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FICCI FRAMES2014

The stage is set

FICCI-KPMG
Indian Media and Entertainment
Industry Report 2014

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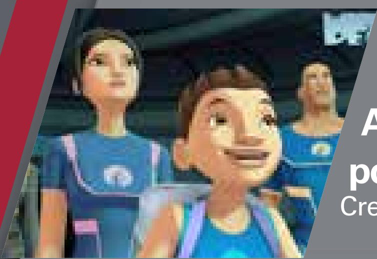

Foreword

Transforming lives…

2014 is a landmark year for India. An election year that is likely to set the direction of the country going forward and determine whether we resume our journey towards our aspirations. As a nation still on a journey to fulfill its promise and meet the aspirations of its youth, India should aggressively make an effort to transform itself.

Aspirations and ambition are extremely important in a nation's journey towards development. The desire to do better, run faster and go higher is a critical ingredient to propel us, as a nation, forward. The media and entertainment industry in India is a big part of sparking this ambition, widening horizons, and helping transform lives.

The more we, as industry players, can enable the growth of this industry, the more people across the country can be made aware of issues, be educated and entertained, see how other parts of the country and world are and connect with others.

Today, India's M&E industry reaches millions of people. 161 million TV households, 94,067 newspapers (12,511 dailies), close to 2000 multiplexes, 214 million internet users out of which 130 million are mobile internet users – all these are platforms that could drive change and be transformational catalysts.

2013 was a tumultuous year for the industry. In the midst of an economic slowdown, the industry faced several challenges, both business and regulatory. However, 2013 was a year in which the foundation of the industry was strengthened to position for growth as the economy improves.

In television, industry structures began the process of realignment, with MSOs and LCOs in a delicate dance to evolve their relationship. Several regulations including the ad cap and notifications around aggregators were announced, that will likely change how the industry does business. Digitisation has yet to deliver its promise with set top boxes seeded in Phase I and II cities but with packaging and ARPU increases yet to kick in. The future though, looks promising, with efforts being made to introduce channel packaging, implement subscriber management systems and raise the ARPU – initiatives that are likely to benefit all the stakeholders in the television ecosystem.

Films had slower growth in 2013, than in 2012 and returned to the mean as far as growth rates go. Multiplex expansion, ticket prices growth and the expansion of digital screens are all likely to slow down in the near term – challenging the industry to find new avenues to maintain momentum. However, India is a heavily under-screened country and the macro story for the film industry remains strong.

The print sector had a comfortable year – especially regional print, with English print struggling on the ad revenue front. Advertising remained steady in the smaller towns and cities and elections in the Hindi heartland provided a boost. In 2014, with general elections, the news business is likely to have a good year.

Radio too, had a good year with better long term prospects. The government disappointed again on Phase III licensing – which is now likely to come only after the elections. The industry continues to require regulatory interventions as it is in dire need of reform. FM radio nevertheless, is now becoming an integral part of many media plans.

The big hope for the future of the M&E industry continues to be digital. With a fast growing internet user base of over 200 million internet users, the potential of the industry to enhance engagement with customers and generate revenue from digital media is indeed vast. 2013 saw a few tipping points for digital; the telecom companies began to focus on data as a revenue driver, as contribution from voice slowed, and the advertising agencies began a furious competition to acquire digital and social media boutiques. All of these point to a bright future for this sector.

This year we also cover several new interesting aspects of the M&E sector. Over the years, live events has been emerging as a robust category. Last year saw Indian audiences flocking to shows by international DJs, musicians and comedians. IP driven shows also show record viewership and attendance. Live events have become a major source of revenue for artistes and a credible avenue for sponsors. Several companies in this space are heading towards critical mass and are poised to take the sector forward.

We have covered advertising and the evolution of the agency space. These stakeholders in the M&E business are influential. We hope that the insights into the value chain of this part of the media sector will be beneficial for several users of this report.

It is time for Indian companies in the M&E sector to begin looking at opportunities outside India. While several companies have gone overseas in search of the diaspora dollar, there are opportunities that Indian companies could begin to explore in mainstream markets overseas. For example, Africa and the Middle East are some of the fastest growing M&E markets. As companies in other sectors have shown, the experience of working in India is an asset when entering these markets – Indian M&E companies could do well to explore the MEA region.

This is the 15th year of FICCI Frames – a milestone for a forum that is the M&E industry's premier gathering to debate issues, discuss ideas, study benchmarks and most importantly initiate action!

As we take stock of business issues at this year's Frames, we should also focus on the role that Media plays in influencing, driving and being an agent of positive change.

UDAY SHANKAR
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01

Introduction

The Media and Entertainment (M&E) industry in India – transforming lives

The Indian Media and Entertainment (M&E) Industry, one of the most vibrant and exciting industries in the world, has had a tremendous impact on the lives and the Indian economy. As the M&E industry widens its reach, it plays a critical role in creating awareness on issues affecting, channelling the energy of and building aspirations among India's millions. As it entertains and informs the country, the M&E industry has been a catalyst for the growth of large parts of the Indian economy. Take for example, a villager – illiterate and previously unaware of what life has to offer, who begins to see a better life through entertainment programs on TV and aspires for a better life for him and his family. This drives demand for various products and services. These aspirations have been key to self motivated transformation taking deep root in India – Transformation not just from handouts and government schemes, but transformation stemming from ambition and aspiration. The media plays a significant role in our lives today and is all pervasive with touch points ranging from television to newspapers to films to radio to outdoor properties. With the addition of new media such as social networking services, animation and VFX, online gaming and applications running on mobile devices, a new dimension has been added to the world of media that was dominated by traditional media. In addition to their implicit impact, all media platforms provide a great opportunity to carry explicit messages to create social impact. Further, interactive and social platforms give people a voice. Examples include –

- Films: Short films on disadvantages of tobacco consumption/smoking before each film screening in a theatre.[1]
- Television: TV shows on social issues to raise awareness, such as Crime Patrol – Dastak (Sony Entertainment Television), Savdhaan India – India fights back (Life OK) and Satyamev Jayate (Star Plus).[1]
- Radio: Content highlighting social initiatives aired on radio such as Mirchi for Muzaffarnagar (Radio Mirchi), Munni Vardaan Hui (Red FM), and Green Ganesha (Big FM).[2]
- Print: Friends of Hindustan (Print campaign by Hindi daily Hindustan in Patna), Good is in our DNA (print campaign by DNA).[3]
- Social Media: UNICEF India's campaign of 'Take Poo to the Loo' on Facebook, Twitter and Youtube to spread the message of the harmful effects of open defecation;[4] connects consumers with each other and provides a platform for opinion generation.

Industry size and projections

Overall industry size (INR billion)	2008	2009	2010	2011	2012	2013	Growth in 2013 over 2012	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
TV	241.0	257.0	297.0	329.0	370.1	417.2	12.7%	478.9	567.4	672.4	771.9	885.0	16.2%
Print	172.0	175.2	192.9	208.8	224.1	243.1	8.5%	264.0	287.0	313.0	343.0	374.0	9.0%
Films	104.4	89.3	83.3	92.9	112.4	125.3	11.5%	138.0	158.3	181.3	200.0	219.8	11.9%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	15.0%	16.6	19.0	23.0	27.8	33.6	18.1%
Music	7.4	7.8	8.6	9.0	10.6	9.6	-9.9%	10.1	11.2	12.9	14.9	17.6	12.9%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	5.9%	21.2	23.1	25.2	27.5	30.0	9.2%
Animation and VFX	17.5	20.1	23.7	31.0	35.3	39.7	12.5%	45.0	51.7	60.0	70.2	82.9	15.9%
Gaming	7.0	8.0	10.0	13.0	15.3	19.2	25.5%	23.5	28.0	32.3	36.1	40.6	16.2%
Digital Advertising	6.0	8.0	10.0	15.4	21.7	30.1	38.7%	41.2	55.1	69.7	88.1	102.2	27.7%
Total	**580**	**587**	**652**	**728**	**821**	**918**	**11.8%**	**1039**	**1201**	**1390**	**1580**	**1786**	**14.2%**

Source: KPMG in India analysis

01. KPMG in India analysis
02. www.radioandmusic.com ; www.medianewsline.com
03. http://www.exchange4media.com/54010_print-takes-social-good-route-to-engage-readers.html
04. http://lighthouseinsights.in/unicef-india-take-poo-to-the-loo-social-media-campaign.html

In calendar year 2013, the Indian Media & Entertainment (M&E) industry registered a growth of 11.8 per cent over 2012 and touched INR 918 billon. The overall growth rate remained muted, with a slow GDP growth and a weak rupee. Lower GDP meant lower demand from the consumer and this impacted advertising. At the same time, the industry began to see some benefits from the digitisation of media products and services, and growth in regional media. Gaming and digital advertising were the two prominent industry sub-sectors which recorded a strong growth in 2013 compared to the previous year, albeit on a smaller base. For projections till 2018, digital advertising is expected to have the highest CAGR of 27.7 per cent while all other sub-sectors are expected to grow at a CAGR in the range of 9 to 18 per cent. Overall, the industry is expected to register a CAGR of 14.2 percent to touch INR 1785.8 billion by 2018.

The Indian M&E sector showed some resilience and began to grapple seriously with some structural issues it has long talked about but not engaged with. These include TV and Print industry measurement, advertising volumes, inventory and rates, actions to see digitisation through and reap its benefits, working out the MSO-LCO relationship, copyright laws and operational efficiency. Many of these remain alive and will take a few years to sort through. Others, like phase III of radio – are still pending regulatory action.

Highlights

Television: Digitisation of cable saw the television industry still on the path of progress, with the mandatory Digital Access System (DAS) rollout almost complete in Phase II cities. The impact was felt to the extent that carriage fees saw a reduction of 15-20 per cent overall[5], however the anticipated increase in ARPUs and subscription revenues for broadcasters and MSOs (Multi System Operators) is expected to be realised only over the next 2-3 years as MSOs begin the process of becoming B2C organisations from B2B organisations. The introduction of packaging is key to raising revenue. Other key highlights in 2013 were the inclusion of LC1 (less than class I) markets in TV ratings, the 12 minute advertising cap ruling and the shift from TRP to TVT ratings.

Print: The print sector continued to buck the global slowdown trend. The sector grew at a CAGR of 8.5 per cent this year to touch INR 243 billion. Regional markets performed exceedingly well on the back of steady advertiser spends, the state election impact and new launches. However, with the validity of IRS data called into question by the industry majors, the sector in the short term suffers from the lack of a robust measurement system, critical for decisions on media planning and allocations.

Films: The film industry recorded a double digit growth, albeit slower than in 2012, with multiple movies scoring big on box office collections. Approximately 90-95 per cent movie screens are now digitised in the country, with a shift in focus to tier II and III cities.[5] Going forward, multiplex growth is expected to slow down, in line with the overall delays and future expectations for retail sector and commercial real estate development, impacting box office growth in the short term.

Music: Streaming and download services continued to see growth, with the growth in mobiles, in particular smartphones, contributing significantly to increased consumption of music 'on-the-go' but monetization of this reach is still a challenge. However, with the continued decline in physical sales, compounded by the significant fall in ringback tone revenues (following the backlash of TRAI guidelines issues in 2012), the sector saw an overall fall in size by 10 per cent in 2013. Going forward, digital revenues are expected to drive growth in the sector, backed by increased collaborations across devices and platforms, and gradual uptake in subscription services. Further, the vibrant live events sector is expected to continue its role as a catalyst for driving growth in artists' fan-base, and public performance royalties.

Radio: The radio industry outperformed all other traditional media segments by clocking a growth of 15 per cent. Currently, clients are being forced to re-evaluate their media mix as their advertising budgets are constantly under pressure. There has been a tendency to shift focus from nationwide pure brand-building to more tactical, local, focused promotional targeting. This has played in radio's favour as it enables local reach to advertisers increasingly looking to target specific audiences and at affordable pricing. Although phase III of radio frequencies auctioning remained elusive in 2013, implementation of the same in 2014, industry players could establish their presence in over 290 tier II and tier III cities.

