per cent of the total ad spend across all media.

As a result of these trends there has been significant interest in both, strategic and private equity investments in advertising agencies, digital and mobile marketing, social networking, digital entertainment, online retail, etc. International strategic players also continued to show interest in expanding their presence in India.

The maximum deal activity has taken place in this segment, however it constituted only nine per cent of deal activity in terms of value.

Strategic investors primarily invested in digital marketing companies along with digital entertainment and social media space.¹⁷

- Bates CHI&Partners agreed to acquire Temple Advertising Pvt. Ltd., a boutique advertising agency for USD34 million
- Infibeam.com has acquired Odigma Consultancy Pvt. Ltd., a digital marketing company for USD5 million
- Times Internet Ltd. acquired cricket news and information portal Cricbuzz.com from Akuate Internet Services Pvt. Ltd. Cricbuzz will be merged with Times Internet's cricket news portal GoCricket
- Saatchi & Saatchi India acquired 51 per cent stake in Law & Kenneth Communications (I) Pvt. Ltd., an ad agency focused on digital advertising
- Global media agency Omnicom's local arm DDB Mudra Group has acquired Bangalore-based digital solutions company 22feet Communications Pvt. Ltd.
- JWT India acquired majority stake in Social PR Outsourcing Pvt. Ltd., a social media agency.
- Bigtree Entertainment Pvt. Ltd. which owns online entertainment ticketing brand BookMyShow announced that it has received USD25 million from SAIF Partners which will help them to improve their online content
- Canaan Partners and Accel Partners invested USD15.6 million in SureWaves Media Technologies Pvt. Ltd. SureWaves had developed technology to aggregate all cable TV channels across India allowing advertisers to work through a single platform
- InMobi announced that it has received USD5 million from existing investor SoftBank Capital which will be used to offer a new analytics service
- Bharti Softbank bought the remaining stake in Y2CF Digital Media Pvt. Ltd., owner of Hoppr, a location based check-in service that works across all mobile devices.
- Vizury Interactive Solutions Pvt. Ltd., a digital marketing company, secured funding of USD16 million Intel Capital and Ascent Capital to drive product innovation and scale operations in existing markets.

Outlook

A significant amount of growth is expected in the Indian media and entertainment industry over the next few years. International firms are looking to enter and diversify into India. The new Companies Act has led to greater transparency and corporate accountability, which may result in higher investor confidence.

Regulatory changes will be the catalyst to growth in the television and radio space. Digitalisation, Phase III licensing for radio and 4G rollout will provide the required impetus to the industry. Higher penetration of internet will, especially in the mobile space, continue to drive the investment in the digital media space. This will have an impact on the advertising as well as print and publishing sector in the coming years.

It is expected that the trend of market consolidation will continue across the M&E sector as larger firms merge with smaller ones in order to increase their foothold over the market.

Private equities continued to show interest primarily to fund companies operating in digital marketing companies along with e-retail, e-publishing, digital entertainment and mobile applications. Companies plan to use these funds to expand their operations, introduce new products, upgrade their applications, etc.¹⁷

- The Carlyle Group invested USD59 million in Newgen Knowledge Works - an E-publishing services company
- Hungama Digital Media Entertainment Pvt. Ltd. announced that it has received USD38.5 million from Bessemer Venture Partners which it will use to upgrade mobile applications

16. IAMAI-IMRB Report, 2014, 'Internet in India'

17. Capital IQ, accessed on 2 February 2015



Key transactions in 2014

Date	Target name	Target sector	Acquirer name
M&A			
January-14	GreedyGame Media Pvt. Ltd.	Digital	TLabs
February-14	Odigma Consultancy Pvt. Ltd.	Digital	Infibeam Inc
May-14	Network18 Media & Investments Ltd.	TV broadcast	Independent Media Trust
May-14	TV18 Broadcast Limited	TV broadcast	Independent Media Trust
June-14	Temple Advertising Pvt. Ltd.	Advertising	Bates CHI&Partners
July-14	Reliance MediaWorks Ltd.	Post production/VFX/ Graphic design	Prime Focus Ltd.
July-14	HDIL Entertainment Pvt. Ltd.	Cinema exhibition	Carnival Films Pvt. Ltd.
July-14	Whats On India Media Pvt. Ltd.	Film/TV production	Tribune Digital Ventures Singapore Pte Ltd.
July-14	Superior Films Pvt. Ltd.	Cinema exhibition	Inox Leisure Ltd.
August-14	Purple Entertainment Ltd., Content Assets	Digital	Global Eagle Entertainment Inc.
October-14	Sambhaav Media Ltd.	Print	Infotel Televentures Pvt. Ltd.
December-14	NetworkPlay Media Pvt. Ltd.	Advertising	Smile Vun Group Pvt. Ltd.
December-14	BIG Cinemas	Cinema exhibition	Carnival Films Pvt. Ltd.
December-14	Four Lions Films Pvt. Ltd.	Film/TV production	52 Weeks Entertainment Ltd.
December-14	Radio City	Radio and OOH	Dainik Jagran group
PE			
January-14	SureWaves MediaTechnologies Pvt. Ltd.	Advertising	Canaan Partners
March-14	Technology Frontiers India Pvt. Ltd.	Digital	FidelisWorld Asset Management
June-14	Bigtree Entertainment Pvt. Ltd.	Digital	Accel Partners; SAIF Partners; Network18 Media & Investments Ltd.
July-14	Hungama Digital Media Entertainment Pvt. Ltd.	Digital	Bessemer Venture Partners; Intel Capital
August-14	Hathway Cable & Datacom Ltd.	TV distribution	Capital Research and Management Company; American Funds Insurance Series - Global Small Capitalisation Fund
August-14	InMobi Technologies Pvt. Ltd.	Advertising	SoftBank Capital
October-14	PVR Ltd.	Cinema exhibition	-
December-14	Newgen Imaging Systems Pvt. Ltd.	Digital	The Carlyle Group
January-15	Videocon D2H	TV broadcast	Silver Eagle Acquisition

Source: Mergermarket, Capital IQ accessed on 2 February 2015



**Corporate
governance**



The Indian economy is one of the most promising in the developing world⁰¹ and given the recent political changes and sense of direction provided by the government, foreign investments are expected to increase over the next few years. This however may result in greater emphasis on the assurance over the return on investments, governance and the stability of such returns.

The Media and Entertainment (M&E) sector specifically has shown strong growth potential. However, given the inherent nature of this sector, investor and public confidence could be marred by the discovery of corporate scams and lack of transparency. Processes such as content and talent acquisition, carriage fees, licensing and content production are highly prone to frauds. There is also increased regulatory oversight and scrutiny over corporate operations through the Companies Act 2013. Given these dynamics and also considering the future growth opportunities, it is imperative that boards and management of M&E companies consciously promote a 'no surprises' culture within their organisations. This will help promote a growth regime which is expected to be sustainable in the long run and a fine balance between the growth and investor confidence agenda.

Essentially, good Corporate Governance could involve implementing a robust oversight mechanism across levels within the organisation and setting out processes which are independent of individual discretion. Above all, it is about imbibing an organisational culture that promotes ethical and professional behaviour.

Though many of the large media companies are listed, there is still a section of large media companies who are staying away from the capital markets. In addition, there is a plethora of unlisted media companies whose governance practices may largely be driven by management culture as against protection of shareholder interest.

KPMG in India conducted a Corporate Governance Survey - M&E sector -FICCI 2015 during January to March 2015 across leading M&E companies (covering segments such TV, print, film content, animation, direct broadcast and satellite television) to understand the current state of the governance maturity across the sector and obtain an industry view on the road map for the future state of Governance in this industry. The survey aimed to seek views on the following areas:

- Effectiveness of corporate governance
- Factors to improve corporate governance
- Board/Senior Management oversight
- Internal control environment
- Code of conduct, risk management and legal compliance framework
- Corporate Social Responsibility
- Technology Enablers.

Executive summary

The survey highlighted some interesting themes and the industry seems to have consistently echoed their views on the growing significance of governance within the M&E industry. Generally the top executives agree that the governance maturity is evolving across the industry.

71 per cent of the respondents believe that senior management and board succession planning needs to be enhanced.

Focus areas for CXOs to improve governance maturity within their organisations

Governance areas	Key facts
Succession planning for board and senior management to ensure that any expected/unexpected changes at the leadership levels do not significantly impact the business at large	71 per cent of the respondents believe that senior management and board succession planning need to be enhanced.
Capability enhancement within support functions such as Finance, Human resources, Information Technology, Risk and Compliance	59 per cent of the respondents believe that talent management for support functions is a focus area
Assessment of internal and external changes (for e.g. changes in management, acquisitions, government regulations) on the company's risk profile	53 per cent of the respondents believe that their boards do not always investigate whether the impact of internal and external changes are captured on the company's risk profile.
Corporate Social Responsibility (CSR)	47 per cent of the respondents believe that CSR is either not a focus area or is in a relatively nascent stage within their organisation



Although regulations will push for Corporate Governance reforms across the M&E sector, the Board and CXOs should equally ensure to implement a robust operational framework across the organisation which complies with their Corporate governance objectives.

- Dinesh Modi
CFO

Eros International Media Pvt. Ltd

01. <http://business.time.com/2010/10/29/india-vs-china-which-is-the-best-role-model-for-the-developing-world/>



The Good news - Areas where governance practices are reasonably mature

Governance Areas	Key Facts
Existence of a formal compliance function to monitor risk and compliance activities	82 per cent of the respondents have an established compliance function within their organisation
Adequacy of the level of assurance from internal audit and periodicity of updates to the Audit Committee/ Board	76 per cent of the respondents believe that their internal audit provides adequate levels of assurance on the internal controls across critical areas. 76 per cent of the respondents believe that internal audit plan and reports are presented to the Audit Committee/Board on a periodic basis
Companies Act 2013 requirements with respect to governance areas such as internal audit, internal financial controls, enterprise risk management, board performance evaluation	65 per cent of the respondents believe that their organisation is largely compliant with the governance requirements of the new Companies Act 2013
Existence of well defined policies and procedures and level of adoption/implementation across the organisation	53 per cent of the respondents have well defined policies and procedures rolled out to key business areas

Though 59 per cent of the respondents believed that senior management focus in the M&E sector is business centric as against governance consciousness which poses a challenge to strengthen governance across the sector, 76 per cent of the respondents believe that their senior management actively promotes control consciousness and provides adequate oversight to strengthen processes and controls. Thus suggesting that though there is intent to promote a control conscious culture, business takes precedence when it comes to governance matters.

Detailed analysis and findings

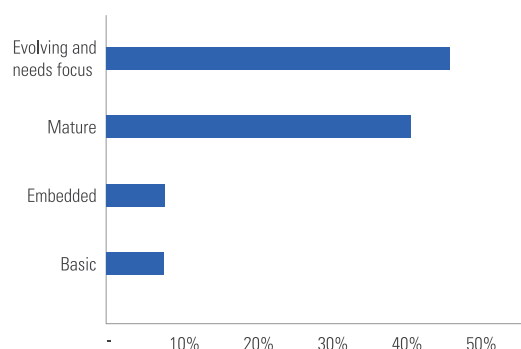
The survey covered large players across the M&E sector, and sought their views on broad governance themes. A detailed analysis of the survey findings is provided below:

Effectiveness of corporate governance

76 per cent of the respondents believe that the governance across the sub-sector within which they operate are either basic or are evolving whereas, 53 per cent of the respondents believe that the governance practices within their organisation are either basic or are evolving and need focus suggesting a larger confidence

in their own governance practices as compared to those within their sub-sector. However largely the respondents seem to agree that the effectiveness of governance needs to be enhanced.

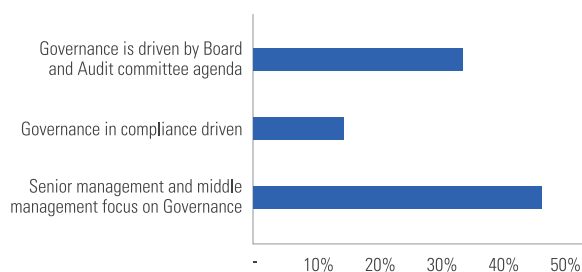
What is your view on the current state of the maturity on governance practice for your organisation?



Source: Corporate Governance Survey - M&E sector - FICCI 2015

Similarly the survey indicated that presently governance is either a Board/Audit Committee agenda (35 per cent of the respondents) or compliance driven (18 per cent of the respondents) as against senior management focus area.

What is the primary driver for implementing Governance mechanisms within your organisation?



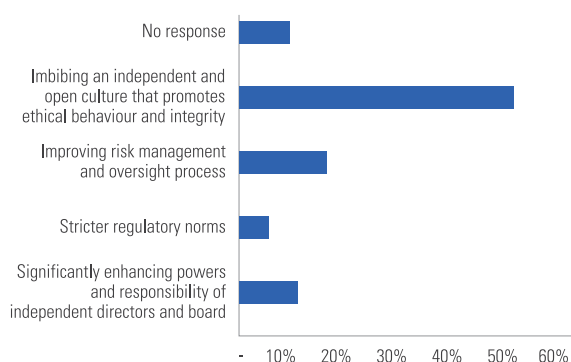
Source: Corporate Governance Survey - M&E sector - FICCI 2015



Factors to improve corporate governance

53 per cent of the respondents believe that corporate governance standards can be improved by imbuing an independent and open culture that promotes ethical behavior and integrity. This also re-iterates that governance is largely culture driven as against being compliance driven.

How do you rate the importance of following factors in improving corporate governance standards?



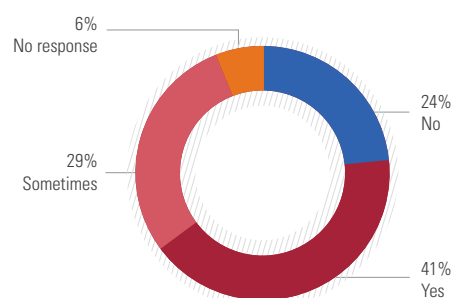
Source: Corporate Governance Survey - M&E sector -FICCI 2015

As mentioned before, capability enhancement within their support functions such as human resources, finance, information technology and internal audit is another focus area for companies to address to improve their governance. 59 per cent of the respondents believe that the organisation structure needs additional layers for oversight and monitoring, therefore the others seem to be comfortable with their oversight and monitoring organisation structure.