Animation / VFX: 2013 was an important year for the Animation and VFX industry. The most expensive Indian animated movie 'Mahabharat' costing around INR 500 million received global kudos. The production work was done in India and the industry woke up to the promise of VFX. VFX is now being used in most films, whether to add characters, landscape, background or to simply correct the skin tone of an actor. 2013 also saw the introduction of policies by a few state governments to boost the sector. VFX also began to get used in TV. The impetus of visual effects was not restricted to films, but also extended to big budget serials and television commercials. However, the underlying struggle in the industry came to the forefront with the fall of big names like Rhythm and Hues and Digital Domain and retrenchment by some big players.

New Media: The total internet user base in India grew to approximately 214 million by end of the year with almost 130 million going online using mobile devices.[6] Mobile internet users dominated the total internet user base capturing an overall share of 61 percent. With the dramatic growth in mobile usage, content providers and advertisers are seeking opportunities to get their messages across on this preferred medium of the masses. Digital media advertising grew 38 percent-faster than any other advertising category. Mobile, social and video emerged as star categories in advertising owing to the proliferation of smartphones, 3G and off-deck mobile apps.

This year's report also highlights opportunities that could come from tapping international markets with a special feature on opportunities in the Middle East and Africa region. We also cover the live events market as well as the advertising market separately, along with an overview of the advertising services market in India.

05. Industry discussions conducted by KPMG in India
06. KPMG in India analysis

Round up of the key trends and themes for growth

Over the last few months, our team met with over 150 senior stakeholders across TV, films, print, gaming and animation/ VFX, radio, music, OOH, advertising and new media sectors. In this report, we have provided a consolidated point of view on the key trends which shaped these sectors over calendar year 2013 and what could be the game changers going forward.

Digitisation –Taking the next step

The phased progress in digitisation has been the stepping stone for the industry's growth and success, thereby bringing about a paradigm shift in key indicators, particularly within the domains of TV and film sectors.

The Ministry of Information and Broadcasting (MIB) introduced several initiatives with a view to harness the power of technology and create a framework to drive growth in the existing broadcasting landscape in India. With phases one (top four cities in the country) and two (the next 38 cities) nearly complete, the industry is now committed to complete phase three (all remaining urban areas) of digitisation of TV signals' transmission by the end of this year. Successful completion of the digitisation process will result in the complete closure of analogue transmission and could act as an enabler to add value and to increase profits at each level in the value chain. It is estimated to bring about a further drop in the carriage fees, and drive growth in ARPUs, thereby increasing profitability and allowing content producers to focus on better content.

In the film sector as well, digitisation has enabled better monetisation for the industry, as a single film can be distributed across thousands of screens and locations in a short period of time. We are moving quickly to an all digital world where most films are shot on digital format; distributed across various geographies in digital format; marketed through various social media platforms; and film tickets are sold through online booking platforms and also made available on websites providing 'Video-on-Demand' (VOD) services. While monetisation of content on digital platforms remains a concern in the short term, the industry is buoyant about its long term potential.

With about 95 per cent of India's cinema screens already digitised, a nationwide digital release like 'Dhoom 3' is increasingly going to be the norm. In addition, the growth of multiplexes helped drive box office collections. In India, approximately 95 per cent of commercially viable screens have been digitised till date.[7]

Continued growth in Regional Media

Regional media in India has demonstrated strong growth over last few years, and continues to have a positive outlook. Given the size and diversity of the Indian market, media owners and advertisers are increasingly adding a regional element to their strategies. As a result, regional markets have grown in size and importance. The key drivers of growth in the regional media space continue to be a better cultural fit for regional content, focus on socio-political issues related to particular regions and stronger engagement with customers in contrast to national Hindi programming

Apart from films in South Indian languages, films in Marathi, Punjabi, Bengali, Gujarati as well, had a good year where films like 'Duniyadari' (Marathi, INR 280 million)[8] 'Jatt' and 'Juliet 2' (Punjabi, INR 200 million+)[9] were declared commercial blockbusters. The Marathi industry, in particular, grew almost by 50 per cent over the last year and continues to grow stronger.[10] 'Timepass', a Marathi film released on 3rd January 2014 has already overtaken 'Duniyadari' and has collected over INR 300 million on box office making it the biggest grossing Marathi film ever.[8]

In terms of print media, the rise in literacy rates, significant population growth, resilience of the agrarian economy, the rise in incomes in smaller towns and the entry of big players in regional markets is likely to drive future expansion of regional circulation and readership across India. Examples of national players launching regional print editions include – The Hindu launching a Tamil edition, Times of India launching a Gujarati edition NavGujarat Samay and Dainik Bhaskar's entry in Patna.

In India's commercial radio industry, phase III of offering frequencies to private players is expected to take place in CY 2014. According to MIB data, 839 frequencies are likely to be auctioned in 294 tier II and tier III cities across India in phase III. The rollout of phase III would provide a boost to broadcasting regional media content. Advertisers would also have additional avenues to take their brands to consumers through phase III of radio. In addition to more licenses, the industry is hopeful that regulations pertaining to the networking of content and multiple station ownership in one market are also revised.

India goes more mobile

Globally, the number of mobile phone users is expected to reach 4.55 billion and mobile phone internet user base is estimated to reach 2.23 billion by the end of 2014. Smartphone adoption is also expected to continue its rapid growth and its user base is likely to reach 1.75 billion by the end of 2014.[11] The growth is primarily being led by the developing regions of Asia Pacific, notably India and China. India, by the end of 2013, is estimated to have gained a mobile phone user base of more than 900 million.[12] While the worldwide smartphone shipments would have surpassed 1 billion units in 2013, India became the third largest smartphone market in the world with shipments of 44 million units.[13]

Increasing competition and upgradation and sharing of network infrastructure by telecom operators are just two of the factors expected to propel growth in data. As providers introduce numerous package options for mobile data at further reduced rates, use of data is likely to increase, and is expected to be the driver of revenue and profit for telecom companies – in contrast to the voice service driven growth of previous years. Bundled offers from handset makers and telecom service providers (e.g. Reliance Communications and Apple iPhone 5S) are also expected to gain momentum.

07. Industry discussions conducted by KPMG in India
08. http://www.boxofficecapsule.com/collection/4th-Weekend-Box-Office-Collection-Of-Marathi-Film-TIMEPASS-2117
09. http://www.punjabicinema.org/highest-grossing-punjabi-movies
10. Industry Discussions conducted by KPMG in India
11. eMarketer newsletter, 16 Jan 2014
12. TRAI performance indicator report, Sep 2013
13. IDC press release, 26 Nov 2013

This is leading to a rapid increase in internet based consumption of music, radio, TV programming, video gaming, video-on-demand services and even full-length films. As a result, numerous players have started to create specialised content for the small screen as well as to facilitate the viewing of existing content on mobile screens. Recently, Tata Sky launched its application for iPhone, iPad and Android powered devices to watch TV programmes on-the-go.[14]

The need for youth to stay socially connected through media

Social has become one of the most effective and influential mediums today, with an increase of over 37 per cent in the user base in 2013. Though India is lagging behind the global average of social media user penetration, it is expected to grow rapidly thanks to social media applications on smartphones.

Facebook has emerged as the clear leader in terms of the number of unique visitors (close to 60 million) and minutes spent per visitor (217 minutes) in 2013.[15] Other popular social media platforms in India include Twitter, LinkedIn, Pinterest, and Tumblr.

To engage with its consumers, largely in the age group of 18 to 30 ('Youth'), Facebook has acquired companies such as Instagram and Lightbox, with the latest being WhatsApp for a whopping USD 19 billion.[16]

Necessity of regulatory support

To achieve its vast potential, the Indian M&E industry needs a well thought through, consistent and long term policy from the Government. In the past few years, Indian M&E players have amended their business models, business strategies and content strategies according to consumption habits of users, ever changing competitive landscape and rules and regulations of the Ministry of Information and Broadcasting (MIB), TRAI and other related bodies. In many cases, the regulatory agencies have had a positive impact on the industry – the biggest example being the digitisation of cable TV in the country which was mandated by the government to be rolled out in a phased manner. The media industry agrees that it couldn't have achieved this nationwide change without the support of the government.

However, in other cases, inaction and delays have significantly impacted the growth of the industry – an example is the delay is phase III of radio. The auction of Phase-III of radio licenses is expected to benefit the radio industry with an additional 839 frequencies across 294 tier II and tier III cities. With this expansion, FM radio is likely to be heard by around 90 per cent of the Indian population, making it truly a common man's medium. Phase-III offers exciting opportunities for companies to expand – both into new cities and as well as within existing cities with a 2nd and even 3rd frequency. Additionally, networking of radio channels is expected to be used very effectively by operators for providing local as well as networked content to cut both capital and operational costs for enabling more profitable operations.

In 2013, the 12 minute cap on advertisements per hour of advertising has had a big commercial impact on all TV channels. In the short term, channels may lose revenue and will have to provision for more content; but in the long term, there will be a stiff competition to get advertisement spots, primarily in the prime time hours, which are likely to drive up advertisement rates, besides improving the overall TV viewing experience for audiences. The industry would ideally prefer implementation once the subscription revenues start accruing for the broadcasters, especially niche channels which are currently completely ad dependent.

In addition to the above examples, there are several issues that need action from regulators that are covered in more detail in each of the industry sections of this report.

Growing contribution of live events in M&E industry

In this year's report, we have also covered live events as a sector. As India builds larger venues to accommodate world class events and the appetite for live events grows, this sector will increasingly grow in size and impact. Still extremely fragmented, the sector has shown signs of maturity and scale has been achieved by a few players in the industry. Coming on the back of the slowing economy from 2008 to 2012, 2013 was sluggish in terms of live events and recorded a growth of less than 10 per cent over the previous year. Rupee depreciation, general economic stagnation, rising artist and talent costs, and a lack of high-quality infrastructure were the key reasons. Inspite of being a fairly unorganised and fragmented sub-sector within the M&E market, 'live events' is set to experience fresh initiatives in brand and community building through experimental creations works, and niche event management.

Based on KPMG in India analysis, 2014 is expected be positive in terms of live events – especially intellectual property events (IP-Events) and outbound Meetings, Incentives, Conferences and Exhibitions (MICE). Companies operating in this space are positively investing in creating the necessary infrastructure and are spending significant amounts in 'Below-the-Line' (BTL) advertising. In 2014, the top 20 event firms are expected to see growth in profits from 13 per cent to 20 per cent.[17]

Events such as Filmfare awards, Sunburn, Jaipur Litfest, Lakme Fashion Week, IIFA, NH7 are now established properties in the live events sector.

Beyond borders

The global M&E market has witnessed signs of steady growth over the past 3-5 years and is expected to cross USD 2 trillion in 2018 at a CAGR of 6 per cent from 2013 to 2018. Growth of mature markets such as North America and Europe declined due to recession in 2008-09; however Asia-Pacific, Latin America and Middle East and Africa (MEA) showed better growth rates and this trend is likely to continue in the future. MEA is expected to grow at around a CAGR of 12 per cent compared to a CAGR of 1 to 2 per cent in mature markets such as North America, and Europe.

14. Tata Sky Pressroom, May 2013
15. Comscore: India Digital Future in Focus, 2013
16. http://www.cnbc.com/id/101429929
17. Industry discussions conducted by KPMG in India Source: Tata Sky Pressroom, May 2013

Conclusion

Increasing digitisation across sub-sectors of M&E industry, rate increases in TV, channel packaging by MSOs, innovative strategies to monetise digital content, rapid growth of new media powered by increasing smartphone penetration, and campaign spending during the general elections are likely to be the key levers of growth for the Indian M&E industry in 2014.

A well thought out, consistent and long term outlook on regulation is also the key to create an M&E industry that is world class in scale and plays its part in transforming India.

02

Television

Mixed signals

Introduction

In 2013, the television industry continued its journey down the game changing path that it had embarked on in 2012. The television industry experienced an unpredictable operating environment in 2013 with digitisation of cable achieving various levels of success in different regions, inclusion of LC1 (less than class I; towns with under 0.1million population) markets in TV ratings, the 12 minute advertising cap ruling and the shift from TV rating points (TVRs) to TV viewership per thousand (TVTs).

While digitisation of cable progressed in the right direction in 2013, better addressability and increase in subscription revenues for Multi System Operators (MSOs) and broadcasters is expected to happen over the next three years. Television advertising continued to face headwinds on account of the soft macro-economic environment, leading to companies cutting advertisement spends. Against this backdrop, leading networks and mainstream genres performed better than smaller players and niche genres. Changes in the television viewership measurement system are expected to further affect the way advertising spend is allocated among different genres and channels.