Board/Senior Management oversight

Given the dynamic nature of the M&E sector, both the internal as well as external environments to the organisation are subject to change which may change the risk portfolio of an organisation. As a result, boards and senior management need to be extremely vigilant and investigate the impact of changes that may impact the quantum and likelihood of the risks assumed by the organisation.

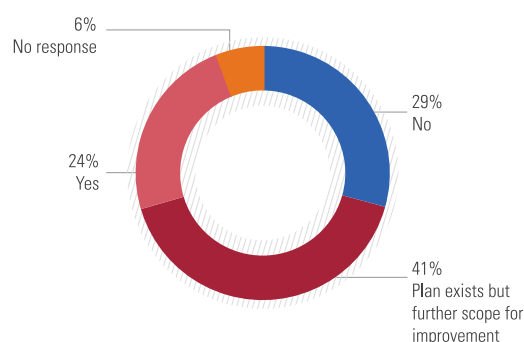
Does the Board investigate how internal and external environmental changes are captured in the context of the entity's risk profile?



Source: Corporate Governance Survey - M&E sector -FICCI 2015

Similarly, sufficient focus needs to be on determining that the organisation is able to carry on independent of its leaders. Any succession planning issues at the board and senior management level may result in a going concern impact on M&E companies.

Is there a robust plan and process for director and senior management succession planning?



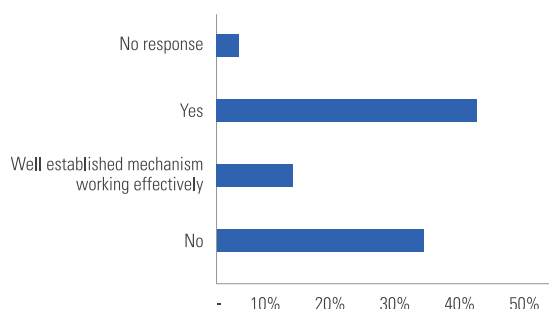
Source: Corporate Governance Survey - M&E sector -FICCI 2015

The survey highlighted both the above areas as focus areas for senior management members with more than 50 per cent of the members highlighting these as a focus area.

Board performance evaluation as a concept is fairly new to the Indian scenario and given that 35 per cent of the respondents have not yet implemented a process for performance evaluation for the board and its sub-committees, the concept needs to be further embedded in the M&E industry.



Is there a well defined process for performance evaluation of the board and its sub-committees?

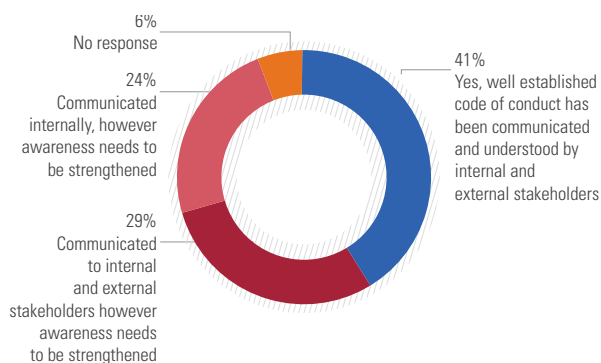


Source: Corporate Governance Survey - M&E sector -FICCI 2015

Code of conduct, risk management and legal compliance framework

A well defined code of conduct and its effective implementation lays the foundation for ethical conduct across the organisation. Most of the respondents did have a formal code of conduct in place. However the communication process needs to be strengthened in case of 53 per cent of the respondents. Additionally, the code of conduct has not been extended to external stakeholders such as suppliers and customers in case of 24 per cent of the respondents.

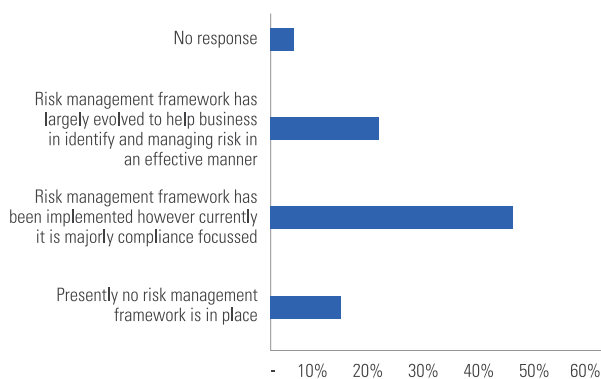
Has the “code of conduct” for the organisation been communicated effectively such that internal and external stakeholders (such as suppliers and customers) are fully aware of their responsibilities with respect to ethical behavior and fair dealing practice



Source: Corporate Governance Survey - M&E sector -FICCI 2015

Further only 29 per cent of the respondents have a risk management framework that enables them to effectively identify and manage risks in an effective manner. 18 per cent of the respondents do not have a risk management framework in place and the rest of the respondents have implemented one which is largely compliance driven.

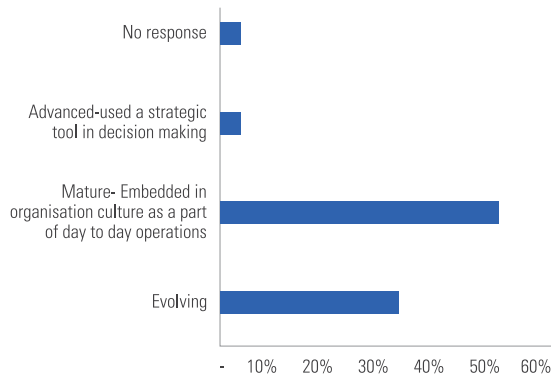
Is there a robust risk management framework in place which assists the organisation in effectively identifying, escalating and managing risks arising from current and future events?



Source: Corporate Governance Survey - M&E sector -FICCI 2015

53 per cent of the respondents believe that their existing risk management and control frameworks are fairly mature and are embedded effectively as part of their day to day operations. However 35 per cent of the respondents consider that their risk management and control frameworks are still evolving.

How do you rate the current standards of internal financial controls and systems of risk management in your organisation?

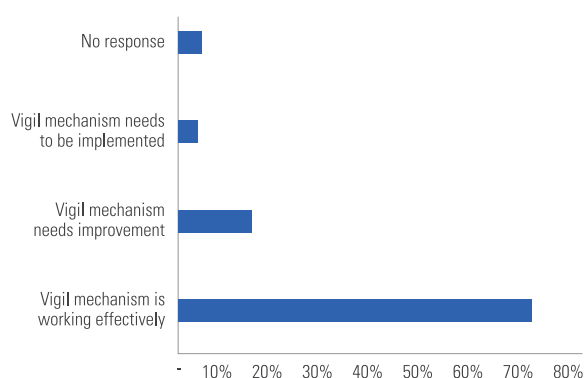


Source: Corporate Governance Survey - M&E sector -FICCI 2015



71 per cent of the respondents have a vigil mechanism that is working effectively and helps organisations to identify and deal with code of conduct violations in an effective manner. The remaining respondents believe that their vigil mechanism needs to be further strengthened.

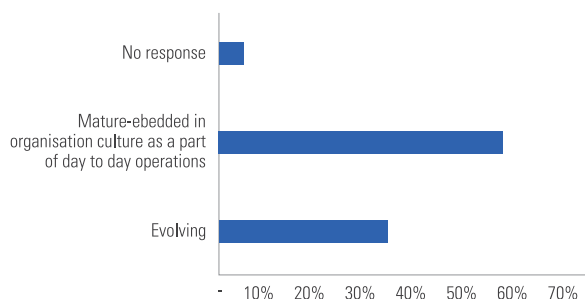
Is there a vigil mechanism/whistleblower mechanism in place and working effectively such that complaints are appropriately escalated, addressed and reported?



Source: Corporate Governance Survey - M&E sector -FICCI 2015

35 per cent of the respondents believe that their existing legal compliance framework is evolving indicating that the processes in place for identifying compliance requirements and complying with such requirements as well as addressing exceptions needs further improvements.

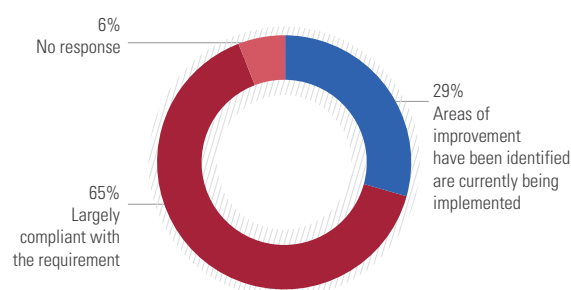
Do you have an effective legal compliance framework/program to identify all the applicable statutes, monitor compliance and report any exceptions at appropriate levels within the organisation?



Source: Corporate Governance Survey - M&E sector -FICCI 2015

Companies have had limited time to comply with some of the new requirements on governance aspects as mandated by the Companies Act 2013 such as related party transactions, board operations, risk management and internal controls.⁰² However 65 per cent of the respondents believe that their organisations are largely compliant with these requirements.

Has the organisation identified gaps with respect to compliance requirements of the Companies Act 2013 on governance aspects such as related party transactions, board operations, risk management and internal controls?



Source: Corporate Governance Survey - M&E sector -FICCI 2015

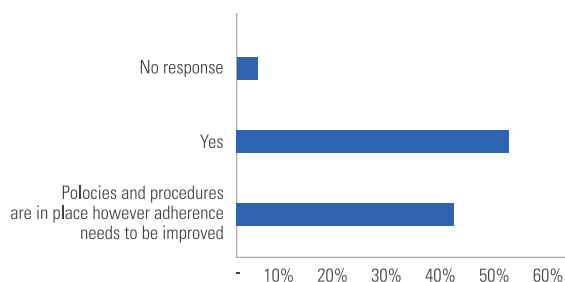
02. http://www.mca.gov.in/Ministry/pdf/General_Circular_8_2014.pdf



Internal control environment

Respondents seem to be largely satisfied with the extent of involvement and the level of oversight provided by the senior management including the assurance provided by their internal audit functions. 47 per cent of the respondents believe that processes and controls are clearly defined and communicated however compliance need to be strengthened. Adherence to processes and controls could be strengthened through various mechanisms such as strengthening the management and internal audit oversight or through control self assessments wherein the responsibility to assess compliance is essentially transferred to the process owners themselves with limited independent oversight.

Are well defined policies and procedures rolled out for key areas of the business such that employees clearly understand and adhere to such policies and procedures



Source: Corporate Governance Survey - M&E sector -FICCI 2015

Corporate Social Responsibility (CSR)

CSR practices across the M&E sector are still evolving as only 6 per cent of the respondents believe that CSR goals and objectives are seamlessly integrated across the organisation. This may involve measures such as need and impact assessment for CSR activities, developing a robust CSR plan to address the needs identified as well as putting together a structured program to engage various stakeholders. In addition, there needs to be an organisation structure which ensures that CSR activities are driven from the top and are taken seriously. Similarly the oversight and monitoring over implementation of the CSR agenda should be put in place to embed the CSR framework across the organisation.

Are CSR goals and objectives clearly defined and incorporated in the companies philosophies and strategies?

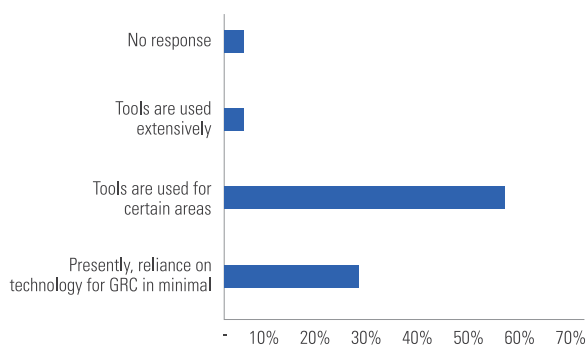


Source: Corporate Governance Survey - M&E sector -FICCI 2015

Technology enablers

As organisations move up the curve on their governance maturity, they tend to extensively rely on technology for oversight and monitoring. These enablers could be tools that facilitate ERM, Analytics, Audit automation or legal compliance software. The survey indicated that although 59 per cent of the respondents use some technology enablers for addressing their Governance, Risk and Compliance (GRC) needs, only 6 per cent use technology enablers extensively for GRCS initiatives.

Does your organisation deploy effective governance, risk and compliance mechanisms such as ERM, analytics and audit tools?



Source: Corporate Governance Survey - M&E sector -FICCI 2015



Understanding the corporate governance concerns

The survey provided deeper insights on the current governance concerns that senior management at major M&E companies face. The survey clearly highlighted that management intent and seriousness is the most critical driver for promoting a governance conscious culture. In absence of a clear tone at the top it would be difficult to thrust the corporate governance agenda.

The survey also highlighted that presently many of the existing governance initiatives within M&E companies such as internal controls, risk management are compliance driven. Hence the role played by the recent changes in the Companies Act 2013 in raising the bar on governance cannot be under estimated; however, key to enhancing the governance maturity in this industry can depend on the philosophy adopted by the Board/Audit committee and senior management members. In addition to driving governance conscious culture, senior management of M&E companies needs to focus on strengthening the following oversight mechanisms and practices to further improve the governance maturity across the sector including:

- Capacity building and capability enhancement for support functions such as Finance, Internal audit, HR and IT
- Investigation of the impact on account of internal and external changes on the risk profile of the organisation
- Performance evaluation of the Board and its sub-committees including succession planning at senior levels
- Implementing a robust risk management framework that is looked upon as a business tool as against a compliance requirement
- Strengthen the communication of the code of conduct and its extension to external stakeholders
- Assess the effectiveness of the existing legal compliance frameworks to identify improvement areas to enhance compliance to laws and regulations
- Enhance oversight mechanisms to monitor compliance with policies and procedures
- Encourage and embed CSR into the corporate philosophy and strategy
- Increase the reliance on technology and tools to drive governance initiatives on an ongoing basis.