2013 has been a watershed year for the broadcasting industry. Digitization, gross versus net billing for advertisers, implementation of cap on advertising minutes, and evolution in TV ratings from GRPs to TVTs have caused fundamental shifts in the industry.

- Sanjay Gupta
Chief Operating Officer,
Star India Private Limited

2013 was also the year of the regulator, whether it was capping duration of commercial time on television channels or driving ahead digitisation. The Telecom Regulatory Authority of India (TRAI) put pressure on everyone in the TV ecosystem to ensure progress of digitisation. This was apparent at every stage, that is, rolling out of digital cable set top boxes (STBs) in Phase I and II cities, pursuing MSOs to complete collection of customer application forms (CAF), introducing gross billing and rolling out channel packages.

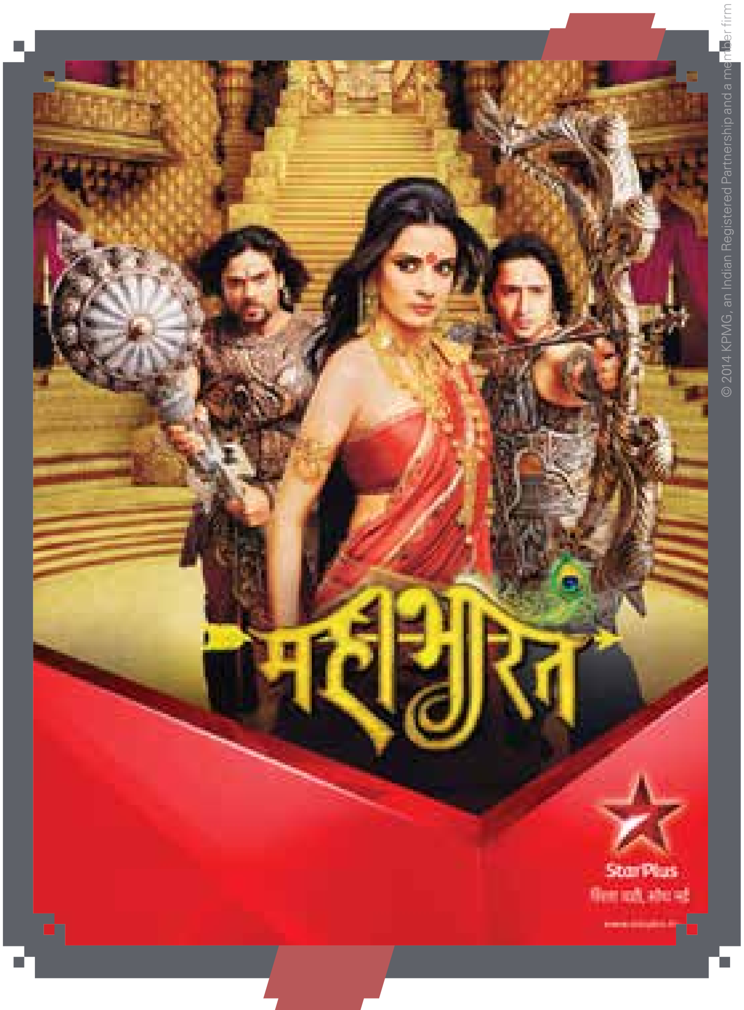
2013 saw a lot of action by the regulator on matters such as implementation of the 12 minute ad cap and DAS. Benefits of these measures will be realised over a period of time.

- N. P. Singh
Chief Executive Officer,
Multi Screen Media Private Limited

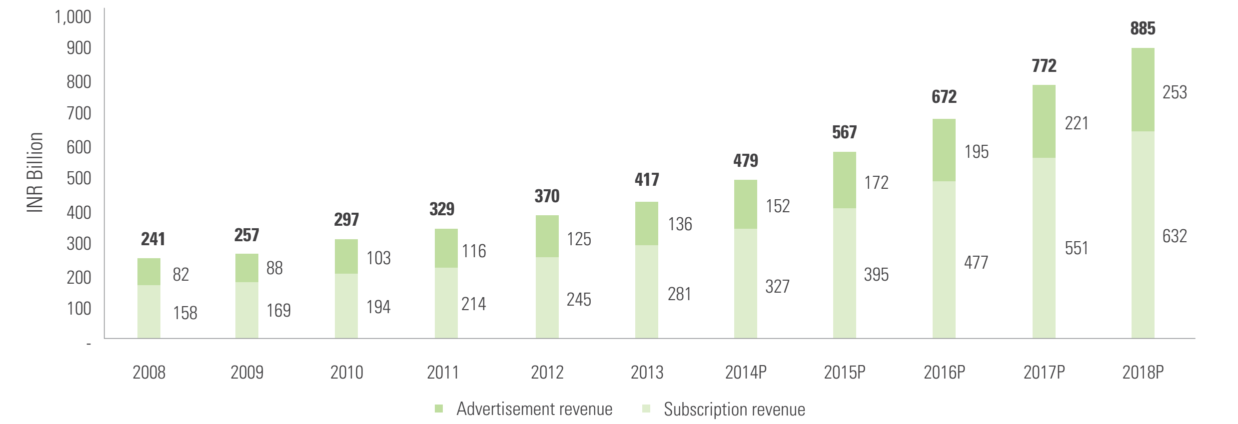
The television industry in India is estimated at INR417 billion in 2013, and is expected to grow at a CAGR of 16 per cent over 2013-18, to reach INR885 billion in 2018. Aided by digitisation and the consequent increase in Average Revenue Per User (ARPU), the share of subscription revenue to the total industry revenue is expected to increase from 67 per cent in 2013 to 71 per cent in 2018.

There is a big opportunity in the television media segment for all stakeholders. The consumer is willing to pay for quality content which is distributed to them in a well packaged manner. From a macro perspective, everything seems to be falling in place – expectation of strong economic growth, increasing penetration of television households, digitisation bringing in transparency, potential for ARPUs to grow substantially, and growing consumerism driving advertising revenue growth. In the next 5 years, India would perhaps be one of the fastest growing media markets in the world.

- Atul Das
Chief Corporate Development Officer,
Zee Entertainment Enterprises Limited



TV Industry size

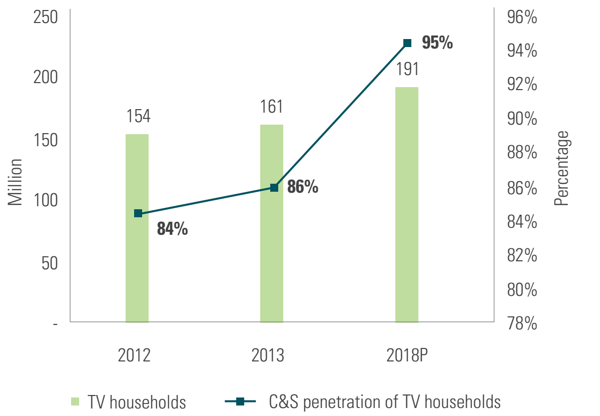


Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: Figures are rounded to nearest integers and may not add up exactly to column totals

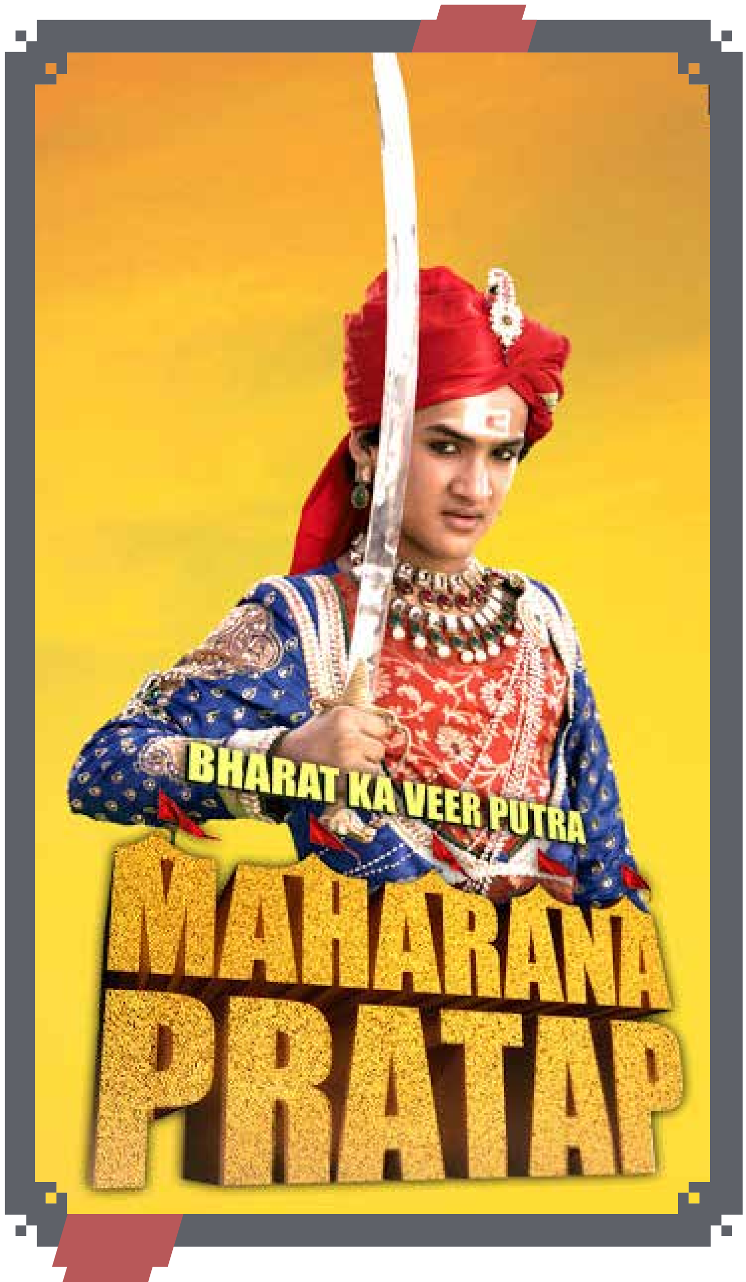
Paid C&S penetration of TV households expected to increase to 90 per cent by 2018

The number of TV households in India increased to 161 million in 2013, implying a TV penetration of 60 per cent. The number of Cable & Satellite (C&S) subscribers increased by 9 million in 2013, to reach 139 million. Excluding DD Direct, the number of paid C&S subscribers is estimated to be 130 million. This C&S subscriber base is expected to grow to 181 million by 2018, representing 95 per cent of TV households. Of this, paid C&S base is expected to be 171 million in 2013, representing 90 per cent of TV households.

TV households and C&S penetration of TV households



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



Snapshot of the TV industry value chain

Content production	• Content production industry continues to be fragmented, given the low barriers to entry and highly creative nature of the industry. • In general, production costs continued to increase, not only linked to inflation but also to improvement in production quality. Increased competition has also led to higher investments in production quality. • Digitisation is expected to create significant opportunities for growth for content providers, including improvement in content quality, localised content and niche channels. • Increasingly, content producers are recognising the need for owning intellectual property (IP) rights for content so as to be able to monetise it better. IP rights also provide a barrier to entry in an extremely fragmented industry with several small players.
Broadcasting	• 2013 continued to be a challenging year for broadcasters, with a lower-than-expected advertising revenue growth driven by the weak operating environment and TRAI's 12 minute ad cap regulations. • Among the various genres, Hindi and Regional General Entertainment Channels (GECs) performed the best in 2013 with ad spend flowing to mainstream channels considered to be safer bets in an environment of slow advertising growth. • The long-term outlook for TV advertising remains positive and advertising revenues are expected to grow at a 13 per cent CAGR from 2013-18. • Subscription revenues increased in 2013, partly due to higher subscription revenues from Phase I & II cities and partly due to better negotiation through consolidated channel aggregators. • While some benefits of digitisation were seen in 2013, real benefits in terms of growth in subscription revenues and decline in carriage fees are expected to be seen over 2014 and 2015. • In digitised areas, carriage costs appear to have declined. At the same time, TAM's increased coverage of LC1 markets has resulted in some of the carriage savings being redirected to increase reach in LC1 markets. • Growth is expected to be driven by a sharp increase in net subscription revenues, driven by better ARPU shares and lower carriage fees.
Distribution	• Industry discussions suggest that the rollout of STBs in Phase I and Phase II cities has been completed to a large extent, except in Chennai, Coimbatore and Hyderabad. Deployment of STBs in Phase II cities was smoother than that in Phase I cities on account of learnings from Phase I experience. • While customer verification is mostly complete in Phase I cities, the process is ongoing in Phase II cities, with varying degrees of success across different cities. • MSOs are now focusing on updating their systems and moving subscribers to gross billing from net billing before different ARPU packages are deployed. MSOs are likely to consolidate in Phase I and II before moving their focus to Phases III & IV cities. • While analogue subscriber churn to DTH was lower than expected, DTH has shown strong performance in ARPU growth, increasing by 12-15 per cent in 2013 driven largely by price hikes and increase in subscription of high definition (HD) channels, premium channels and value added services. • Once MSOs start introducing tiering in Phase 1 and 2 markets another round of package and feature set wars is expected to occur between DTH and digital cable. • It is important to continue the momentum and ensure that digitisation of cable in Phases III & IV gets completed, else there may be a risk that even Phase I and II cities may regress to a mélange of analogue and digital cable.