Way forward

The Companies Act 2013 has also specifically mandated certain governance requirements for unlisted companies as result governance is expected to be high on the agenda for Board, Audit Committee as well as CXOs. The survey indicated that M&E companies have recognised that the governance practices are evolving within their organisations as well as the industry at large. Presently it seems that business precedes governance however given that there is adequate intent at the CXO level for good governance practices, it is expected that companies may move up the governance maturity curve in the near future.

The new Companies Act 2013 casts greater responsibility and accountability on the Board of Directors/Audit Committee. The Companies Act 2013 has also specifically mandated certain governance requirements for unlisted companies as result governance is expected to be high on the agenda for Board and Audit Committee members. In a scenario, where the growing awareness of governance consciousness across the sector is backed by an increase in the level of enforcement by the regulatory authorities, there can be a significant impetus to the enhancement of governance maturity across the M&E industry.

Conclusion

Top executives across the M&E sector fully understand the role that good governance plays in building sustainable organisations. The regulatory impetus has further pushed the governance agenda. However the sector as such is evolving in terms of governance practices. As a result M&E companies need to enhance their governance mechanisms such as a well implemented code of conduct, a robust enterprise risk management framework and an objective board performance evaluation process. Capabilities may also need to be enhanced in certain support functions to support the governance initiatives. There also needs to be a significant shift in the manner in which CSR is looked upon by the M&E sector to help ensure that is looked upon as business as usual as against an enforced initiative.

These initiatives should also be backed up with adequate senior management oversight and monitoring to help ensure that practices are process driven and controls are consistently applied during business transactions. The fact that companies have already commenced their governance transition and have certain basic governance elements already in place demonstrates that they are on the right path and can be reassuring for the stakeholders. Companies now need to build on the existing blocks and enhance their governance practices to help ensure that governance is more culture driven as against being compliance driven. This could be supported through board and senior management independence, time spent on governance initiatives by senior management, robust training programs, diversity across organisations and the manner in which exceptions or governance failures are dealt by the board as well as senior management.

The Companies Act 2013 has played its own role in facilitating the governance improvements in the M&E sector. With greater enforcement in the near future it may continue to provide the necessary impetus as it aims to enforce accountability at the highest levels. Recent trends and discussions indicate a sense of urgency across industry players with respect to strengthening their governance practices, be it enhancing internal audit functions, implementing enterprise risk management frameworks or strengthening internal financial and legal compliance frameworks.

In summary, the M&E sector has embarked on the governance path and the increased awareness and consciousness at senior management levels indicates that though there are number of areas to focus on and strengthen, however the governance outlook for the sector seems optimistic.



Skill development in the M&E sector



Growth drivers for employment and workforce characteristics

The total current employment in the Media & Entertainment sector is estimated at ~0.40 million, and is projected to grow at a CAGR of 13 per cent to reach 0.65 million by 2017⁰¹. A break-up of the employment across the various sub-sectors is provided in the accompanying graphic.

The Indian Media and Entertainment sector which is expected to grow at a CAGR of 13.9 per cent to reach INR1,964 billion by 2019⁰² has a high demand for skilled professionals across each of its sub-sectors.

Film and television sub-sectors employ a major portion of the workforce⁰¹. This demand is triggered by digitization activities in both films and television arena; and launch of new channels across genres.

Expansion in tier 2 and 3 markets: Real estate developers have shifted their focus to tier 2 and 3 markets given the rapid urbanization, low cost of real estate, availability of land, low advertising costs, improving standards of living and growing spending power in these markets.

Hiring and retaining talent: Lack of talent remains a challenge for media segments, especially for the print industry. While there are many journalism schools in India, quality remains a challenge. Industry discussions indicate that print journalism is not among the preferred career options for a large number of students even today

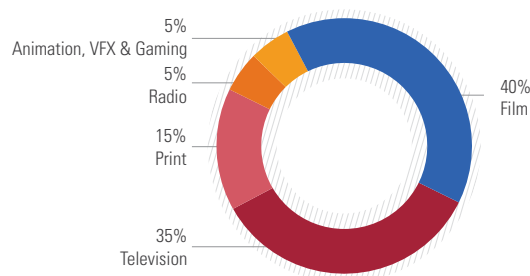
Across India, approximately 35 per cent of the total people employed in the M&E sector work with the film sector. A majority of them are contract workers/freelancers as opposed to full-time employees⁰¹. In the talent-driven media sector, companies could potentially differentiate themselves based on their ability to attract and retain the right people (for example, in the knowledge-intensive content development sector or RJ-dependent radio sector)

In animation and VFX, the spike in outsourcing activities has created demand for professionals such as character designers, key frame animators, 3D modellers, layout artists, etc. Over the years, with consumer media consumption pattern gradually shifting towards the digital platform, digital media has become an important component of the M&E industry. There is a significant demand for highly skilled and trained workforce that merges technical and artistic capabilities in the field of animation, VFX and gaming. Not only are there animation jobs available in the motion picture industry, but there are several other fields where they are valued as well – cartoon production, websites and video games manufacturers use animation artists⁰¹.

Consumers have gone beyond traditional TV sets, radio sets, newspapers and magazines for media and are increasingly using mobile devices to access media and entertainment. This has resulted in an increased demand for skilled professionals such as app developers, software testers, programmers, etc.

India's M&E industry's reliance on advertising has resulted in increased demand for workforce in media planning/buying, ad development and copy writing. Professionals with training and experience across the advertising value chain are expected to create high demand.

Media and Entertainment sector employment, 2013; 100 per cent = 0.40 million



Source: Media & Entertainment NSDC skill study 2015

Incremental human resource requirement (2013-17, 2017-22) and skill gaps

The industry currently employs 0.40 million workforce in 2013 which is expected to reach 1.3 million by 2022⁰¹.

The industry largely depends on advertising revenues, and performance of the industry is largely dependent on the overall economy outlook. The Industry employed 0.40 million workforce in 2013, which is expected to reach 1.3 million by 2022 translating into 0.9 million additional employment opportunities during the period 2013 to 22⁰¹. Owing to high dependency on human resources, the industry has a strong correlation between employment growth and output value. Labour elasticity for the period 2013 to 22 is pegged at 0.55 considering technological advancements and emergence of new media segments. Labour elasticity factors have considerable variations across the sub sectors depending on nature of activities undertaken⁰¹.

01. Media & Entertainment NSDC skill study 2015

02. KPMG in India analysis



M&E sector employment by sub-sector

Sub Sector	Employment (in Million)		
	2013	2017	2022
Television	0.14	0.28	0.64
Print	0.06	0.07	0.13
Radio	0.02	0.03	0.04
Animation, VFX and Gaming	0.02	0.03	0.04
Films	0.16	0.24	0.44
Overall Sector	0.40	0.65	1.30

Source: Media & Entertainment NSDC skill study 2015

Television and films account for the lion's share of employment growth in the sector during 2013 to 22. While the growth rate of employment in new media and animation/gaming is high, considering the relatively lower base of current employment the contribution to the overall sectoral growth is limited.

Some key roles and skill-gaps in the M&E Industry

We would like to illustrate skill gaps in some key jobs that exist in the market place today. While this is by no means an exhaustive study of all the possible job roles in the industry, it would give a flavor of the kind of gaps. More importantly it aims to give an idea of where we need to have training programs – both formal and informal to bridge these.

Classified in terms of sub sectors within M&E, the following are also indicative of the future requirements in the industry that differ from the current demands.

Television

Production and post production

What is required?

- Planning and conceptualisation in content production – specially with respect to regional content
- Research
- Knowledge of production workflow and processes
- Knowledge of contractual terms and agreements
- Negotiation skills in order to effectively manage vendor relationships
- Technical know-how on online and mobile platforms
- Knowledge of post production concepts and techniques
- Language and comprehension skills.

Also increasingly, even at junior levels, the production and post-production professionals need to work with limited specialization with constant upgrading of skills/ technological changes/ new techniques and ability to work independently without supervision.

Script-writers

What is required?

- Understanding of screen-writing concepts and writing styles
- Writing for regional productions
- Ability to handle multiple genres such as humor, sitcoms, satire, etc.
- Adding to the script, rather than narrating in case of factual programming.

Stage-hands - Light men, spot-boys, assistants

What is required?

- Hard skills like operating modern equipment
- Soft skills like confidence and assertiveness
- Knowledge of health and safety guidelines
- Training on set etiquette.

Today, low productivity is a major concern for the workforce.

Journalist

What is required?

- Training with current technology like Skype, mobile, hand-held cameras, etc.
- Copy-writing for multiple platforms –TV, online and mobile
- Training on editing software and cut packages for broadcast media
- Soft-skills – especially language and public speaking skills.

Print

Ad sales

What is required?

- Training in measurement tools and data analytics tools, for example using IRS, Adex, etc
- Negotiation skills
- Creative thinking and conceptualisation skills
- Branding and brand development.

There also exists a lack of integration between the front-end and back-end sales teams.



Photographers-stills

What is required?

- Creative and conceptualization skills
- Knowledge of imaging software such as Adobe Photoshop, Light-room, Corel, etc,

Given the nature of this profession, there are several talented photographers who are willing to work as freelancers, and there is a shortage of people who would want to join in as full-time employees

Copy Writing/Copy Desk/Features Writing

What is required?

- Practical exposure/internship
- Specialisation in genres – e.g. business, war/conflict coverage, investigative
- Presentation skills, specially when aligned to specific target segments.

Films

Production

What is required?

- Pre-production skills
- Visualisation of productin process - (e.g. conducting location reccees, seeking shooting permissions from local governments etc.)
- Knowledge of planning and budgeting software.

Animation, Gaming & VFX

Graphic designer

What is required?

- Gaming concept design – specially in designing multiple levels of a game
- Cultivating scientific and logical thought process
- Cross-functional understanding (i.e. how the game will move through the production process and implications of a particular design on the workflow)
- User Interface (UI) experts.

Today in India UI skillset is typically sourced from abroad.

Animators

What is required?

- Traditional hand drawing/ sketching skills
- Particle animation/ dynamics
- Complex combination skills like accurately animating facial expressions and emotions.

The above skill is seen as critical for eliciting performance from the characters.

Art & design (Animation, Gaming & VFX)

What is required?

- Conceptual design skills - ability to create original characters/ objects
- Knowledge of drawing and human anatomy
- Appreciation of spatial aspects, architecture and geography
- Communication skills.

Radio

Technology

What is required?

- Management and maintenance of radio transmitters and IT.

Large networks typically outsource this function to specialist technology service providers, and the skill gap is usually felt by smaller stations that retain the function in-house.

Some key challenges and way forward

The media industry is yet to recognize the importance of training, skill development or vocational education in achieving its growth objectives. Many media players continue to hire regular humanities, commerce and even engineering graduate students at the entry level who are expected to learn on the job. Students trained in a media course often have to compete with general stream graduates for the same job in spite of their specialisation. Added to this are unattractive salaries, as compared to other industries at the entry level, and an absence of clear career path, thereby making this industry unattractive for students.

A lot of production houses in television, films, animation and news, in both print and broadcast, have in-house training schools, but they lead to creation of a captive talent pool and do not benefit the industry at large. This has hampered the establishment of third-party training institutes, thereby limiting the supply of trained youth through credible training institutes. As a ripple effect, there is an acute lack of good quality trainers further compounding the problem.

Rapid changes in technology and expectations from media demand continuous upgradation of skills in line with Indian and global standards. Due to lack of the formal and credible training ecosystem, an option available is that of unregulated training providers – who lack quality, teach an outdated curriculum and are mostly ill-equipped to handle demands of the industry.



To deal with it, stakeholders need to create training capacities through credible media institutes with quality faculty and a dynamic curriculum particularly in rapidly evolving segments like television, which enables the sector to tap into the right people.

Another big problem for the industry is poor perception amongst the youth regarding career prospects in media and entertainment industry. Lack of job security, widespread use of freelancers, unattractive entry salaries at entry levels and absence of clear career path makes it difficult to attract and/or retain manpower across sub-segments, especially pronounced in creative profiles like script-writing, film-making, production, acting, journalism and animation.