Distribution

2013 will probably be best remembered by the industry as the year in which mandatory Digital Access System (DAS) gained traction with roll out in Phase II cities. As per our report last year, most stakeholders had indicated a delay of 6-12 months for complete rollout of STBs across the 38 Phase II cities. The experience has largely been in line with industry expectations. While there have been implementation challenges in some Phase II cities such as Hyderabad and Coimbatore, DAS roll-out is estimated to be almost complete in Phase II cities. At an overall level, all industry participants agree that digitisation has been a step in the right direction, and that they remain committed to the digitisation effort.

> 2013 was a landmark year where all the stakeholders aligned towards capitalising on the digitisation opportunity and making the benefits of digitisation available to all the players across the value chain. This has been aided to a large extent by the regulatory push.
>
> **- M.G Azhar**
> Chief Operating Officer,
> Den Networks Limited

Most industry participants are in agreement that the digitisation deadline is not the end of a journey but the start of one. Though there has not been significant impact of digitisation on customer ARPUs or subscription revenue in 2013, most industry participants are of the opinion that its financial benefits will happen over the next 2-3 years from 2014 through 2016. The industry also believes that it is critical for the regulatory pressure to continue for digitisation to be completed.

Even as MSOs work to verify and consolidate billing for their subscriber base in Phase I and II cities, the deadline for Phases III & IV is close. The Ministry of Information & Broadcasting (MIB) recently announced that the deadlines for Phases III & IV of DAS implementation would be merged to 31 December 2014.[1] Phases III and IV are expected to require significantly higher investments by MSOs and also present challenges in terms of managing logistics.

The Phase I and Phase II experience

Rollout of set top boxes

Despite the implementation and policy bottlenecks, digitisation of cable television distribution made significant progress in Phase I metros as well as in Phase II cities. Collection of CAF and customer verification is almost complete in Phase I cities (apart from Chennai) and MSOs are moving towards starting gross billing.

With an estimated 20 million C&S households in Phase II cities, 17 million subscribers were required to be digitised during Phase II.[2] The extent of STB roll-out achieved across different Phase II cities has been different. However, industry discussions indicate that on an overall basis, 90 per cent of C&S households (including DTH households) are estimated to have been digitised across Phase II cities.

> The biggest learning from Digitisation has been that Digitisation date is 'Beginning of the Transformation' as against earlier conception of 'End of Transformation'. It is a milestone marking the beginning and there is a long journey ahead in terms of increasing addressability, improving consumer choice and achieving better revenue share among the different players in the value chain.
>
> **- Rohit Jain**
> Deputy Chief Executive Officer,
> Videocon DTH

Status of digitisation

Phase	Parliamentary approval for analogue shutdown	Digital cable STBs rolled out	Digitisation including DTH	CAF forms	Gross billing	Rollout of Channel packages
Phase 1*	Jun-12	~8 mn	98%	95%	Started in Delhi in January 2014; Mumbai & Kolkata expected to start in Feb-March 2014	Started
Phase 2**	Mar-13	~14 mn	90%	80-90% To be completed by Feb 2014	Expected to start from April 2014	Not started yet
Phase 3 Phase 4	Dec-14 Dec-14	~3 mn	40-50%	Not started yet	Not started yet	Not started yet

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India
* Except Chennai; ** Except Hyderabad and Coimbatore

01. MIB: Now on to DAS phase III & IV, Indiantelevision.com, 22 January 2014
02. Industry discussions conducted by KPMG in India

2013 was year of shaping agenda. On the positive side, it provided a proof of concept that digitisation can happen. On the negative side, digitisation progressed strictly by the book by first rolling out STBs followed by collection of forms. There was no real change in the ecosystem - revenue share for stakeholders and choices to subscribers did not improve.

- Harit Nagpal
Managing Director & Chief Executive Officer,
Tata Sky Limited

Industry discussions indicate that political interests in Tamil Nadu continue to delay implementation of digitisation in Chennai (Phase I) and Coimbatore (Phase II). TRAI is yet to award a DAS license to the state government run Arasu Cable which is the clear leader in the cable TV distribution market in Tamil Nadu. In December 2013, TRAI issued a press release deeming transmission of analogue signals in Chennai as illegal and calling for immediate implementation of digitisation but Arasu Cable got a stay order from the Madras High Court restraining TRAI from discontinuing analogue signals in Chennai. However, some smaller MSOs in Chennai have started rolling STBs and current digitisation reportedly stands at 35-40 per cent[3] but it is difficult to verify this independently. In Hyderabad, there has been uncertainty regarding the area in which digitisation is applicable – whether the old Hyderabad Municipal Corporation (HMC) area or the Greater Hyderabad Municipal Corporation area. However, in the old HMC area, digitisation is reportedly complete.

Collection of CAF and Customer verification

Our discussions with industry participants suggest that while households in Phase I and Phase II have been seeded with STBs as indicated above, addressability is playing catch-up. In April 2013, TRAI had directed MSOs to ensure that their subscriber management system (SMS) is operationalised before providing cable services through DAS, and the signals of TV channels are transmitted to only those subscribers whose details such as name, address, choice of channel and bouquets etc. are entered into the SMS. MSOs were also directed to disconnect TV signals of the subscribers whose details were not entered into the SMS system and to furnish compliance report latest by 7 May 2013. However, this deadline was extended several times. One of the issues was that several different types of STBs has been rolled out by the MSOs and moving these subscribers to a common SMS is proving to be a problem.

In Phase I cities, MSOs have reportedly completed the process of collection of CAF, complete in all respects including choice of channels and entry of those details in the SMS. In Phase II cities, this process is in various degrees of completion and TRAI had extended the date for completion of CAF collection for Phase II cities.

03. Industry discussions conducted by KPMG in India

Deadline for CAF in Phase II cities

Phase II cities	% completion of CAF and entry into SMS	Date
Rajkot, Surat, Vadodara, Faridabad, Mysore, Aurangabad, Nasik, Pimpri-Chinchwad, Pune, Sholapur, Amritsar, Ludhiana, Jaipur, Jodhpur, Agra, Allahabad, Ghaziabad, Kanpur, Lucknow, Meerut, Varanasi, Chandigarh and Howrah	~90%	27-Jan- 2014
Patna, Ahmadabad, Ranchi, Bangalore, Kalyan-Dombivili, Nagpur, Navi Mumbai and Thane	~80%	31-Jan- 2014
Bhopal, Indore and Jabalpur		7-Feb- 2014
Vishakhapatnam and Srinagar		28-Feb- 2014
Coimbatore, Hyderabad		No date

Source: TRAI Press release 17 January 2014, KPMG in India analysis

Access to subscribers and the LCO-MSO relationship

Post collection of CAF and entry into the SMS, MSOs are now in the process of moving subscribers from net billing to gross billing – gross billing implies that if a subscriber has chosen a package of INR 180, then he/she will have to pay entertainment tax (varies from state to state) and 12.36 per cent service tax on the package rate of INR 180. As such, gross billing is the first step to inform consumers of the changed ecosystem in a digitised environment.

TRAI had directed MSOs and Local Cable Operators (LCOs) to start providing bills including taxes to subscribers in Phase I cities, excluding Chennai, from December 2013 (for the November bill). As per the direction, the bills should be itemised, giving details of the name and price of channels in the package and mention the service and entertainment taxes levied. MSOs also had to ensure that a proper receipt is given by it or its LCO for every payment made by the subscriber and submit a compliance report for Phase I cities to TRAI by 31 December 2013.

However, differences over billing responsibility are continuing to result in a tussle between the MSOs and the LCOs in the Phase I cities. Having invested a huge amount of capital in the rollout of STBs, the MSOs wanted to have control over billing subscribers, while the LCOs were concerned about eventually losing control of the subscribers to MSOs on transfer of billing rights to the MSOs. There were other issues as well including the revenue share formula and the responsibility for paying entertainment and service taxes. This has led to the LCOs refusing to issue bills and collect money from the subscribers in several areas.

LCOs play an important role in the success of digitisation and growth of the industry; therefore, engaging them at every level is critical. Empowering LCOs with the best-in-class technologies and systems will result in improving customer relationship management and will also help in expediting the digitisation process in phases III and IV markets. MSOs should make LCOs an integral part of their long-term growth strategy to bolster their loyalty.

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

Leveraging the LCOs is very important as there is implicit trust between him and the consumer. MSOs plan to use the same network for billing and collection and though 'the power of billing' will shift to the MSO, it remains to be seen how this affects ground activity.

- Sudip Ghosh
Director,
Manthan Broadband Services Private Limited

The deadlock has been resolved for the time being, when most of the larger MSOs agreed in January 2014, to help the LCOs to raise bills through their SMS, while allowing the LCOs to bill the subscribers in the LCOs' name, with the inclusion of the MSOs' name and logo on the bill. The MSO will also issue a separate invoice to the LCOs indicating its share of the amount collected from the subscribers. In effect, the LCOs will provide bills in their name to the subscribers, collect money towards the bills from the end subscribers, deduct their share and pass on the remaining amount to the MSOs. The entertainment tax liability will lie with the LCOs, but the service tax issue is still being resolved. As per industry discussions, once the modalities of gross billing and revenue share are worked out for Phase I cities, the implementation of the same in Phase II cities will be far smoother. TRAI has recommended a revenue share of 55:45 (MSO: LCO) for the basic free-to-air (FTA) tier and 65:35 (MSO: LCO) for a combination of FTA and pay channels. However, in practice, MSOs have agreed to offer a higher revenue share to their LCOs for the time being.[4,5] MSOs expect that after rolling out tiered channel packages leading to increase in subscriber ARPU, they would be able to negotiate a more equitable revenue share arrangement with LCOs as that would lead to higher absolute amount being received by the LCOs. As per industry participants, over a period of time, the share of LCOs is expected to reduce to 35 per cent, without a decrease in the absolute amount that the LCOs receive.

A key concern is that if addressability and billing issues in digital cable are not sorted out soon, two years down the line, the same ARPU levels, subscription revenue share and carriage fee will continue, with the only change being the technology through which signals are delivered to customers.

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

In order to protect their business models and ensure their survival, LCOs have also been evaluating their options across the country. While LCOs have access to end subscribers, what they lack is negotiating power with broadcasters and access to funding. This has led to an increasing trend towards LCO consolidation, if not through the M&A route then through formation of associations and unions, especially in Gujarat, Maharashtra, Kerala, and Karnataka. The LCOs want to be called Last Mile Operators (LMOs) and some LCOs are also moving towards becoming ICOs (Independent Cable Operators) where they have interconnect agreements directly with broadcasters/channel aggregators instead of being linked with any MSOs.

Digital cable retains larger share of analogue subscribers

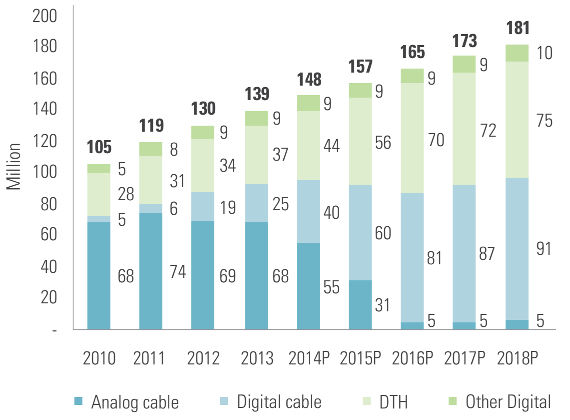
Similar to the experience in Phase I cities, MSOs have demonstrated strong performance in Phase II cities as well, and the analogue subscriber churn to DTH has been minimal. Industry discussions suggest that one of the factors that helped MSOs retain a large share of their analogue subscriber base was that despite giving the customer a higher number of channels and a better quality of signal than earlier, cable operators have not increased prices yet. Overall, the DTH industry had approximately 3 million additions net of churn in 2013 taking its net subscriber base to 37 million from 34 million in 2012.[6]

We have to look beyond the numbers of STB rollout and at the economic model. It is true that cable took a higher share of STBs rolled out in Phase I & II cities. However, instead of getting into a land grab for new customer additions, the DTH industry was more focused on protecting its economic model. DTH industry is more focused on customer service, customer-oriented packaging, HD channels, and quality of service rather than just gaining subscribers.

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

04. Cable Wars, Outlook Business, 22 June 2013
05. MSOs-LMOs close to breaking the deadlock over gross billing in Mumbai, Televisionpost.com, 6 January 2014
06. Industry discussions conducted by KPMG in India

No. of C&S Subscribers



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

Note: (1) DTH figures for 2011 and 2012 have been re-stated taking into consideration the change in the way industry calculates net subscribers

(2) DTH figures are net of churn

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

DTH operators focusing on ARPU improvement; ARPU improvement in digital cable still an issue

While DTH operators had challenges on subscriber additions, ARPU for DTH subscribers has seen an increase of around 12-15[7] per cent in 2013 driven largely by price hikes and increase in subscription of HD channels, premium channels and value added services. Growing HD adoption has been one of the prime reasons for increase in DTH ARPUs and there are now ~3[7] million HD subscribers, accounting for ~8 per cent of all DTH subscribers.

DTH ARPUs have seen an increase of on account of price hike in base packages, reduction in free period from 2-3 months to zero in most cases, increasing HD penetration, increase in pay per view revenues and traction in subscription of premium channels.

- R. Mahesh Kumar
Chief Executive Officer,
Sun Direct Private Limited

DTH and Digital Cable ARPU

ARPU (INR per month)	2013	2014P	2015P	2016P	2017P	2018P
Digital Cable	175	196	225	248	273	301
DTH	200	220	242	266	292	322

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

Digital cable on the other hand, has not seen any significant ARPU increases. For digital cable, deployment of different channel packages will be the key driver to raise ARPUs. As per industry participants, in Phase I cities where rollout of different channel packages has started, digital cable ARPUs at the subscribers end has seen an increase of 15-20[7] per cent, while there has not been any material increase in Phase II cities so far. On an overall basis, digital cable ARPUs are estimated to have increased by 5[7] per cent. However, discussions with MSOs suggest that while ARPUs have increased at the subscriber end, there has not been any significant increase in the ARPU share received by the MSOs.

Benefit of digitisation to Broadcasters

In 2013, large networks appear to have witnessed 15-20[7] per cent growth in their subscription revenue, which was lower than expectations. Subscription-led revenue share deals between broadcasters and MSOs are still the exception in the industry. Given that the MSOs are still in the process of verifying subscribers on the ground and establishing SMS, broadcaster-MSO agreements continue to be based on fixed fee arrangements for the most part.

Industry participants across the value chain agree that digitisation has reduced the carriage fee payout, even though it may have not been as per expectations. The Phase I and II markets have witnessed a 20-25[7] per cent drop in carriage, partly driven by digitisation and partly due to negotiating power of aggregators. Phase I and II markets account for 75 per cent of the carriage fee payment, resulting in a 15-20[7] per cent decline in carriage fees overall. However, news channels have not really been the beneficiaries of this decline in carriage fees due to fragmentation and lack of any real differentiation. Also, in the near term, there is a risk that decline in carriage fees in digitised regions may be offset by an increase in carriage fee paid for LC1 markets since TAM has extended its reach to include the LC1 markets and broadcasters may want to ensure visibility in these markets.

The supply-demand situation to carry channels will improve significantly post digitisation, and therefore on an overall basis, the payout towards carriage fee is expected to decline further over the next three years by 25-30[7] per cent. However, there is also a realisation that carriage fees will not disappear completely in the medium term.

07. Industry discussions conducted by KPMG in India

There has been some correction in carriage costs. Expect further reduction in carriage costs going forward. However, do not expect a linear co-relation between reduction in carriage fees and progress in digitisation – the reduction will be dependent on MSOs improving their business model.

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

The ongoing changes in regulatory and technology spheres is changing the game fundamentally. While phased digitisation is increasing bandwidth and therefore more channels, better placements and sub revenue is still tilted in favour of bouquets. In the medium term, the bigger players will have an unfair advantage. This will hopefully change with package implementation at household level, but that looks like a little while away. Overall, this is a time to build brands as large territories are virtually getting the full sweep of C&S offerings for the first time as Phases III & IV roll out. There is a lot of building to do in this industry and that means that the space is not getting crowded any time soon.

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

Since the larger MSOs alone would not be leading the charge in Phases III & IV, the concern is that the smaller regional MSOs would not have adequate funding and experience of planning for Phases I & II to be able to manage digitisation in Phases III & IV.

- Rajesh Kaul
President,
MSM Discovery Private Limited

Expectations from Phases III & IV

Implementation of DAS in Phases III & IV is expected to be more challenging with respect to logistics requirements and financial commitments required on behalf of the MSOs.

Scale of effort

As per our discussions with industry participants, there is a requirement of ~65 million digital cable set top boxes to be rolled out in Phase III & IV areas across the country. In contrast, MSOs had to rollout ~22 million STBs in Phase I & II cities in 42 cities indicating that Phases III and IV are expected to pose greater logistical challenges as compared to Phases I and II.

Smaller MSOs will need to bear the responsibility of Phases III & IV

The four large MSOs – Hathway Cable & Datacom Limited (Hathway), IndusInd Media Communications Limited (IMCL), Den Networks Limited (Den) and SITI Cable Network Limited (SITI Cable) – were present in three Phase I cities (except Chennai) and 18-29 Phase II cities. However, they do not have significant presence or dominant position in Phases III & IV. The focus for most of the large MSOs seems to be consolidation in Phase I & II cities, before they begin to expend efforts on DAS in Phases III & IV. Hence, smaller regional MSOs and ICOs will need to take up the responsibility of cable digitisation in Phase III & IV areas. Several of these regional MSOs do not have the experience and learnings from Phase I & II cities.

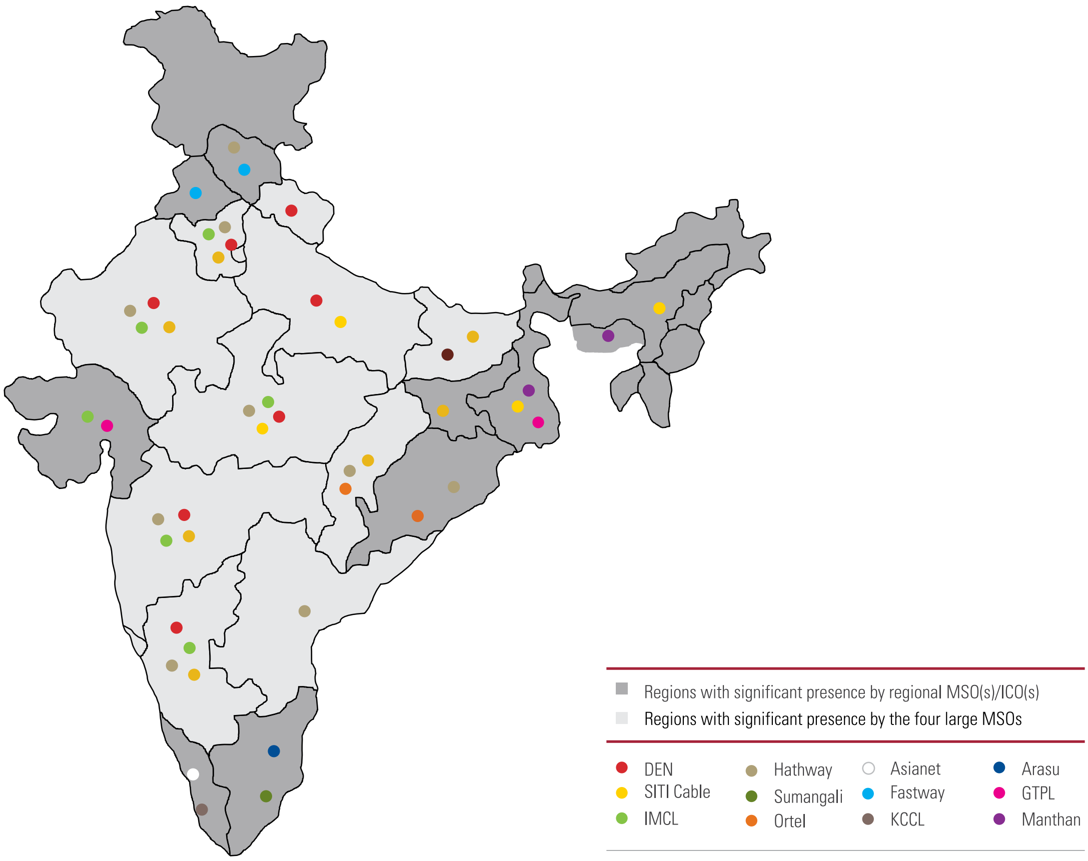
Funding constraints

Phases III & IV require significant investment in digital head-ends and other back-end infrastructure apart from STB costs. Funding may prove to be a challenge even for large MSOs, since revenue benefits from Phase I & II have not started flowing in. At the same time, broadcasters are expecting higher revenue share from MSOs in Phase I & II cities, while carriage fee is on a downward trend. All this has led to increasing funding constraints for MSOs.

Given the challenges, industry stakeholders believe that regulatory push would be all the more important in DAS implementation in Phases III & IV cities.

In spite of these challenges, some regional MSOs have started rolling out digital STBs in Phases III & IV cities primarily Gujarat Telelink Private Limited (GTPL) in Gujarat & Kolkata, Kerala Communicators Cable Limited (KCCL) and Asianet Satellite Communications Limited (Asianet) in Kerala, Fastway Transmission Private Limited in Punjab, Manthan Broadband Services Private Limited (Manthan)in Eastern region and Ortel Communications Limited (Ortel) in Orissa.

MSO landscape in India



Source: Company websites, KPMG in India analysis, Industry discussions conducted by KPMG in India
Note: The coloured markers indicate significant presence in the region.

Unless the MSOs consolidate their business model in Phase I & II cities, they would not be able to go ahead with rolling out STBs in the rest of the country. The logistics and sheer size of the opportunity would delay the process. However, expect it to eventually fall into place like it did in Phase I & II cities. Also, it is imperative that the regulatory push continues for Phases III & IV of digitisation to be completed.

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

DAS rollout in Phases III & IV needs significant investment by MSOs while the ARPUs from the normal satellite channels will be lower than in Phases I & II. We need new technology of distribution such as HITS to evolve fast. The need for localised content will play an important role, so non-satellite content aggregation will become important. Bulk bundling from Broadcasters to MSOs for all channels, will not provide digital cable platforms the right packaging. I expect that it may take over a year from the date of blackout of analogue for stability in Phases III & IV areas.

- **Subhashish Mazumdar**
Senior Vice President - Marketing & Customer Relations, IndusInd Media Communications Limited

HITS –The answer to the Digitisation challenge in Phases III & IV?

Tony De Silva
Group CEO (Media),
IndusInd Media Communications Limited

As we draw a line under a hectic year that was characterised by frantic seeding of set top boxes in Phase I and II cities, the cable distribution industry is keeping a wary eye on what lies in front of them in Phases III and IV. Phase I and II entailed installing Digital head ends, cable infrastructure and STBs in roughly 20 million homes in a relatively well defined and densely populated geographical area of India. Covering this ground has stretched the financial and operational resources of the cable industry to the limit, with very little clarity on the payback period on their investments so far.

Phases III and IV will entail covering a much larger and more sparsely populated geographical area often coupled with difficult terrain. With roughly 65 million homes needed to be digitised, the investment needed will also be of a much larger magnitude – a significant portion of which will need to be shouldered by smaller operators with inadequate access to funding. In a sense the real digitisation challenges has only begun now.