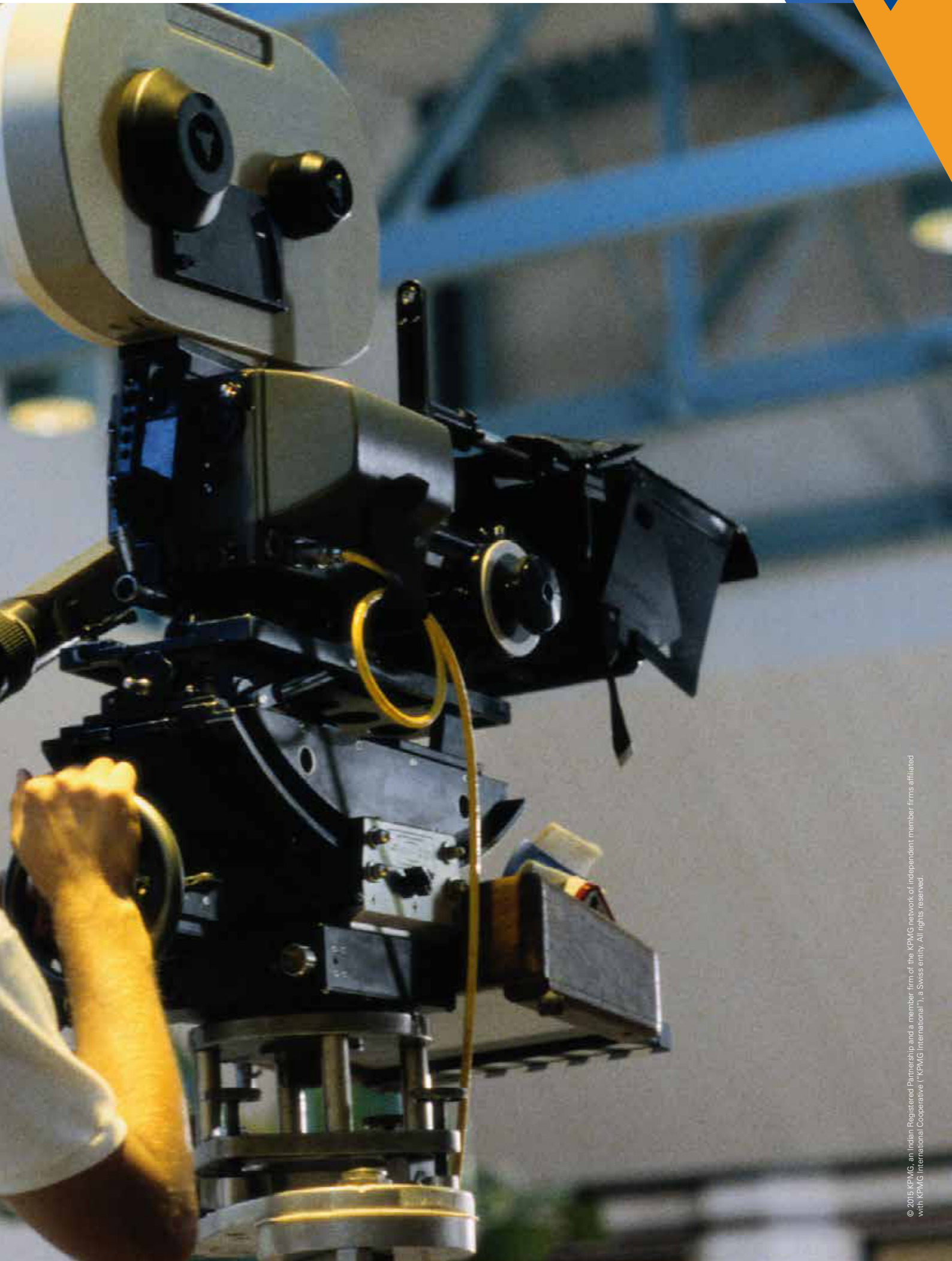
One suggestion would be for the government to encourage media and entertainment courses as an option in popular ITI institutes so as to avoid isolation of the industry related courses. Awareness needs to be created amongst the school students through foundation vocational courses in the sector during secondary school education creating awareness of opportunities in the sector.

The scope of animation, VFX and gaming is widening day by day. Apart from animation jobs in motion picture industry there are several other fields such as cartoon production, websites and video game which require skilled man force.

The skill set required for the industry is changing with incorporation and usage of modern technology. The industry needs to incentivize up-skilling of workforce to cope up with the changes including digitization, growth in multilingual markets, new technologies and convergence that demand additional skill sets for the workforce. Up-skilling could serve as an add-on for the employees. Industry shall adapt to practice of offering skill-premium to up-skilled workforce.

Similarly, given the large in-house training houses, adoption of National Occupation Standards and Industry specific QPs – could be an encouraging step in this direction. Another aspect that could help attract and retain talent would be to recognize any prior learning (RPL) and compensate accordingly.







In this chapter, we give an overview of the impact of the changing media landscape on enforcement of Intellectual Property Rights (IPR), and set out a framework for intellectual property governance.

Introduction

'Creative India; Innovative India', the term coined in National Intellectual Property Rights (IPR) draft policy, is India's motto towards a stronger economic future and sustainable development in coming decades. Guiding the growth of the nation, the draft of the IPR policy states, 'Creativity and Innovation are the forces which drive growth, development and progress in the knowledge economy'⁰¹.

The Indian government's focus on the National IPR policy as a guiding principle for creation and innovation is expected to translate into creating significant new market opportunities for the Intellectual Property right holders and beneficiaries across industries. In view of the above discussion, it will be interesting to examine one of India's most creative and innovative sectors – Media and Entertainment (M&E), that registered a growth of 11.7 per cent amounting to INR1026 billion in 2014. In the coming few years, this sector is expected to register a growth of 13.9 per cent touching approximately INR1964 billion by 2019⁰².

Despite the growth opportunities, the Indian M&E sector faces multiple challenges. All the segments of the M&E sector especially film, television, and music face one common issue — piracy. The music sector piracy alone results in an annual loss of about USD4 billion to the sector⁰². In this digital era, we witness higher levels of online piracy as compared to the traditional modes of piracy. The technically advanced digital world experiences online piracy perpetration through peer-to-peer (P2P) sharing, where thousands of active internet links can be created for a single file, resulting in mass distribution. This not only causes illegal streaming and distribution, but also amounts to huge revenue and market share losses suffered by intellectual property right owners.

Based on the Comscore's analyses of the top 200 sites in India for copyright piracy, 21 per cent are direct download sites, 21 per cent are torrent sites, and 17 per cent are social networking sites amongst such sites. In 2014, the Entertainment Software Association (ESA) reported that India is placed fifth in the world (up from sixth position in 2013) in terms of the number of connections by peers participating in the unauthorised file sharing of select ESA member titles on public P2P networks⁰³.

Thus, it is the need of the hour, to adopt an effective and expeditious remedy by the concerned industrial bodies and the government to halt access to infringing material and safeguard the economic interest of the industry.

Changing landscape

The M&E sector has yet to experience a focus on enforcement of Intellectual Property rights, although the amendment of the Copyright Act in the year 2012 provides stricter enforcement provisions.

While piracy is a non-bailable, cognisable offence under the Copyright Act, its enforcement requires extensive measures to restrict the criminals in the trade. As an enforcement practice, the industry has continued to obtain court orders to address online piracy. In this regard, the concept of John Doe has been instrumental in protecting the copyright of owners especially in preventing movie piracy on the internet through unauthorised websites and showcase of the movies through cable network. John Doe order is an injunction sought against someone whose identity is not known at the time it is issued. Through John Doe order, the cable operators, ISPs or other unknown persons can be restrained from pirating on any medium including the internet.

Some of the recent cases where the court issued a John Doe order to prevent online piracy are FIFA world cup 2014; Happy New Year; Bang Bang; Youngistaan; Dhoom3; Singham among many others.

Within the music industry, we have an example of the Super Cassettes Industries Ltd. v. Myspace Inc. & Another (2011) case, where the plaintiff was granted an interim injunction against the defendant, whose social network was found to be secondarily infringing by allowing its 'webspace' to be used for sharing infringing materials. This case uncovers the intermediary's liabilities in the online space and requirement of cooperation among ISPs and other intermediaries⁰⁴.

To prevent such unauthorised copyright infringements, John Doe or court orders are few preventive measures. However, there exists a need to establish a long-term solution with proactive compliance, stricter vigilance, quicker enforcement with focus on educating stakeholders (copyright owners, intermediaries, ISPs) and spreading awareness among users about the deterrents of using pirated content.

Intellectual property governance management framework

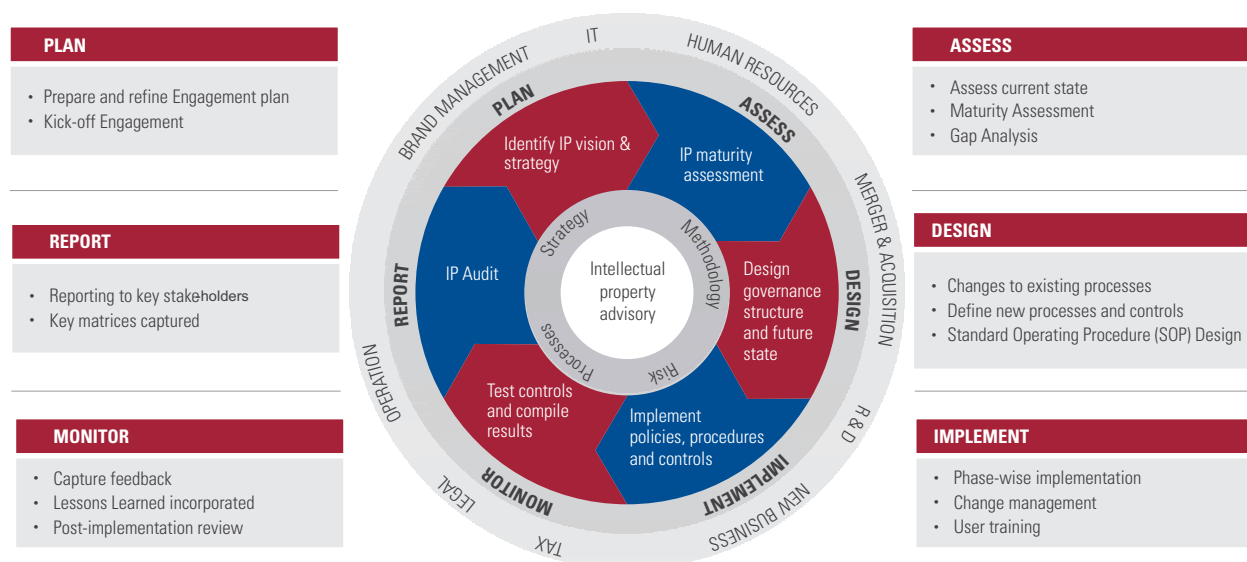
An organisation in the M&E sector should have a robust governance mechanism around creation, identification, protection, commercialisation, and management of Intellectual Property through internal processes and programs. Such a mechanism would allow the organisation to extract increased revenue from the existing Intellectual Assets and command premium pricing. Additionally, it supports the organisation in protecting their copyrighted content from infringement and misuse.

01. National IPR Policy (First Draft), December 19, 2014

02. KPMG in India analysis

03. A 2013 study tracking IP-addresses using P2P networks to download films and television content found India to be in the top ten Internet piracy countries in the world. Utpal Borpujari, India Major Online Film Piracy Hub, Deccan Herald, January 30, 2014, at <http://www.deccanherald.com/content/41541/india-major-online-film-piracy.html>

04. Super Cassettes Industries Ltd. v. Myspace Inc. & another (High Court of Delhi, July 29, 2011, IA No.15781/2008 & IA No. 3085/2009 in CS (OS) No.2682/2008.



Source: KPMG in India Intellectual Property Framework

As the Intellectual Property assets grow in number, there is a clear need for the organisation to revamp its governance and enforcement system to bring about effective intellectual property management. Organisations that have found a way to identify the right opportunity for intellectual property at the right time, often have a better return from the business.

Solution Themes

The following themes help organisations to manage and get benefitted from Intellectual Property:

Corporate Governance

The corporate governance includes several aspects such as having a well thought out Intellectual Property strategy in line with the organisational vision and objectives, maturity and risk assessment of the processes around Intellectual Property. Due Diligence before an acquisition with respect to Intellectual Property should be an integral part of the deal to avoid any valuation or IPR related issues later on.

Compliance and Vigilance

Intellectual Property Compliance and Vigilance can help in creating an internal program or mechanism which would enable organisations having license agreements with licensor/licensee relationship compliance (such as royalty agreement), market watch with respect to Trademark and Copyright infringements, Brand Protection and prevention of online piracy, data theft, etc. This can not only prevent an organisation from a revenue leakage standpoint but can also help organisations limit external risks pertaining to claims and litigations from other parties.

Operational

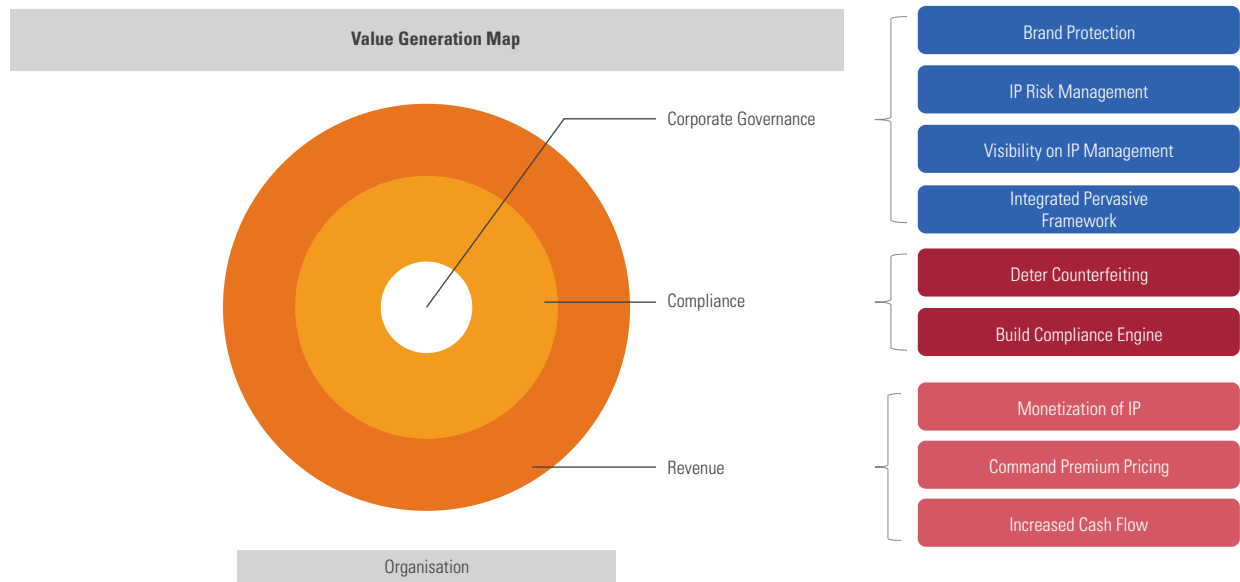
The operational theme includes identifying the processes and controls in existence within an organisation to enhance business value and protect Intellectual Property. This typically would entail design and implementation of processes, policies and procedures around various aspects of Intellectual Property lifecycle such as identification, valuation, commercialisation, buy/make decisions and R&D support, to name a few.

M&E companies could find answers to the below questions with Intellectual Property Management:

- How to combat the online piracy of copyrighted content?
- What will be the impact of the new online distribution channel to our revenue?
- What will be the effective royalty agreement for the copyrighted content? Are we getting our due share of royalty?
- Which are the online domestic and foreign sites infringing upon the copyrighted content?
- Which are the key business functions that are prone to risk of intellectual property information/data leakage?