If the industry truly wishes to achieve its objectives of digital signals, addressability and tiering across the rest of India, the prevailing cable and DTH models may not be enough. HITS (Head end in the sky) technology, will play a key role in achieving the goal of 100 per cent digital distribution in the country. Unlike traditional cable where a single headend can cater to a defined geographic areas and requires significant investment in cabling infrastructure to carry a good quality signal to the LMO and the home, HITS uses a virtual headend from one single location that broadcasts its signal via a transponders to multiple LMOs.

The LMO is able to downlink the signal, add any local customisation to the digital feed and send it to the customer. As long as the customer has a STB and an addressable system, they are able to view the channels that they have chosen.

For Independent operators that have less than ten thousand end points per digital headend or LMOs who wish to retain their independent business model in the digitised world, HITS offers a number of number of advantages:

- It does not require investment in a new digital headend and only nominal capex expenditure to the operators existing infrastructure
- Encryptions, SMS, billing etc. are handled centrally by the HITS provider and the investment can be amortised over a large user base
- Operator focuses on customer acquisition, break fix and retention, STB standards are centrally defined and upgrades managed centrally
- Operators can decide mode of STB funding, content strategy and retain control over their network, using the HITS provider purely as a signal provider
- Better rain attenuation as HITS operates on C-band which is less susceptible to rain fade than C-band
- Ability for the operator to insert local language content at the last mile and customise feed for local tastes

Based on experience of countries with similarly geographical challenges and fragmentation in the distribution space, it is fair to expect at least 2-3 HITS services to be available in India in the next few years that will compete with digital cable and DTH. How the pie gets divided in the next phase will be interesting to watch.

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

ARPU improvement the next big challenge

While DTH operators have managed to realise subscription ARPU increases, digital cable has some way to go before it can start achieving similar increases. As MSOs start implementing better addressable systems and tiering, growth in cable ARPUs will be driven by appropriate channel packs, premium content channels, HD channels, pay-per-view and other value added services.

ARPU growth is critical to the growth of this industry. Increase in ARPU will not materialise through negotiations alone, but through true value addition in the minds of consumers. Value additions would imply the onset of a 'tiered' product offering – much like in other industries where there is a 1:10 ratio between the lowest paying subscriber and the highest paying subscriber.

- **Sanjay Gupta**
Chief Operating Officer,
Star India Private Limited

As this happens, MSOs will have to aggressively compete with DTH operators to retain their subscriber base, while providing the subscriber with an equivalent or better value proposition and customer service. Service quality will be critical for both subscriber retention as well as ARPU improvement and will need a change in mindset from B2B to B2C business model.

MSOs also need to upgrade and leverage their existing infrastructure to capitalise on the broadband opportunity in the mid-term, which can lead to significant ARPU increase. Apart from revenues from broadband services, this will enable MSOs to also offer premium pay-per-view services and interactive services, which can further boost the ARPU. Some of the large MSOs have started investing in broadband infrastructure, for instance, Hathway Cable and Datacom Limited has started offering 50 mbps broadband plan to users in South Mumbai, powered by DOCSIS 3.0.[8]

The next big opportunity for MSOs is offering high speed broadband services to subscribers to both improve ARPU and as a competitive advantage against DTH. MSOs will need to invest to capitalise on the dual play (TV + internet) opportunity in the near term.

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

The Changing Face of MSO Operations

Vynsley Fernandes
Director,
Castle Media Private Limited

Digitisation has altered the role of an MSO from being a conventional 'signal-only' provider to a LMO - to a service provider to the end customer. In effect, the MSO-LMO relationship vis-à-vis the customer is slowly metamorphosing into a semblance of a joint go-to-market approach. Transitioning from a B2B to this B2C model has not been easy for MSOs and there is still perceptible angst experienced in dealing with the increased touch point with a customer who expects a radically higher Quality of Service.

If the increasing competition from other MSOs and the better-organized DTH players is a threat, the complex 'digital' technical architecture continues to challenge the core operations of MSOs. With significant investments made in the business, the MSO collective needs to regroup and consolidate on its strategy to grow ARPUs and monetize the network. And technology will be at the forefront of driving this change.

MSOs need to strategize the enabling of technology across various functions of the business – the digital headend, SMS, Conditional Access System (CAS), Billing Systems, STBs, network infrastructure including fibre optics, value-added service (VAS) delivery, broadband connectivity etc.

Clearly, the rush to seed STBs has resulted in multiple and disparate generations of STBs being planted with limited capability. Coupled with limited attention to technology upgrade capability and integration; MSOs face challenges in flexible billing, packaging of services, providing VAS, broadband and going the prepaid billing route.

Top 5 Tips for an MSO looking to make the transition to Digital:

Get the STB Strategy right on Day Zero: Most MSOs are guilty of poor selection of STBs. With a focus on analog sunset dates and price and little or no attention to the feature set, most MSOs rolled out a slew of disparate STBs from multiple vendors. The result is that not only do these STBs lack in capabilities and features but also cause operational nightmares.

It is imperative for an MSO to determine an appropriate STB strategy beyond conventional recording and HD capabilities and focus on the total cost of ownership rather than instant gratification of low pricing. The focus on feature set should extend to the technical configuration & the memory capacity and MSOs must emulate DTH who have perhaps two to three types of STBs in their entire network. Whilst reducing operational costs, the approach also affords the MSO new revenue streams from applications like value-added services and localized advertising to interactive e-commerce.

Invest in a future-proof Subscriber Management System: The focus of DAS is addressability up to the subscriber level and the enabler for addressability lies within a good Subscriber Management System. The SMS is in effect the MSOs

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

'sales person'. By tracking subscriber preferences and spends, the SMS becomes a powerful tool to generate critical business intelligence for an MSO.

Not unlike the west, MSOs need to evaluate and implement world-class SMS solutions that could facilitate flexible 'push' and 'pull' sales across multiple Revenue Generating Units (RGUs), comprising video, broadband & high-speed internet, video-on-demand services and even interactive home shopping.

Optimize the ground network Most MSOs are sitting on hundreds, if not thousands of kilometers of optical fibre. Yet, only a couple have leveraged their network to offer broadband and high-speed internet. Unlike video, where ARPUs continue to stutter, broadband ARPUs are headed north on account of greater usage. So whilst price per Mbps will continue to fall, net ARPUs will grow as subscribers opt for faster bandwidth and increased downloads.

MSOs need to evaluate their installed networks and test their connectivity for offering high-capacity broadband services at the corporate and retail level. Select grids, if not all, need to be armed with future proof technology and redundancy capability.

Packaging & Bundling In recent years, with the advent of on-line platforms, several MSOs in mature television markets have been faced with prospects of zero growth or dwindling numbers of cable households. Yet, ARPU growth has been consistent by and large. Probably the single biggest factor contributing to this phenomenon has been innovative packaging and bundling of RGUs.

Packaging in effect refers to creation of 'smart' packages of content by region, genre, language etc. that help push subscriber off-take. And in a country like India with so many languages and an equal number of genres, it might be useful to develop packages that could be 'customised' to subscribers' preferences. Again, the right choice of an SMS and CAS system is central to delivering flexible packaging.

A tightly integrated and modular SMS & CAS system also facilitates MSOs to bundle multiple RGUs, allowing subscribers to cherry pick in real-time from a bouquet of services and products comprising SD channels, HD channels, broadband & high-speed internet, on-demand programming, active and interactive applications, multi-screen television, home security – to mention a few.

Digital is not Analog And lastly is the fact that digital is not analog. Just about every MSO and LMO has faced challenges in making the transition and realised much later, it's not just about putting in a digital headend and drawing a signal to a subscriber through a digital STB. It's about understanding how every component of the digital jigsaw fits into place – from a digital headend and integration of a CAS and SMS system to optimising the ground network for a digital signal up to the STB.

For any new MSO entering the digital space, it is imperative to train and orient virtually every member of the organization in appreciating technology in the digital model. Whilst the obvious focus would be on training technicians on the nuances of digital technology and troubleshooting; training needs extend beyond. Whilst marketing and sales teams will need to understand the leveraging capabilities of an intelligent SMS; and customer services will have to re-orient themselves to address complex technical queries; MSO management teams will need to constantly innovate to optimize the digital model for sustained growth.

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

Broadcasting

The television broadcasting industry faced a challenging operating environment in 2013. While television advertising revenues continued to face the pressures of global and national economic slowdown, regulatory changes created an environment of uncertainty and added to the complexities of the operating environment. Fragmentation in certain genres such as News and Movies is also impacting profitability of broadcasters. New channel launches in 2013 was limited on account of the weak market environment as well as due to the MIB not approving new channel licenses. The new channel launches consisted primarily of niche genres with premium pricing, and a few regional channels and news channels.

While ad sales continue to see growth and the broadcasting segment has been witnessing investments, profitability is under pressure. The regulators are focusing on 3-4 big things that are creating a churn in the broadcasting sector. The impact of that however is still about 6-8 quarters away so it will be a 'wait and watch game' for now to see what this leads to. The ripples of the eventual impact, I believe, will be seen across the media industry and will not just be restricted to TV.

- Sujit Vaidya
Vice President & Chief Financial Officer,
Disney India

TRAI's efforts to enforce the 12 minute ad-cap regulation invited a divided response from the industry and contributed to the challenges of the broadcasters especially those with significant dependence on advertising revenues. At an aggregate level, the total TV advertising market is estimated to have grown around 9 per cent in 2013 to INR136 billion, lower than the 11 per cent projected in our report last year. Going forward, television advertising in India is expected to grow at a CAGR of 13 per cent over 2013-18, to reach INR220 billion.

In the face of fundamental changes in the operating environment in 2013, players in the broadcasting industry reacted in a matured manner with a clear strategy, unlike in the past.

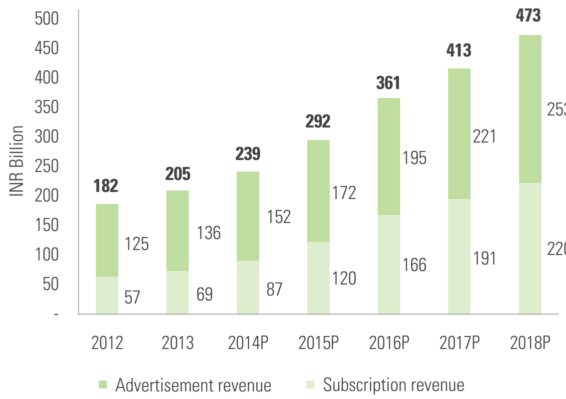
- Bharat Ranga
Chief Content and Creative Officer,
Zee Entertainment Enterprises Limited

Subscription revenue is expected to be the driver of growth for broadcasters, growing at an estimated CAGR of 26 per cent from 2013 to 2018. Increase in the declared subscriber base and higher revenue share is expected to drive up the share of subscription to total broadcaster revenue from 34 per cent in 2013 to 46 per cent in 2018.

The ideal ratio between advertising and subscription and advertising revenues for broadcasters is 50:50. Indian broadcasters are currently lagging behind on subscription revenues in the mix. However, expect this to correct once the benefits of digitisation start playing out. Not only will this help broadcasters overcome dependence on advertising revenues which tend to be cyclical, it will also help them get better advertising rates once they have a significant annual revenue stream assured in the form of subscription revenues.

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

Broadcaster Industry size



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

The Ad Cap Story So Far

22 March 2013

TRAI issues the Quality of Service Regulations putting into effect the 12 minute ad-cap rule.

10 April 2013

TRAI gets tough & issues ad reporting format to be submitted quarterly. Sets off negotiations to find common ground.

29 May 2013

TRAI and Broadcasters reach an agreement. 20 min ad cap for news and 16 min ad cap for others till 30 September 2013.

16 August 2013

TRAI files criminal cases againts 14 broadcasters for not complying with QoS regulations.

30 August 2013

NBA appeals to TDSAT and obtained a repreive which prevents TRAI from taking coercive action against erring channels.

1 October 2013

The 12 minute ad cap comes into effect. Most IBF members start following the 12 minute ad cap.

6 December 2013

Supreme Court rules that TDSAT has no jurisdiction to adjudicate on TRAI disputes.

11 December 2013

TDSAT dismisses NBA appeal against TRAI taking cognizance of the SC order.