Intellectual Property management can generate value for any Media and Entertainment Company



Source: KPMG in India Intellectual Property Framework





Tax and regulatory

...and the wait continues



In India, the Media and Entertainment industry has witnessed steady growth over the past few years, despite the slow growth of the economy. This growth has been fuelled by technology, with the digitisation of film exhibition, cable, and most importantly, the growing use of digital entertainment. In this industry-wide business transformation, we are at a phase where the current rigours of tax in the form of uncertainty surrounding the taxability of various transactions, multifarious compliances, etc. need to be addressed.

The new government came into power last year with a promise of a non-adversarial tax regime and echoed the strong intention to effectuate changes for ease of doing business in India.

Given the importance of media and entertainment in today's environment, the M&E sector had high expectations from the Budget in 2015. The industry expected the liberalisation of foreign investment regulations, simplification of the indirect tax regime, harmonisation of withholding taxes, and increase in tax incentives, etc.

The wait was finally over when the Finance Minister (FM) unveiled his first full budget with the thrust clearly on the government's flagship initiatives of 'Make in India' and 'Skill India'. With proposals to defer the General Anti Avoidance Rules ('GAAR'), reduce tax on 'royalties' and fees for technical services ('FTS') payable to non-residents, implement the Goods and Service Tax ('GST') regime from April 1 2016, the Finance Bill 2015 has laid down an optimistic roadmap for industry including the M&E sector from a tax perspective. The reduction in the tax rate for 'royalties' and 'FTS' would significantly reduce the cost of importing technology, content, transponder services, software, etc. In case of net of tax contracts. The implementation of GST would greatly benefit the industry in the form of a reduction of tax cost for the industry, doing away with dual taxation (i.e. levy of service tax as well as Value Added Tax ('VAT') on certain transactions, subsuming entertainment tax) and overall simplification of the tax landscape.

With a positive start by the new government, one may expect several other issues such as withholding tax on various payments made by the broadcasters, withholding tax on discount on sale of set top boxes/recharge coupon vouchers in the case of direct-to-home ('DTH') industry, uncertainty surrounding taxability of digital economy, foreign sports associations, teams and players, etc., to be addressed by the FM/Central Board of Direct Taxes ('CBDT') in the near future.

The key tax and regulatory issues/developments relating to the M&E sector are discussed in this chapter.

Film industry

Key tax issues

• Deduction of expenses

The Income-tax Rules, 1962 (Rule 9A and 9B) permit deduction of expenditure incurred on production of films/acquisition of distribution rights therein either in the first year of release or over a period of two years, based on when the copyrights/distribution rights in the films are exploited or depending on the date of release of the film.

There are several ambiguities surrounding the applicability of Rule 9A/9B, including whether it extends to satellite, music, home video and other rights in addition to theatrical rights, whether it is directory or mandatory, whether it overrides all other provisions of the Income-tax Act, 1961 (IT Act), (for example, whether the deduction of expenditure under Rule 9A/9B is allowable irrespective of whether it is capital or revenue in nature, whether tax has been deducted at source or not), deductibility of expenses which are not covered by Rule 9A/9B, etc.

A government circular or clarification on the above aspects could help dispel this uncertainty.

• Tax withholding on acquisition of copyright

Under the IT Act, payments to Indian residents towards acquisition of copyright in content (for example, satellite rights, home video rights, music rights, etc.) attract a 10 per cent withholding tax (under Section 194J). This withholding rate is excessive considering the profit margins prevalent in the industry and it has an adverse impact on taxpayers' cash flows. It could be worthwhile for the government to consider a lower withholding tax on such payments.

• Service tax on fees of actors/technicians

Revenues earned by film producers from the licensing of copyright in cinematographic films for exhibition in cinema hall/theaters, are exempt from service tax. However, the producers of cinematographic films avail various input services (such as services of actors and technicians) which are liable to service tax. Accordingly, there is substantial loss of CENVAT credit on inputs/ input services attributable to revenue from exhibition in cinema hall/theaters. This results in a huge cost for film producers and could be avoided by exempting the input services of actors and technicians from levy of service tax.



Recent developments

• Service tax exemption on services provided by an exhibitor to a distributor or an association of persons

Producers, distributors, sub distributors and exhibitors of movies, enter into different kinds of arrangements for the exhibition of movies. These arrangements are either entered into on a principal to principal basis (where the movies are exhibited by the exhibitor on his own account) or on behalf of the distributor/sub distributor/producer, or on a revenue sharing basis. Under the negative list regime, the explanation to the definition of 'service' states that, for the purpose of service tax law, an unincorporated association or a body of persons, as the case may be, and a member thereof shall be treated as distinct persons.

In addition to the above, the Guidance Note at para 2.4.3 of the Education Guide (dated 20 June 2012) also states that the services provided, both, by the so constituted Joint Venture ('JV') or profit sharing Association Of Persons ('AOP'), as well as by each of the individual persons constituting the JV/AOP will be liable to be taxed separately, subject of course to the availability of the credit of the tax paid by independent persons to the JV/AOP, and as otherwise admissible under the CENVAT Credit Rules, 2004.

Earlier, Circular No. 148/ 17/ 2011-Service Tax dated 13 December 2011, also mentioned that services provided by each of the person of an unincorporated JV is liable to pay service tax. The said circular also stated that, where the movie is exhibited by the theatre owners/ exhibitors without the transfer of copyrights in the cinematographic film, the consideration received by the theatre owners/ exhibitors was liable to service tax as 'Business support services' or 'Renting of immovable property', depending on their arrangement with the distributor.

Further, Madras High Court in case of Mediaone Global Entertainment Ltd.⁰¹ also upheld the said Circular. The High Court held that having regard to the various modes of arrangements between the distributors/ sub – distributors of films and exhibitors of movie, Central Board of Excise and Customs ('CBEC') was justified in issuing the said circular clarifying the transactions between distributors/ sub – distributors and owners of theatres and levy of service tax. It was also held that, the circular states that the nature of the transaction determines the levability of service tax and decision to be taken on a case to case basis. Hence, the said Circular cannot be said to be beyond the powers of CBEC.

Therefore, though the copyright services in relation to temporary transfer of copyright in cinematographic films for theatrical exhibition were exempt from levy of service tax, in view of the aforementioned clarifications, the exhibitors were liable to pay service

tax in respect of the services of exhibition of movies (which were in nature of 'Business Support Service' or 'Renting of immovable property service') provided to the distributors or unincorporated association of persons.

The FM vide the Finance Bill 2015 has sought to amend the Notification No. 25/ 2012 dated 20 June 2012 ('Mega Exemption Notification') to include, 'services provided by way of exhibition of movie by an exhibitor to the distributor or an association of persons consisting of the exhibitors as one of its members.'

Thus, with effect from 1 April 2015, the exhibitors of movies have been granted service tax exemption in respect of the services provided by way of exhibition of movies to the distributors or association of persons.

KPMG in India's comments

Given the above, the services provided both, by the unincorporated JV or profit sharing AOP, as well as by each of the individual persons constituting the JV/ AOP will be liable to be taxed separately, subject to availability of credit to the JV/AOP of the tax paid by independent persons and as admissible under the CENVAT Credit Rules, 2004.

However, the services provided by way of exhibition of movie by an exhibitor to the distributor or an AOP (consisting of the exhibitors as one of its members) will not be liable to service tax with effect from 1 April 2015.

• Service tax on admission to concerts, pageants, musical performances and award functions

The services by way of admission to entertainment events was outside the purview of service tax levy, by way of inclusion in the negative list of services. Further, the term 'entertainment event' was defined to mean an event or a performance which is intended to provide recreation, pastime, fun or enjoyment, by way of exhibition of cinematographic film, circus, concerts, sporting events, pageants, award functions, dance, musical or theatrical performances including drama, ballets or any such event or programme. The Finance Bill 2015 has proposed to omit the aforementioned negative list entry, which covers the services by way of admission to entertainment event.

Further, the exemption from service tax to services by way of right to admission to exhibition of cinematographic film, circus, dance, theatrical performance including drama or ballet and recognised sporting event, has been continued by way of a new entry in the Mega Exemption Notification, the same will be effective from date to be notified.

01. Mediaone Global Entertainment Ltd [2013] TIOL-516-HC-MAD-ST)



Moreover, service tax has been proposed to be levied on service by way of admission to award function, concert, pageant, musical performance and sporting events other than the recognised sporting events, if the consideration for admission to such events is more than INR500 per person. Where the amount charged is less than INR500 per person for admission to the aforementioned events, service tax exemption shall continue vide a new entry in the mega exemption notification, with effect from date to be notified.

KPM G in India's comments

The FM vide the Finance Bill 2015 has pruned the negative list of services, now proposing to grant service tax exemption only to admission to exhibition of cinematographic film, circus, dance or theatrical performance and recognised sport event.

Other services such as admission to award functions, concerts, pageants, musical performances and sporting events other than recognised sporting events, have been granted exemption (from date to be notified) only if the consideration to such admission is INR500 per person or less.

Recent developments

• Rule 9B applicable to satellite rights in films

In the case of Smt. Achila Sabharwal⁰², the taxpayer was engaged in the business of acquisition and grant of rights in old cinematographic films and songs. The taxpayer had acquired the broadcasting/exhibition rights and satellite rights of some old films and granted it in the same year to various parties. The taxpayer claimed deduction of the entire cost of acquisition of the rights under Rule 9B.

The tax authorities held that the taxpayer had not purchased any cinematographic film for consumption but what was purchased was broadcasting/exhibiting rights, satellite rights. Therefore, depreciation at the rate of 25 per cent should be allowed under Section 32 of the IT Act instead of granting deduction for the entire cost of acquisition of rights under Rule 9B.

Interpreting Rule 9B, the Delhi High Court held that the tax authorities took a very narrow view on the term 'distribution' to hold that exhibition rights, television rights or satellite rights cannot be treated as 'distribution rights'. The Court held that 'distribution rights' would also include and consist of acquisition and transfer of exhibition/broadcasting rights and satellite rights. Accordingly, the High Court held that Rule 9B will be applicable to the taxpayer and the entire cost of acquisition of rights would be allowable as a deduction.

KPM G in India's comments

Whether Rule 9B applies to cost of acquisition of satellite rights of films is a debatable issue. This is a welcome decision, which is expected to provide some clarity to the distributors with respect to claiming deduction of the cost of acquisition of satellite rights in the films. It has been held by the High Court that the entire cost of acquisition of rights is allowable as deduction as per Rule 9B.

Payment for availing animation services not 'fees for technical services'

In case of DQ Entertainment (International) (P) Ltd.⁰³, the taxpayer was engaged in business of production of 2D and 3D animation films. Its customers mainly comprised of overseas clients. The taxpayer engaged Hong-Kong based sub-contractors to avail animation services for various episodes required for its main production work and made payments to them without withholding taxes at source.

The tax authorities held that the payments made to the overseas sub-contractors are in the nature of 'FTS' and thus, taxable in India.

The Hyderabad Tribunal held that there was no element of any technical service in the production of animation films. It held that just because expertise, knowledge, technology and experience is possessed by the service provider, it cannot be said that animation services rendered are in the nature of technical and consultancy services, without making any technology available to the other person. Also, since the customers of the taxpayer were located outside India and the ultimate viewership of the films was outside India, it was held that the services of the sub-contractors were utilised by the taxpayer in a business carried on outside India and for earning income from source outside India. Accordingly, as per the provisions of the IT Act, the income does not deem to accrue or arise in India. Hence, the payment does not qualify as 'FTS' and there was no liability to deduct tax under Section 195 of the IT Act from the payments made to foreign sub-contractors.

KPM G in India's comments

This judgement can be relied on by producers who are litigating with the tax authorities to defend their position that payment to overseas parties for availing animation services is not 'FTS' and therefore, not liable to withholding tax.

02. CIT v Smt. Achila Sabharwal [2014] 50 taxman.com 374 (Delhi HC)

03. ADIT v DQ Entertainment (International) (P) Ltd [2014] 64 SOT 152 (Hyd Tribunal)



- **Payment for outsourced studio work not in the nature of 'fees for technical services'**

In case of Leela Ghosh⁰⁴, the taxpayer was engaged in the business of sound recording, dubbing and other ancillary post production activities for movies and serials. The taxpayer engaged other studios for certain specialised jobs. While making payment to such studios, the taxpayer deducted tax at the rate of 2 per cent under Section 194C of the IT Act. However, the tax authorities held that the payments made in connection with recording/dubbing were in the nature of 'FTS' and tax should have been deducted at the rate of 10 per cent under Section 194J of the IT Act.

The Mumbai Tribunal held that the transaction is in the nature of sub-contract of work and hence, the taxpayer has rightly deducted tax under Section 194C of the IT Act. The Tribunal held that even otherwise, short deduction of tax cannot form basis for disallowance of expenditure.

KPM G in India's comments

This decision of the Mumbai Tribunal is a welcome one for the producers where many a times they hire the facilities of other studios. This decision supports the view that such transactions are in the nature of contractual payment, subject to tax deduction at the rate of 2 per cent and are not in the nature of technical service, which is subject to higher rate of tax deduction at the rate of 10 per cent. This would have a positive impact on the cash flows of the studios providing various services such as dubbing, recording, etc.

Broadcasting Industry

Key Tax issues

- **Tax Deducted at Source (TDS) on various payments by TV channel companies**

Television broadcasting companies make significant payments to software production houses towards production of TV programs. They also pay placement/carriage fees to DTH operators, multi system operators and various cable operators towards placement/carriage of the channels. The channel companies are of the view that such payments attract TDS under Section 194C of the IT Act at the rate of 2 per cent. However, the tax authorities contend that such payments are liable for TDS at 10 per cent on the ground that the payments are towards technical services/'royalty'. This has resulted in protracted litigation.

A suitable clarification by the government to the effect that tax needs to be deducted on the above payments at the rate of 2 per cent and not at the rate of 10 per

cent is much needed to put the above controversy to rest.

- **Discount given to advertising agencies by broadcasters**

Generally, advertising agencies purchase advertisement airtime from broadcasters for placement of advertisements of their clients on the television channels of the broadcasters. As a customary practice followed by the broadcasting industry, the invoice raised by them on advertising agencies reflected standard commission (i.e. discount) of 15 per cent.

The tax authorities have been contending that such discount is in the nature of 'commission or brokerage' paid by television channels to advertising agencies and accordingly, is liable to withholding tax at 10 per cent under Section 194H of the IT Act.

However, taxpayers believe that the aforesaid discount given to advertising agencies is not in the nature of 'commission or brokerage' and hence, not liable for TDS under Section 194H of the IT Act. The above controversy has resulted in protracted litigation on the matter. It is imperative that the government issues a clarification on the matter to avoid this litigation.

- **Taxation of Transponder charges**

Broadcasting companies make payments for transponder charges to the satellite companies for transmission of their TV signals. The tax authorities contend that payments made towards transponder charges are in the nature of 'royalty'. However, in the case of Asia Satellite Telecommunications Co. Ltd. (Asia Sat)⁰⁵, the Delhi High Court has held that such payments do not constitute 'royalty' and are not liable to tax in India.

With a view to override the above decision, the definition of 'royalty' under the IT Act was amended vide the Finance Act, 2012, to bring within its ambit payments made for transmission of signals by satellite. The Delhi High Court in the case of TV Today Network Limited⁰⁶ affirmed the taxability of payments towards transponder charges as 'royalty' under the IT Act, in view of the retrospectively amended definition of 'royalty'.

However, non-resident taxpayers can continue to take the benefit of tax treaties entered into with India to contend that such payment is not in the nature of 'royalty' under the tax treaty and hence, not liable to tax in India. Having said that, one needs to be mindful of the decision of the Mumbai Tribunal in the case of Viacom 18 Media (P) Ltd.⁰⁷ wherein it was held that post the retrospective amendment in the IT Act, payments for transponder hire charges are taxable as 'royalty' even under the tax treaty.

04. ACIT v Ms Leela Ghosh (I.T.A. No. 172/Mum/2013)

05. Asia Satellite Telecommunications Co. Ltd [2011] 197 Taxman 263 (Delhi HC)

06. DIT v TV Today Network Limited [2014] 221 taxman 123 (Delhi HC)

07. Viacom 18 Media (P) Ltd v ADIT [2014] 66 SOT 18 (Mum Tribunal)



• Taxation of Foreign Telecasting Company ('FTC')

The two primary sources of revenue for FTCs are income from sale of advertising airtime on the TV channel and subscription revenues.

• Taxation of advertisement revenues

Under the IT Act, advertisement revenues of FTCs are taxable in India, in case FTCs have a 'business connection' in India. In case an FTC operates from a country with which India has a tax treaty, the advertisement revenues would be taxable in India only if the FTC has a permanent establishment ('PE') in India. The taxability in such cases is only on the income which is attributable to the PE/operations carried out in India. The circumstances in which the FTCs constitute a PE/business connection in India and the determination of income attributable to such PE/operations carried out in India, continues to be a contentious issue between the FTCs and the tax authorities.

FTCs generally appoint agents in India for marketing advertisement airtime slots. Agents also facilitate collection of advertisement revenues from advertisers and its remittance abroad. The tax authorities contend that the agent of the FTC in India constitutes its PE in India for various reasons.

The Bombay High Court in the case of SET Satellite (Singapore) Pte. Ltd.⁰⁸ has held that where an FTC has an Agency PE in India (i.e. PE on account of its agent), a payment of arm's length remuneration by the FTC to its Indian agent extinguishes its tax liability in India. A similar view has been taken by the Delhi High Court in the case of BBC Worldwide Ltd.⁰⁹ The matter is now pending before the Supreme Court.

• Taxation of Subscription revenues

Subscription revenues are generally collected by the Indian distributors and subsequently paid to the FTCs. FTCs are of the view that the payment for grant of distribution rights is not for any copyright and hence, is not in the nature of 'royalty' (which is taxable on gross basis at a specified rate). FTCs are of the view that the payment is in the nature of business income and is not taxable in India in the absence of any PE in India. However, the tax authorities hold a divergent view and contend that the subscription revenues are liable to tax as 'royalties'. The issue is pending adjudication at appellate levels.

• Service tax on license fees paid to Ministry of Information and Broadcasting ('MIB')

The FM in an attempt to further prune the negative list of services, has proposed to bring under the service tax net all services provided by government or

local authority. Further, the Finance Bill 2015 has also proposed to introduce the definition of 'government' to mean department of central government, state government and its departments, Union Territories and its departments, but shall not include any entity whether created by statute or otherwise, the account of which are not required to be kept as per article 150 of Constitution of India.

In view of the aforementioned proposed amendment, services by government to business entities are proposed to be subject to service tax. The Revenue Secretary, in an interview published in The Economic Times,¹⁰ has clarified that the government services to be taxed will be notified. If the license fees payable by the broadcasters to MIB are brought within the purview of service tax under the reverse charge mechanism in the hands of broadcasters, it may result into huge CENVAT credit accumulation for the broadcasters.

Judicial decisions

• Channel Placement fee paid to a cable operator categorised as 'work' liable to TDS at the rate of 2 per cent

In the case of UTV Entertainment Television Limited,¹¹ the taxpayer was engaged in the business of distribution of television channels. It made payments to cable operators/Multi System Operators ('MSOs') to carry their channels at a particular frequency. Tax was deducted on the payment at the rate of 2 per cent under Section 194C of the IT Act. The tax authorities held that the payment made was for technical services availed by the taxpayer and hence, TDS under Section 194J at the rate of 10 per cent should have been deducted.

The Mumbai Tribunal noted the decision of Prasar Bharti (Delhi High Court)¹² as well as CBDT Circular,¹³ which provides that when two provisions are simultaneously introduced in the Act, then the resort must be made to the specific provision. Accordingly, in the present case, the Mumbai Tribunal held that placement of channels involving broadcasting/telecasting should fall under the definition of 'work' under Section 194C of the IT Act.

KPM G in India's comments

This decision of Mumbai Tribunal provides the much needed respite to the channel distributors and broadcasters vis-à-vis ongoing litigations, in support of the contention that channel placement fee should be subject to TDS at a lower rate of 2 per cent under Section 194C of the IT Act and not at the rate of 10 per cent under Section 194J of the IT Act.

08. Set Satellite (Singapore) Pte. Ltd v DDIT(IT) [2008] 173 Taxman 475 (Mum HC)

09. IT v BBC Worldwide Ltd [2011] 203 Taxman 554 (Delhi HC)

10. Dated 03 March 2015

11. UTV Entertainment Limited [2014] ITA No. 2699/mum/2012 (Mumbai Tribunal)

12. CIT v. Prasar Bharati [2007] 292 ITR 580 (Delhi High Court)

13. CBDT Circular No. 720



- **Payment made to channel companies for receiving satellite signals characterised as 'royalty'**

In case of Kerala Vision Ltd.¹⁴, the taxpayer was engaged in the business of distributing cable signals. It received satellite signals from various channel companies in the capacity of MSO for which it paid 'pay channel charges' without deducting tax at source.

The tax authorities held that the payment to channel companies is for receiving a broadcasting service for transmission of the same to consumers. Hence, the same qualifies as 'royalty' and is liable to deduction of tax at source under Section 194J of the IT Act.

The Cochin Tribunal held that the retrospective amendment in the definition of 'royalty' is merely clarificatory in nature and that the expression 'process' shall always be deemed to include transmission by satellite, cable, optic fibre of any other technology. Thus, payment for receiving satellite signals is included in the definition of 'process' and hence, qualifies as 'royalty'. However, since at the time of deduction of tax at source, i.e. prior to the retrospective amendment, there was a High Court decision¹⁵ in favour of the taxpayer holding that transmission of television signal through satellite/transponders would not qualify as 'royalty', the taxpayer cannot be held to be liable to deduct tax at source. Hence, no disallowance of expenditure on account of non-deduction of tax can be made.

KPM G in India's comments

The Cochin Tribunal in this decision has held that the pay channel charges are taxable as 'royalty' with the introduction of retrospective amendment in the IT Act. However, the same cannot be disallowed for non-withholding of tax as at the time when the payment was made, there was a decision in favour of the taxpayer holding it not to be 'royalty'.

The above decision could be relevant with respect to taxability under the IT Act of the subscription revenue payable to channel companies. However, while delivering the above decision, the Tribunal has not considered the aspect that payment by MSOs to channel companies is not for transmission of signal (as the transmission will be done by the MSOs themselves) but for obtaining the right to distribute the channels to the viewers.

- **Payment for granting broadcasting rights to telecast live races not 'royalty'**

In case of Delhi Race Club¹⁶, the taxpayer was engaged in the business of conducting horse races and derived income from betting, commission and entry fee. It made a payment to other clubs whose races were telecasted on a live basis in the taxpayer's club. The tax authorities held that the payment for live telecast of horse races amounted to 'royalty' since the same would fall under 'copyright' and 'scientific work'. The taxpayer argued that right to broadcast/telecast is a special right distinct and different from 'copyright'. The payment for live telecast was not payment for transfer of any 'copyright'. A sports event is a performance, not a work and hence, the same is not copyrightable.

The High Court held that the live telecast would fall under the definition of 'broadcast'. Such 'broadcast' does not qualify as 'work' under the Copyright Act in which 'copyright' subsists. Therefore, such a live telecast/broadcast will have no 'copyright'. Also, relying on the decision of Delhi High Court in the case of ESPN Star Sports in the context of the Copyright Act, the Court observed that the legislature itself by terming 'broadcast rights' as those akin to 'copyright' clearly brought out the distinction between two rights in Copyright Act. It was a clear manifestation of legislative intent to treat copyright and Broadcasting Reproduction Rights (BRR) as distinct and separate rights. Therefore, payments for live telecast would not qualify as 'royalty' and no tax was required to be deducted on such payments.

KPM G in India's comments

This is a welcome ruling to address the taxability of income from broadcasting rights of live matches/races. While there are few Tribunal decisions in this regard, this is the first High Court decision supporting the case of the taxpayer. This High Court ruling will provide relief to the taxpayers earning income from grant of broadcasting rights to telecast live matches/events.

The above decision could also be of relevance to FTCs, to support their argument that BRR is different and distinct from copyright and hence, the distribution revenues cannot be considered to be covered within the definition 'royalty'.

14. Kerala Vision Ltd v ACIT [2014] 64 SOT 328 (Cochin Tribunal)

15. Asia Satellite Telecommunications Co. Ltd v. DIT [2011] 332 ITR 340 (Delhi HC)

16. CIT v Delhi Race Club (1940) Ltd. [2014] 228 Taxman 185 (Delhi HC)



- **Payment of transponder charges by assessee to U.S. company taxable as 'royalty' under India – U.S. tax treaty**

In case of Viacom 18 Media (P) Ltd.¹⁷, the taxpayer was engaged in the business of broadcasting of television channels from India and marketing of advertising airtime on these channels. The taxpayer had paid transponder service fee to a U.S. corporation. The tax authorities held that the payment for transponder charges was in nature of 'royalty' under the IT Act as well as India U.S. tax treaty.

The Mumbai Tribunal held that the use of transponder by the taxpayer for telecasting/broadcasting the programme involves transmission by the satellite including uplinking, downlinking, amplification, conversion for downlinking which falls within the expression 'process' and thus qualifies as 'royalty' under the Act. The definition of 'royalty' under the IT Act and the tax treaty is similar. The Tribunal held that since the term 'process' is not defined in the tax treaty, by virtue of Article 3(2) of the tax treaty, the meaning of the term 'process' under the IT Act shall apply to the tax treaty. Accordingly, the activity of use of transponder service as availed by the taxpayer amounted to a 'process' under the IT Act as well as the tax treaty and the same would be taxable as 'royalty'.

KPM G in India's comments

Even after the amendment in the IT Act to the definition of the term 'royalty', the taxpayers sought to take shelter under the tax treaty, arguing that the same is unaffected by the amendment in the IT Act. However, this decision of the Mumbai Tribunal, seeking to import the definition of certain terms from the IT Act into the tax treaty, could adversely impact the case of taxpayers.

DTH Industry

Key tax issues

- **Withholding tax on discount on sale of Set Top Boxes ('STBs')/Recharge Coupon Vouchers ('RCVs')**

From an income tax perspective, an issue arises vis-à-vis applicability of withholding tax on the amount of discount given to distributors on the sale of STBs/RCVs. The tax authorities are of the view that discount on sale of STBs/RCVs is in the nature of commission, subject to withholding tax at the rate of 10 per cent under Section 194H of the IT Act. However, the industry is of the view that the discount is not in the nature of commission and hence, Section 194H is not attracted thereon. This view is supported by the decision of the Supreme Court in the case of

Ahmedabad Stamp Vendors Association.¹⁸ In that case, stamp vendors bought stamp papers from state government at a discounted price. The tax authorities claimed that the vendors were 'agents' of the state government and the discount was nothing but 'commission or brokerage', liable to withholding tax under Section 194H. The Supreme Court held that tax need not be withheld on the discount given to vendors since it is not in the nature of commission or brokerage. The DTH industry is of the view that the ratio of this decision should equally apply to discount given to distributors for sale of STBs/RCVs.

Recently, the Karnataka High Court in case of Bharti Airtel Ltd.¹⁹, held that the discount given to distributors on sale of SIM cards/RCVs does not generate income in the hands of the distributor since the distributors derives income only on subsequent sale of the prepaid cards. However, the High Court held that if in the books of accounts of the taxpayer, the discount is reflected separately, then the liability of deducting taxes under Section 194J of the IT Act arises on the taxpayer. Though the said decision is in the context of telecom industry, the ratio of this decision may also apply to the DTH industry.

It could benefit the industry if the government issues a suitable clarification that discount on sale of STBs/RCVs is not in the nature of commission/brokerage and not subject to withholding tax, so as to avoid unnecessary litigation across the DTH sector.