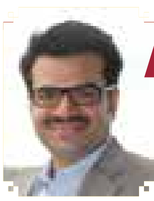
19 December 2013

The Delhi High Court provides interim relief to broadcasters. Next hearing on 13 March 2014.

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

To ensure better quality of experience for the consumer, TRAI notified the Quality of Service (QoS) Regulation in March 2013, capping duration of commercial time on television channels. The regulations restrict maximum duration of advertisements to 12 minutes per hour, allow for advertisements only during breaks of live sporting events, prohibit partial advertisements and require broadcasters to submit details of advertisements carried on their channels in a specified format to TRAI. This expectedly did not go down well with many broadcasters already facing subdued ad revenue growth on account of the soft macro-economic environment. After a series of discussions and MIB's support of a less aggressive timeline for reduction of advertising minutes, in line with the digitisation schedule, the regulator agreed to give broadcasters more time. A new ad limit per hour was decided upon, which permitted 20 minutes of ad time for news channels and 16 minutes of ad time for others till 30 September 2013, following which the 12 minute ad-cap would take effect on all channels.

Most members of the Indian Broadcasting Federation (IBF) with some exceptions implemented the ad-cap regulation from October 1. Hindi GECs with an existing ad inventory of 14-16[9] minutes per hour seemed relatively unaffected with the TRAI order and many of the channels announced that they would make up for the inventory reduction by hiking the 10 second ad rates by 20-30[10, 11] per cent.



From the long-term perspective, the 12 minute ad cap is a welcome move and will help in improving viewership experience and keeping non-serious content players out. Even mature markets like U.K. and the U.S.A. have similar regulations.

- Narayan Ranjan
Chief Financial Officer,
Viacom 18 Media Private Limited

09. Industry discussions conducted by KPMG in India
10. Channels hike ad rates to offset time limit, Livemint.com, 9 August 2013
11. Top GECs seek to hike ad rates to offset 10+2 ad cap impact, Exchange4media.com, 3 June 2013

However, the News Broadcasters Association (NBA), independent music channels and several regional broadcasters challenged TRAI's mandate in the Telecom Disputes Settlement Appellate Tribunal (TDSAT). TRAI on its part lodged cases against 14 television channels for violation of ad-cap regulations. The NBA obtained an interim relief from the tribunal that prevented the regulator from taking any action against broadcasters not toeing the ad cap line. Before the TDSAT could deliver its judgment on the matter, the Supreme Court ruled that TDSAT had no power to adjudicate on petitions challenging TRAI regulations. The broadcasters' appeal was dismissed by TDSAT saying the matter does not fall under its jurisdiction and that the appellants could challenge the validity of TRAI's regulations before 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. It also maintained that the broadcasters will have to keep submitting weekly reports on ad duration and set 13 March 2014 as the next hearing date. The Delhi High Court's reprieve in the matter is only temporary and the appellants may have to pay damages based on the accounts maintained with TRAI if they lose the appeal.

News channels and music channels have taken a stay at the High Court on the implementation of the 12 minute ad cap. If this is strictly implemented, impact could be around 15 per cent of ad revenues in the short term because the ad rates are not expected to increase in the short term.

- R D S Bawa
Chief Financial Officer,
Network 18 Media & Investments Limited

Economic woes continued to haunt

Advertisement spending continued to be affected by persistent low growth in private consumption. Most of the industries dependent on consumer spending saw subdued revenue growth. Slowdown in the growth of Private Final Consumption Expenditure (PFCE) is apparent with the quarter ended June 2013 and September 2013 witnessing the two lowest growth rates in the last 37 quarters. PFCE grew at 1.6 percent and 2.2 per cent year-on year in the first and the second quarter of the financial year 2014 respectively.[12] Prolonged economic slowdown and a high interest rate environment impacted consumer demand and corporate profits came under further pressure due to sharp depreciation in rupee. As per industry discussions, categories such as real estate, consumer durables, automobiles, financial services, travel and hospitality scaled down their ad spends. The second half of the year was particularly challenging with several companies reportedly cutting their festive season ad expenditure.[13] The Fast Moving Consumer Goods (FMCG) sector was an exception and in spite of facing consumption pressures, companies pushed up their advertisement and sales promotion spends by 15-20[14] per cent in pursuit of volume growth.

2013 was one of the toughest years in the recent past in terms of ad revenue growth. The bearish view of the macro-economic situation and general cynicism adversely affected the advertising growth with CMOs across sectors cutting ad spends during the year.

- Uday Shankar
Chief Executive Officer,
Star India Private Limited

The year started off well for advertising on TV, including a good season of IPL. However, the overall slowdown in the economy combined with other factors such as inflation and depreciating rupee impacted advertising revenues, resulting in a single digit TV advertising growth for 2013.

- Nitin Nadkarni
Chief Financial Officer,
Multi Screen Media Private Limited

Top 10 categories advertising on TV

Category	2012 (% share)	2013 (% share)
Personal Care/Personal Hygiene	13.7%	15.7%
Food & Beverages	14.3%	13.3%
Services	7.2%	8.1%
Hair Care	4.5%	4.7%
Auto	4.5%	4.4%
Personal Healthcare	4.0%	3.3%
Personal Accessories	3.7%	3.1%
Household Products	3.0%	2.9%
Telecom/Internet Service Providers	2.7%	2.6%
Laundry	2.3%	2.5%

Source: TAM AdEx, Period: Year 2012 and 2013, Medium: TV, Based on analysis of Ad volumes in seconds. 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

12. Urban Consumption Driven Sectors in Slow Lane, India Ratings and Research, 3 December 2013
13. Hit by severe slowdown, India Inc to halve ad spend this Diwali, The Economic Times, 27 September 2013
14. FMCG majors high on ad spends amid slowdown, Business Standard, 26 October 2013

Top 10 advertisers on TV

Advertiser	2012 (% share)	2013 (% share)
Hindustan Unilever Ltd	7.6%	8.9%
Cadburys India Ltd	2.4%	2.0%
ITC Ltd	2.1%	2.1%
Reckitt Benckiser (India) Ltd	2.2%	1.8%
Procter & Gamble	1.7%	1.8%
Ponds India	1.4%	1.6%
Colgate Palmolive India Ltd	1.4%	1.3%
Coca Cola India Ltd	1.4%	1.3%
Bharti Airtel Ltd	0.8%	0.9%
L'Oreal India Pvt Ltd	0.9%	0.9%

Source: TAM AdEx, Period: Year 2012 and 2013, Medium: TV, Based on analysis of Ad volumes in seconds. 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

Broadcaster-Advertiser standoff on billing

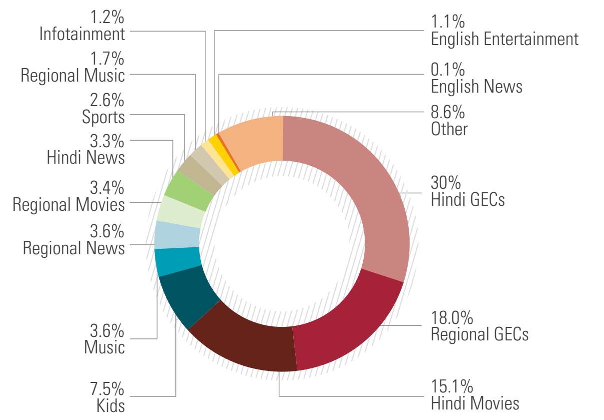
The middle of the year saw a tussle break out between broadcasters and advertisers over the billing process for commercials carried on television channels. Broadcasters received income tax notices for non-payment of Tax-Deducted-At-Source (TDS) on the 15 per cent agency commission listed on the bills issued to media agencies, and demanded that the advertising agencies move from the conventional practice of gross billing (inclusive of agency commission) to net billing. Advertisers who derived revenues as a percentage of the gross bill were not willing to change their accounting practices leading to a standoff. Many broadcasters took commercials off air as a retaliatory measure against non-complying agencies. Television channels finally resumed commercials after two days of blackout following an agreement between the IBF, the Advertising Agencies Association of India (AAAI) and the Indian Society of Advertisers (ISA). Under the new process, the agencies moved to net billing with release orders containing a legend that mentions the gross value in line with the erstwhile industry practice.[15]

Genres

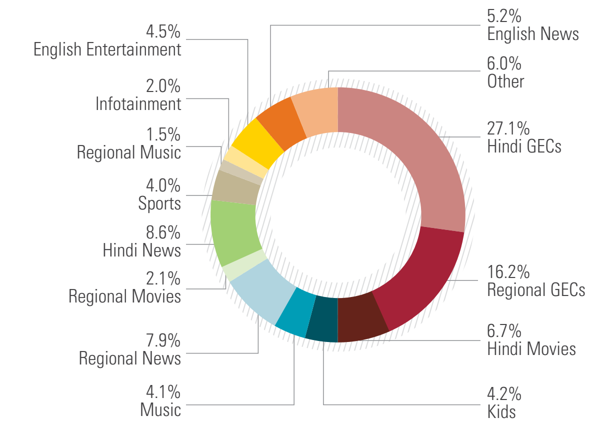
Hindi and Regional GECs continue to be the key drivers of television viewership, accounting for 48 per cent of total viewership in 2013. Hindi GECs continued their dominant position in 2013 with a 30 per cent share of viewership, higher than its share of 29.3 per cent in 2012. Regional Entertainment channels (excluding News) collectively accounted for 23.1 per cent of the total viewership with Regional GECs across languages accounting for 18 per cent share of the viewership. Hindi Movies genre saw its viewership increase from 13 per cent in 2012 to 15.1 per cent in 2013. Kids and Music genres also witnessed growth and their viewership stood at 7.5 per cent and 3.6 per cent, respectively in 2013. News channels (including Regional News) accounted for 7 per cent viewership in 2013, down from 7.2 percent in 2012.[16]

15. Ads resume as channels, agencies reach compromise, Livemint.com, 3 May 2013
16. TAM; Week 1 to 52, 2013; 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

Viewership share by genre - 2013



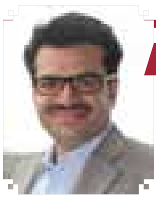
AdEx share by genre - 2013



Source: TAM; Week 1 to 52, 2013; 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

Hindi GEC

In contrast to dynamic channel rankings of 2012, this year had Star Plus retaining its number one spot, Colors taking the second place for most of the year with Zee TV close at its heels in the number three position.[17] Flanking channels of networks such as Life OK and Sab TV improved significantly in their ratings taking the fourth and fifth position respectively for most of the year. Overall, ad growth for the genre was between 13 to 15[18] per cent, though individual players saw different growth. The genre saw ad rates per slot increase by 10 to 15[18] per cent. Industry estimates pegged ad rates at INR0.15 to 0.25 million on an average per 10 second slot for fiction shows in prime time.



In an environment of slow advertising growth and general economic slowdown, established models such as Hindi GECs and Regional GECs are getting rewarded, with advertising spend flocking to mainstream channels which are considered safer bets.

- Narayan Ranjan
Chief Financial Officer,
Viacom 18 Media Private Limited

Hindi GECs continued to have a fiction:non-fiction ratio of 80:20, with non-fiction shows being used largely to create buzz and word-of-mouth. Channels bet on innovation and displayed an increased appetite for risk with a series of new and clutter-breaking launches in fiction shows. Hindi GECs came up with several high-budget fiction offerings in 2013 – '24' (Colors), 'Jodha Akbar' (Zee TV), 'Mahabharat' (Star Plus) and 'Bharat Ka Veer Putra: Maharana Pratap' (Sony). Broadcasters also drew heavily from history and mythology. With lifecycle of fiction shows becoming shorter, channels are moving towards shows driven by characters rather than storylines.

On the non-fiction side, apart from 'Comedy Nights with Kapil' there were no major launches. Most Hindi GECs continued with newer seasons of old non-fiction formats. Channels are seen to be settling for 3-4 big format shows per year with one tent-pole non-fiction show every quarter. Colors hit viewership gold with the launch of 'Comedy Nights with Kapil' which soon became the top-rated show for the network and one of the biggest highlights of Indian television in 2013. The runaway success of 'Comedy Nights with Kapil' and continued performance of 'Taarak Mehta Ka Ooltah Chashmah' (Sab TV) should help the Comedy genre but it remains to be seen if the genre gets revived in a big way given that it is considered to be difficult to succeed in.