- **Dual levy of tax on DTH service**

The DTH industry is subject to a variety of taxes on various transactions, such as VAT on sale of STBs, service tax and entertainment tax on subscription revenues, etc. Customers are charged STB installation charges and activation charges, on which service tax is being levied.

Providing DTH services is the predominant objective of DTH operators. Therefore, to build their subscriber base, a majority of DTH players have shifted from the model of selling STBs to the customers to providing the STBs on entrustment basis, without charging any consideration for the same. While there should be no VAT applicable on such a transaction effected without consideration, the VAT authorities of various States are seeking to levy VAT on such transactions on the ground that the installation and activation charges recovered from the customers include the price of STBs. This leads to double taxation of the same consideration (i.e. VAT and service tax), thereby causing significant strain to the industry.

17. Viacom 18 Media (P) Ltd v ADIT [2014] 66 SOT 18 (Mum Tribunal)

18. CIT v Ahmedabad Stamp Vendors Association [2012] 25 taxmann.com 201 (Supreme Court)

19. Bharti Airtel Ltd v DCIT [2014] 228 Taxman 219 (Karnataka HC)



Since installation and activation charges are service revenues and service tax is being levied thereon, they could be kept outside the purview of VAT.

• Taxability of RCVs

Taxability of RCV for subscriptions has long been a matter of dispute, particularly around whether this qualifies as a good or a service. The industry has been adopting a position that the RCVs are in the nature of actionable claims and cannot qualify as goods. Moreover, the intrinsic value of RCVs is insignificant and they are used in the course of provision of services. However, the VAT authorities of various States have been seeking to levy tax (VAT as well as entry tax) on such RCVs on their face value, treating them as goods.

While there are judicial precedents which have held that RCVs do not qualify as goods, it could benefit the industry if the respective state governments issue a clarification and makes suitable amendments to VAT schedules, so as to avoid litigation across India on this issue.

• Service tax on license fees paid to MIB

The FM in an attempt to further prune the negative list of services, has proposed to bring under the service tax net all services provided by government or local authority. Further, the Finance Bill 2015 has also proposed to introduce the definition of 'government' to mean department of central government, State government and its departments, Union Territories and its departments, but shall not include any entity whether created by statute or otherwise, the account of which are not required to be kept as per article 150 of Constitution of India.

In view of the proposed amendment, services by government to business entities are proposed to be subject to service tax. The Revenue Secretary, in an interview published in The Economic Times,²⁰ has clarified that the government services to be taxed will be notified. If the license fees payable by the broadcasters to MIB are brought within the purview of service tax under the reverse charge mechanism in the hands of DTH service providers, it may result into huge CENVAT credit accumulation for the service providers.

Music Industry

Key tax issues

• Deductibility of cost of music rights

Deductibility of acquisition cost of license in music rights has been a controversial issue. The issue is whether such costs are entitled to depreciation (at the rate of 25 per cent on written down value basis); or

are in the nature of revenue expenditure, deductible in the first year or are to be amortised over the period of license. The Mumbai Tribunal in the case of Tips Cassettes & Record²¹ and the Calcutta Tribunal in the case of Gramophone Company of India²² have held that the payment for acquiring music rights is in the nature of acquiring raw material and hence, deductible as revenue expenditure. Given that it is a timing issue, it would help the cause of the industry and avoid litigation if the government can issue a Circular/ clarification confirming this position.

• Levy of service tax on performing artist

The services by a performing artist in folk or classical art form of music, excluding services of artist as a brand ambassador were outside the purview of service tax levy, by way of entry in the Mega Exemption Notification.

The relevant entry in the Mega Exemption Notification has now been proposed to be restricted to services by an artist by way of performance in folk or classical art form of music, if the consideration charged for such performance is not more than one lakh rupees.

Digital Media/Out of Home ('OOH') Industry

Service tax implication on sale of space or time slots for advertisements

Selling of space or time slots for advertisements, other than advertisements broadcast on radio or television, was exempt from levy of service tax by way of an entry in the negative list. However, the said entry has been amended with effect from 1 October 2014 by the Finance Act 2014 to include only 'selling of space for advertisements in print media'. This amendment has widened the service tax base to include sale of space for advertisements in internet websites, out-of-home media, on film screen in theatres, bill boards, conveyances, buildings, cell phones, Automated Teller Machines, tickets, commercial publications, aerial advertising, etc.

Withholding tax on payment of advertisements on a portal

From an income tax perspective, an issue arises as to whether payments made by Indian entities to a foreign company for uploading and display of banner advertisements on its portal would be liable to tax in India in light of the retrospective amendment in the definition of 'royalty' under the IT Act.

Prior to retrospective amendments in the Act, there have been some decisions²³ wherein it has been held that unless control and constructive possession of the

20. Dated 03 March 2015

21. Tips cassettes & Record Co. v ACIT [2002] 82 ITD 641 (Mum Tribunal)

22. Gramophone Co. of India Limited v DCIT [1994] 48 ITD 145 (Calcutta Tribunal)

23. Yahoo India P. Ltd v. DCIT [2011] 11 taxman.com 431 (Mum Tribunal), Pinstorm Technologies Pvt. Ltd. v. ITO [2012] 24 taxman.com 345 (Mum Tribunal), ITO v. Right Florists Pvt Ltd [2013] 25 ITR(T) 639 (Kolkata Tribunal)



equipment was handed over to the payer, the payments could not be said to have been made for the 'the use or right to use any industrial, commercial or scientific equipment' and hence, payments for online advertisement on the portal of a foreign company should not be taxable as 'royalty' under the IT Act and tax treaty. However, in view of the retrospective amendment in the IT Act, clarifying that payments would qualify as 'royalty' irrespective of the control and possession of the equipment, one would need to analyse whether there would be any impact on the position under the tax treaty.

However, non-resident taxpayers can continue to take the benefit of tax treaties entered into with India to contend that such payments should not be taxable as 'royalty'/'FTS'.

Radio Industry

Key tax issues

- **Deductibility of License fees**

Radio broadcasters are required to pay license fees (one time entry fee and recurring annual fees) to the government as per license terms. The issue that has arisen is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which they are incurred or are in the nature of capital expenditure, entitled to depreciation. Since the annual license fee is payable for each year of operation, it could be allowed as revenue expenditure. Further, the onetime entry fee could be allowable as a deduction over the period of license. However, another view is that the payment for the one time entry fee could be treated towards license acquisition, specifically covered as an intangible asset, eligible for depreciation at the rate of 25 per cent. This has resulted in dispute between the taxpayer and the tax authorities. The government could issue a Circular or clarification on this aspect so as to avoid protracted litigation.

- **Service tax on sale of advertisements**

From a service tax perspective, selling space or time slots for advertisements other than advertisements broadcast on radio or television was exempt from the levy of service tax by way of an entry in the negative list. However, the said entry has been amended with effect from 1 October 2014 by the Finance Act 2014 to include only 'selling of space for advertisements in print media'. Thus, the sale of space or timeslots on radio continues to remain liable to service tax in spite of the fact that radio is a cost-free and easy medium of mass communication even to the illiterate population unlike print media. Therefore, the industry is of the view that, the aforesaid benefit of exclusion from the levy of service tax which is granted to print media but not to radio industry, is an unfair treatment to the radio industry. The government may consider extending the benefit to the radio industry as well.'

Sports

The importance of sports in the country has increased over a period of time with various international sports events being conducted in India (such as Cricket, Golf, Formula One, etc.). Taxation of sports associations, sportspersons and foreign teams participating in such sporting events (for example, taxability of broadcasting revenue earned by the sports associations, taxability of participation fee received by sportspersons, advertisement and sponsorship income earned by the participating teams, attribution of income in India, etc.) is a vexed issue.

The issue regarding whether payment for acquiring rights to telecast a 'live event' is in the nature of 'royalty' subject to tax in India, which was a subject matter of prolonged litigation has been dealt with by the Delhi High Court. The Delhi High Court has held that since there is no copyright in 'live events', the payment for broadcast of live races is not in the nature of 'royalty'.

As regards taxability of foreign sports bodies, the Calcutta High Court in the case of PILCOM²⁴ has held that any amount including the guaranteed amount paid to any non-resident sports association in relation to any match played in India, were liable to withholding tax in India.

As regards taxability of foreign teams, in the case of INDCOM,²⁵ the Calcutta High Court has held that amounts paid to foreign team for participation in match in India as prize money were taxable in India.

Clarity on the issues faced by the sector coupled with certain tax incentives could contribute towards the development of sports in the country.

Other Issues impacting the M&E Industry

Clear roadmap for implementation of GST

Post the broad agreement with the states on most of the issues concerning the implementation of GST, the date for implementation of GST was expected to be 1 April 2016. Recently, the Constitution Amendment Bill on GST has been tabled in the Parliament, moving closer to the rollout of an ambitious indirect tax reform.

The FM in the Finance Bill 2015 has affirmed the government's intention of implementing GST by April 2016. Further, as a part of movement towards GST education cess and secondary higher education cess has been subsumed. Furthermore, to facilitate a smooth transition to levy of tax on services by both the Centre and the States, it is proposed to increase the present rate of service tax plus education cesses from 12.36 per cent to a consolidated rate of 14 per cent.

24. PILCOM v. Commissioner of Income Tax [2011] 198 Taxman 555 (Cal.)

25. INDCOM v. Commissioner of Income Tax (TDS) [2011] 11 taxmann.com 109 (Cal.)



The introduction of GST could go a long way in reducing the tax costs of the industry, as credit for taxes paid on purchase of goods would be available for set off against taxes payable on services and vice versa. GST is also expected to raise revenues and boost growth of the economy.

Further, the problem of dual taxation (i.e. levy of service tax as well as VAT on certain transactions) is expected to be sorted out with the implementation of GST. Therefore, the industry expects the government to come up with a definitive constructive roadmap towards implementation of GST at the earliest.

Since it is proposed to subsume entertainment tax at state level under GST, the industry will hopefully breathe sigh of relief. However, it is expected that entertainment tax to the extent levied and collected by municipal authorities/ local bodies will continue.

Value Added Tax and Service tax on Copyright

The Union Budget 2012-13, had exempted the licensing of copyright in cinematographic films from service tax. However, effective 1 April 2013 the benefit of the said service tax exemption has been restricted to licensing of copyright in cinematographic film for exhibition in a cinema hall/theaters. Accordingly, licensing of copyright in cinematographic film (for other than theatrical exhibition) is liable to service tax. Separately, the government of various States have made 'copyright' liable to VAT, treating the same as intangible goods.

Therefore, the dual levy of service tax and VAT on the same transaction/consideration pertaining to copyright in cinematographic films continues, which needs to be addressed by the government.

Mandatory Permanent Account Number ('PAN')

The Finance Act (No. 2) of 2009 mandated a higher withholding tax rate of 20 per cent in case of payees (i.e. recipients of income) not having a PAN, by introducing Section 206AA in the IT Act. This provision also impacts payment made to non-residents.

With the changed dynamics of the industry, the involvement of non-residents in the industry has increased to a great extent. While non-resident technicians assist in film production, a lot of content is also procured by broadcasters from foreign parties.

Most of the above contracts with non-residents are 'net of tax' contracts i.e. taxes are borne by the payer. In case of one-off payments, the non-residents cannot be expected to apply for Indian PAN at the time of receiving the payments from residents (i.e. when tax deduction has to be made). This has given rise to a situation, where even if the appropriate rate of TDS (in terms of the provisions of

the IT Act or the applicable tax treaty) is much lower, taxes are withheld at a higher rate (in absence of PAN). This has led to a significant increase in the overall costs of doing business for the Indian entities.

Considering the above situation, the government could consider measures to address this issue.

Transfer Pricing

The Indian Transfer Pricing ('TP') regulations require a taxpayer to undertake 'international transactions' with 'associated enterprises' on an arm's length basis. Further, the regulations mandate the use of one of the six prescribed methods as the most appropriate method for the determination of the arm's length price. From a compliance perspective, the regulations prescribe maintenance of mandatory documentation by taxpayers on an annual basis in relation to their international transactions and also cast a compliance obligation on the taxpayers, which involves filing of annual TP certificate (known as Accountant's Report) with the tax authorities disclosing details of such transactions in a prescribed format.

Recent developments

The TP environment has undergone a significant change over the past 12 months. High-profile developments, such as the introduction of the Organisation of Economic Co-operation and Development's ('OECD') base erosion and profit shifting ('BEPS') initiative, have heavily impacted the TP arena, providing infinitely more scope for addressing disclosure, intangibles, risk and dispute resolution issues.

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations resulting in little or no overall corporate tax being paid. BEPS is a significant development for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).

It is imperative to note that while India is not a part of the OECD, India is actively and closely involved in BEPS action plan and will seek to implement OECD's recommendations on TP documentation. Consequently, it will have a significant impact on the way MNEs in India are maintaining the documentation, providing information to tax authorities as also on their TP policies i.e. consistency of their TP policies for various jurisdictions.



Key transfer pricing issues for the M&E industry

The increased cross-border activity coupled with the peculiarities of the nature of transactions undertaken in the M&E industry poses several practical challenges in establishing the fact that the transactions undertaken between related parties are at arm's length. The sections below provide an overview of TP related issues faced by the M&E Industry.

• Comparability for unique transactions

The Indian TP regulations provide that the comparability of an international transaction with an uncontrolled transaction should be judged with reference to:

- The specific characteristics of the property transferred or services provided in the transaction.
- Functions performed, taking into account assets employed or to be employed and risks assumed, by the respective parties to the transactions.
- The contractual terms (whether or not such terms are formal/in writing) of the transactions which lay down explicitly or implicitly how responsibilities, risks and benefits are to be divided between the respective parties to the transactions.
- Conditions prevailing in the markets in which the respective parties to the transactions operate, including the geographical location and size of the markets, laws and government orders in force, costs of labour and overall economic development and level of competition and whether the markets are wholesale or retail.

In view of the above mentioned parameters, if the nature of international transactions entered into between parties in the M&E Industry are analysed, it can be seen that they are unique and peculiar and are not comparable to those undertaken in any other industry, mainly on account of the nature of assets or intangibles being traded between the parties. The following examples will help better understand the scenario.

- An Indian TV broadcasting company purchases film rights from a related party situated abroad. However, the price paid may vary significantly for various films and would depend on factors such as whether a film is being telecast on television for the first time, the timing of telecast, etc.
- Similarly, in the case of an Indian company which owns a channel being telecast in a foreign country and which grants advertisement rights on a revenue split basis to related parties abroad, the proportion of split may vary significantly depending upon various economic and commercial factors.

Given the unique nature of transactions undertaken, it poses peculiar challenges from a benchmarking perspective. Firstly, it is usually difficult to gather information from the public domain on similar independent transactions undertaken in this industry. Secondly, even if some data is available on certain similar transactions undertaken between unrelated parties, they can seldom be used for benchmarking the related party transactions because of material differences between the two transactions being compared.

Devising a consistent TP policy for all jurisdictions is very challenging for M&E MNEs. Under these conditions, complying with the requirements of BEPS could further place significant burden on the MNEs with regard to documentation and justification of variable transfer prices for similar transactions in various jurisdictions. Further, an M&E enterprise may have multitude of transactions during the year with various related parties. On introduction of BEPS, maintenance of consistent and contemporaneous TP documentation would require meticulous planning, oversight and consequently considerable resource strength on the part of the MNE group.

• Difficulty in application of prescribed methods

The Indian TP regulations have prescribed six methods under law (as prescribed by the CBDT) for the purpose of determination of the arm's length price, viz., (1) Comparable Uncontrolled Price Method (2) Resale Price Method (3) Cost Plus Method (4) Profit Split Method (5) Transactional Net Margin Method and (6) Other Method (notified by the CBDT on 23 May 2012 vide a Notification and Rule 10AB inserted in the Income-tax Rules, 1962 (the Rules) thereafter).

Rule 10AB describes the other method as "any method which takes into account the price which has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts." This Rule has come into force from financial year 2011-2012 onwards.

Given the uniqueness of international transactions entered into between related parties in the M&E space, it is often felt that the benchmarking analysis may not always be possible within the purview of the five methods prescribed under law.

With the introduction of the 'Other Method', taxpayers may have a little more flexibility to use tender documents, third party bids, proposals, valuation reports, standard rate cards, price quotations and commercial and economic business models, etc. to demonstrate arm's length intent. The application of the 'Other method' could be particularly helpful in cases



where application of the other five specific methods is not possible due to difficulties in obtaining comparable data due to uniqueness of transactions such as intangible transfers, etc.

• Advance Pricing Agreements (APAs)

With a view to address the increasing TP litigation in India; the Indian government had introduced APA provisions with effect from 1 July 2012.

In the first year of APAs, over 150 formal pre-filing APA applications were received as on 31 March 2013 out of which 146 formal APA applications were filed. CBDT has signed 5 unilateral APAs within one year of filing of the APA applications, which has been highly appreciated globally. Around 232 applications have been filed in the second year i.e. in Financial Year ('FY') 2013-14, of which 206 pertain to unilateral APAs, while the rest 26 pertain to bilateral APAs. Several rounds of discussions are already in process and the experience has been satisfactory so far.

The Finance Act (no. 2) 2014 further strengthened the program by introducing certain proposals relating to augmentation of the APA team and the introduction of the roll-back provisions which is in line with the APA provisions of some of the countries internationally. The roll-back provisions relate to application of the negotiated position under an executed APA to the prior years, under specified circumstances, for 4 previous years preceding the year for which APA has been negotiated.

The detailed specifics with regard to the rules, conditions and procedures in respect of the said provisions are awaited.

APAs would especially help in paving the way for the resolution of disputes in the controversial areas of AMP expenses, transfer/grant of licenses, 'royalty' transactions, etc. along with bringing in certainty with regard to transactions where good comparability is difficult to establish.

• Specified Domestic Transactions

Vide the Finance Act 2012, the applicability of TP regulations has been extended to transactions between domestic related parties where certain tax holidays are claimed and in respect of payments (expenditure) to domestic related parties. The above shall apply in cases where the aggregate amount of all such domestic transactions exceeds INR50 million (approx. USD 0.8 million) in a year.

• Safe Harbour Rules (SHRs) announced

To reduce increasing number of TP audits and prolonged disputes, the government notified the SHRs in September 2013. The Indian Safe Harbour mechanism provides for circumstances in which certain categories of taxpayers can avail an option whereby the transfer prices declared by them would automatically get accepted by Indian tax authorities, subject to fulfillment of certain conditions. The mechanism covers specific kinds of intra-group services, manufacture of automobile components and financial transactions in the nature of loans and guarantees. Taxpayers availing the option would be able to safeguard their transfer prices against potential litigation for a maximum period of 5 years.

Given the limited coverage of transactions in the SHRs, the possibility of opting for the same is very limited for the M&E taxpayers.

• Introduction of use of the range concept and use of multiple year data

In acknowledgement of the unique TP laws prevalent in India, which have caused significant hardship to the taxpayers and led to long drawn litigation, the Finance Act (no. 2) 2014 introduced the use of the range concept, instead of an arithmetic mean, for benchmarking of the inter-company transactions under review. The range ignores extreme results (i.e. typically super-high profit making comparables) and hence, the economic analysis is not skewed by a few comparables - a common occurrence while arriving at the arithmetic mean as the extreme results being outliers, often result in distortion of the resulting comparables' set. However, it has also been clarified that the existing concept of arithmetic mean would continue to apply where number of available comparables is inadequate. The relevant data is under analysis and appropriate rules are expected to be prescribed accordingly.

Given the varied and unique nature of the inter-company transactions of the M&E players, using a range of ALPs would provide reasonable flexibility in determination of the transfer prices for inter-company transactions.

The use of multiple year data for comparability analysis was also introduced last year. The use of multiple year data for benchmarking would assist in capturing the impact of business cycles during the benchmarking process.

The M&E industry operates in a very dynamic environment as it depends on the moods and whims of the general public at large. Therefore, use of multiple year data to determine the ALP could be of great help in ironing out the impact of the market fluctuations on the margins of the M&E MNEs.



FDI in M&E sector

The current FDI limits relating to the M&E sector are as under:

Sr. No.	Segment	Existing limits/ Approval Route
1	Teleport/DTH/HITS/IPTV/Mobile TV	74%
	Cable TV Networks	Up to 49% -Automatic route
	Cable Networks (MSOs) operating at National or State or District level and undertaking up gradation of networks towards digitalisation and addressability)	Beyond 49% - FIPB route
2	Cable Networks (Other MSOs not undertaking upgradation of networks towards digitisation with addressability and Local Cable Operators (LCOs))	49% Automatic Route
3	Downlinking of TV Channels	100%
4	Uplinking of non 'News and Current Affairs TV Channels'	Through FIPB Route
5	Uplinking of 'News and Current Affairs TV Channels'	26%
6	FM Radio	Through FIPB Route

Source: Consolidated FDI policy (effective from 17 April 2014)

Key Budget 2015 proposals

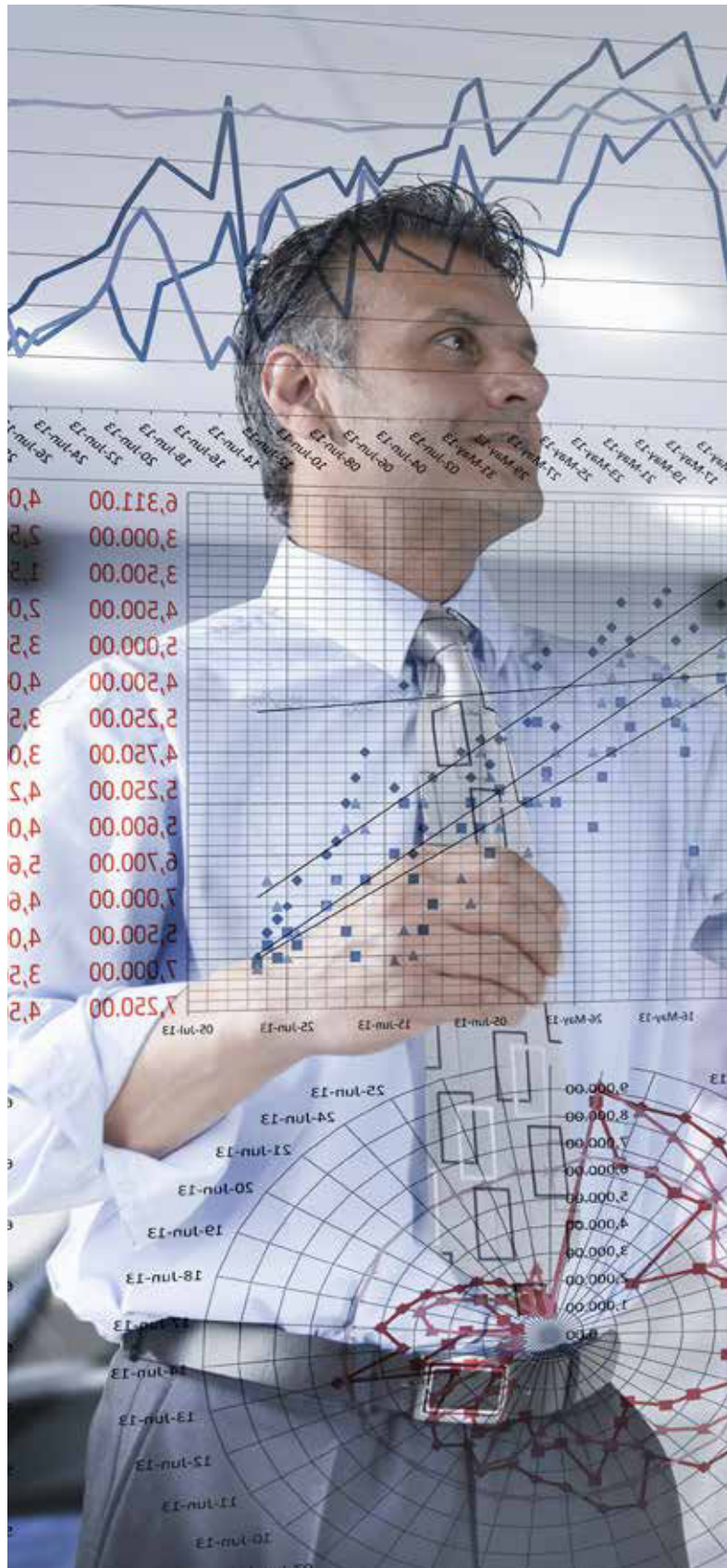
- Currently, the tax rate on 'royalty' and 'FTS' payable to non-residents is 25 per cent on gross basis (27 per cent including surcharge and cess). This has a significant impact on payments made for acquisition of content, transponder hire charges, etc. leading to enhanced cost of doing business, especially where the tax is to be borne by the Indian party (in which case the withholding rate can go upto 33 per cent (37 per cent including surcharge and cess). The FM has, vide the Finance Bill 2015, proposed to reduce the tax rate from 25 per cent to 10 per cent on 'royalty' and 'FTS' payments. This should bring much needed respite to the industry.
- The FM has proposed to reduce basic corporate tax rate from 30 per cent to 25 per cent over the next four years, starting from the next financial year. This is expected to lead to higher investment, higher growth, more jobs and make domestic industry more competitive as compared to other major economies. It is proposed that such reduction will be accompanied with rationalisation and reduction of tax exemptions/ incentives.
- Under the current tax law, a foreign company is considered to be resident in India if during a particular year, the control and management of its affairs is situated wholly in India. The above residency test for a foreign company is proposed to be amended whereby it shall qualify as resident of India if its place of effective management ('POEM') is situated in India. POEM has been defined to mean a place where key management and commercial decisions are made at any time during the year.
- This proposal could have significant impact on the foreign companies holding board meeting(s) in India, having key managerial personnel located in India, having regional headquarters located in India, etc. One of the key consequences in case the POEM of a foreign company is considered to be situated in India and consequently, it becomes tax resident in India, is that its global income would be taxable in India (even if it is not earned in India).
- The indirect transfer related provisions, in its present form, pose several issues and also lack clarity on various aspects. The Finance Bill 2015 has proposed to clarify provisions relating to indirect transfer of shares or interest as under:
 - Taxability in India to trigger when value of Indian assets exceeds INR100 million and represent at least 50 per cent of value of all the assets owned by foreign company/ entity.
 - Gains to be taxable on proportionate basis.



- Provisions of indirect transfer shall not apply in case of minority shareholding (5 per cent or less) provided no management or control exists at any time during last 12 months.
- Relaxation of indirect transfer provisions in case of overseas merger/demerger.
- However, one of the onerous proposal is that a reporting obligation of the offshore transfer is cast on the Indian concern.
- Under the current law, the GAAR provisions are to be made effective from FY 2015-16. However, in a welcome move, the FM has, vide Finance Bill 2015, proposed to defer the applicability of GAAR provisions by two years, whereby it shall apply from FY 2017-18. It is also announced that investments made upto 31 March 2017 would be grandfathered. This should further boost the investment sentiment in the country.
- In an another proposal, the threshold limit for Specified Domestic Transactions subject to transfer pricing has been increased to INR200 million from the current limit of INR50 million. This should help in reducing the reporting burden in respect of small and medium sized M&E industry players.
- The services by way of admission to amusement facilities was outside the purview of service tax levy, by way of inclusion in the negative list of services. The Finance Bill 2015 has proposed to omit the aforementioned negative list entry.

Conclusion

As technology increasingly enables content and entertainment to reach all of India's large population, the role of M&E in India's growth story cannot be underplayed. The announcements by the Finance Bill 2015 have brought some relief to the M&E sector from a direct and indirect tax perspective. However, there are certain issues as highlighted in this report, which are yet to be addressed by the government, which if done soon, can take the M&E industry to greater heights and aid in increasing its global footprint.







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