2013 reaffirmed our belief that viewers not just demand but expect a certain signature quality and consistency in stories and characters which is unique to content brands. Brands that went on to become the preferred choice, managed to offer content and an experience in a manner that was relevant to viewers while continuing to sustain their interest.

- Vijay Subramaniam
Vice President and Head of
Content & Communications,
Media Networks, Disney India

17. How Hindi GECs found order in 2013, Televisionpost.com, 1 January 2014
18. Industry discussions conducted by KPMG in India

Top characters 2013 - Fiction

Rank	Character	Show	Channel
1	Jethalal	Taarak Mehta Ka Ooltah Chashmah	SAB TV
2	Anandi	Balika Vadhu	Colors
3	Ram Kapoor	Bade Achhe Lagte Hain	Sony
4	Sandhya	Diya Aur Baati Hum	Star Plus
5	Mahadev	Devon Ke Dev Mahadev	Life OK
6	Jodha	Jodha Akbar	Zee TV
7	Priya	Bade Achhe Lagte Hain	Sony
8	Akshara	Yeh Rishta Kya Kehlata Hai	Star Plus
9	Madhubala	Madhubala	Colors
10	Maharana Pratap	Maharana Pratap	Sony

Source: Characters India Love - Ormax Media

Top characters 2013 - Non-fiction

Rank	Character	Show	Channel
1	Kapil Sharma	Comedy Nights with Kapil	Colors
2	Amitabh Bachchan	Kaun Banega Crorepati	Sony
3	Salman Khan	Bigg Boss	Colors
4	Madhuri Dixit	Jhalak Dikhhla Ja	Colors
5	Gauhar Khan	Bigg Boss	Colors
6	Anoop Soni	Crime Patrol	Sony
7	Rannvijay	MTV Roadies	MTV
8	Sanjeev Kapoor	MasterChef Kitchen Ke Superstars	Star Plus
9	Raghu	MTV Roadies	MTV
10	Shreya Ghoshal	Indian Idol Junior	Sony

Source: Characters India Love - Ormax Media

Another trend in Hindi GECs which has taken root in 2013 is segmentation of the prime time. Most channels are making a clear distinction among the prime time slots to target different groups at different times to maximise their TV ratings.

Hindi GECs are looking at slicing and dicing the prime time band to generate maximum TV ratings. While 6-9PM slots on weekdays are targeted at semi-urban audience, 9-11PM slots on weekdays are targeted at the metro audience. Similarly, early prime time slots have female centric programming, while the latter slots have more of a family viewership quality, with something that will engage the male audience as well.

- Ekta Kapoor
Joint Managing Director,
Balaji Telefilms Limited

Over the past couple of years, broadcasters are also increasingly focusing on the under-served male audience as evident in the increasing number of crime and adventure related shows such as 'Crime Patrol' (Sony), 'Savdhaan India' & 'Shapath' (Life OK), '24' & 'Shaitaan: A Criminal Mind' (Colors), 'Fear Files' (Zee TV) and 'Arjun' (Star Plus). The previous year had also witnessed the launch of male-centric action adventure channel, Big RTL Thrill.

Male audience has been ignored with most TV programmes targeting women. There is a definite gap that is being noticed now. This can be seen in the rise of comedy, popularity of shows such as Crime Patrol & Savdhaan India, huge investments in sports and production of 24, a male centric show. The need is for content which engages the male viewership without alienating the female audience.

- Shailesh Kapoor
Co-Founder & Chief Executive Officer,
Ormax Media Private Limited

Top 10 Fiction Serials on Hindi GECs - 2013

Rank	Serials	Channel	Average GVT
1	Diya Aur Baati Hum	Star Plus	9,696
2	C.I.D.	Sony	8,944
3	The Adventures Of Hatim	Life OK	7,564
4	Jodha Akbar	Zee TV	7,391
5	Fear Files	Zee TV	7,358
6	Yeh Rishta Kya Kehlata Hai	Star Plus	7,330
7	Balika Vadhu	Colors	7,066
8	Pyaar Ka Dard Hai	Star Plus	6,997
9	Saathiya Saath Nibhana	Star Plus	6,882
10	Qubool Hai	Zee TV	6,227

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Top 10 Non-Fiction Serials on Hindi GECs - 2013

Serials	Channel	Average GVT
DID Super Moms	Zee TV	17,114
Comedy Nights With Kapil	Colors	16,056
Indias Best Dramebaaz	Zee TV	15,214
Maruti Suzuki Dance India Dance-4	Zee TV	15,164
Nach Baliye 5	Star Plus	14,945
Oral-B DID Super Moms	Zee TV	14,691
Jhalak Dikhhla Jaa	Colors	13,017
Indian Idol-Junior	Sony	12,475
Bigg Boss Season 6	Colors	11,498
Bigg Boss Saath 7	Colors	10,799

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Top 10 Hindi films on Hindi GECs - 2013

Movie	Channel	TVTs
Chennai Express	Zee TV	19,541
Khiladi 786	Colours	10,390
Dabangg-2	Star Plus	9,828
Son Of Sardar	Star Plus	9,151
Boss	Colours	8,644
OMG Oh My God	Colours	7,777
Student Of The Year	Sony	7,632
Yeh Jawaani Hai Deewani	Sony	6,995
ABCD (Any Body Can Dance)	Zee TV	5,571
Aashiqui 2	Sony	5,238

Source: TAM; HSM 4+ Week 1 to 52, 2013; 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

Sustained movie acquisition by broadcasters

Broadcasters continue to invest in movie acquisition with the upper limit for a single film deal increasing from the INR 200 million range to the INR500 million range over the past few years.[19] Broadcasters are now entering into multi-movie deals with studios and actors to build up an inventory of fresh films. Star India inked a deal valued at INR4[20] billion with Ajay Devgn for exclusive satellite rights of all his releases till 2017. This follows a similar pact between Star India and Salman Khan for around INR 5[21] billion for the latter's films for a period of five years.

Zee Entertainment Enterprises (ZEE) acquired a marquee property in 2013, 'Chennai Express', in a deal valued upwards of INR400[22] million plus for seven years. The 'Chennai Express' deal linked the satellite rights price to the film's box office performance with the producer reportedly getting an additional INR20 million for every INR 100 million the film made at the box office over and above the cutoff of INR1,300 million. As per news reports, the network earned an estimated INR150[22] million from the film's world premiere. Multi Screen Media (MSM) has a line-up of A-lister movies to premier in 2014 having bought C&S rights for 'Goliyon Ki Raasleela Ram-Leela', 'Krishh 3' (for INR380 million[23]) and 'Dhoom 3' (for INR750 million[23]). Dubbed versions of South Indian films continue to do well and films starring A-listers of South Indian cinema are now being sold at INR50-70 million up from INR20 million.[19]

The time interval between a movie's theatrical release and its TV premier has declined considerably as broadcasters and producers want to capitalise on the freshness of the film in the viewers' mind and minimise the impact of piracy. Broadcasters are also promoting movie premiers in a big way using print, television, outdoor and digital media. The large national networks are currently procuring 20-25[24] fresh movies a year each with a big and a small film premiering every month. While competition among the large TV networks for acquisition of movie rights remains high, some broadcasters have indicated that they may be less aggressive than earlier and will buy movie rights only at the right price.

Costs of acquiring movie C&S rights continued to increase in 2013. At this rate, movie rights are becoming economically unviable and generate negative ROIs for the Broadcasters. We will need to evolve more rationale success-linked movie acquisition criteria.

- Sudhanshu Vats
Group Chief Executive Officer,
Viacom 18 Media Private Limited

19. Industry discussions conducted by KPMG in India
20. Ajay Devgn in Rs 400-crore pact with Star India for movie rights, The Economic Times, 4 March 2013
21. Salman Khan signs Rs 500 cr TV rights deal with Star India, Firstpost.com, 23 January 2013
22. Zee buys satellite rights of Chennai Express for its upcoming channel '& Pictures', The Economic Times, 1 August 2013
23. Bollywood battles for the small screen satellite rights to outshine each other, India Today, 25 December 2013
24. Industry discussions conducted by KPMG in India

Hindi Movies

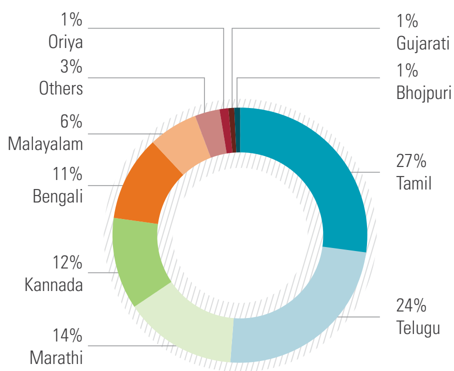
Hindi Movies accounted for a viewership share of 15.1[25] per cent in 2013, making it the second largest genre after Hindi GEC. This genre is highly competitive with a plethora of channels competing for viewership and advertising, while competition for fresh content is pushing up movie acquisition costs. Most movie channels of the large broadcasters are delivering 50-60 GRPs per week, down from over 100 GRPs for the leading channels a few years ago.[26] Our industry discussions indicate that the 12 minute ad cap is another reason why broadcasters are introducing flanking movie channels so as to monetise the same content through additional advertising inventory. ZEE launched another Hindi movie channel '& Pictures' in 2013.[27]

In spite of the challenges of a fragmented viewership and advertiser base, networks continue to invest significant sums in acquiring new movies and premier them either on their GECs or their movie channels. As the competition in the genre intensifies further, channels will look at differentiating themselves by establishing a niche within the genre and offering a better consumer experience through interactivity and content innovation.

Regional Entertainment

Regional entertainment channels comprising mostly of Regional GECs, Regional Movies and Regional Music accounted for 23 per cent viewership share in 2013, lower than the 26.4 per cent in 2012.[25] Similar to HSM, Regional GECs are the dominant genre with 18 per cent share followed by Regional Movies which accounted for 3.4 per cent of viewership in 2013.[25]

Viewership share of regional channels - 2013



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Advertising growth in regional channels in 2013 was weaker than the HSM channels on account of higher ad inventory decline due to the 12 minute ad cap. Unlike Hindi GECs, which had 14-16 of advertising minutes per hour before the 12 minute ad cap, most Regional GECs had 18-22[26] minutes per hour of advertising. The Regional Movie channels had even higher ad minutes per hours, in the range of 22-24[26] minutes, even going up to 30 minutes. As a result, implementation of the 12 minute ad cap had a larger impact on the ad inventory for regional channels.

> The 12 minute cap definitely has a commercial impact on all channels. In the short term channels stand to lose revenue as they will need to cut down inventory during prime time which is sold at a premium. However, in the medium term, one can expect that there will be a battle for space and ad rates will move up benefiting the channels.
>
> **- Ashok Vidyasagar**
> Business Director (South),
> BIG Synergy Media Limited

Notwithstanding the weaker advertising growth for regional channels in 2013, regional markets are expected to continue to outpace the broader national TV advertising market growth. The gap between advertising rates on regional TV and print is more pronounced than national TV and print which makes advertising on regional language channels highly efficient. This gap is expected to reduce over the medium term with increasing localisation in content and advertiser preferences. The key drivers of growth in the regional broadcasting space continue to be richness of content, better cultural fit and better engagement in contrast to overly mass Hindi programming. National advertisers account for 70[26] per cent of advertising on regional channels. Regional channels also stand to benefit more from the successful completion of Phases III & IV of digitisation, especially niche genres in regional languages.

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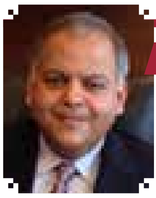
26. Industry discussions conducted by KPMG in India
27. Zee to launch movie channel under new brand '& pictures', The Hindu Business Line, 8 August 2013



There is no better medium than TV if you are a mass marketer wanting to communicate to a large and widely dispersed target audience. Most advertisers on regional channels are large players with a national footprint but who are savvy enough to localise their messaging. The increasing presence of regional film stars instead of Bollywood actors for the vernacular versions of national ad campaigns confirms this trend. The local advertisers who want to target a specific local market prefer other media such as OOH, FM radio or city supplements of national dailies.

- S L Narayanan
Group Chief Financial Officer,
Sun TV Network Limited

Regional TV is hugely discounted and offers tremendous value for money for advertisers compared to regional print and even national-TV. This has become even more obvious after TAM has started reporting GVTs.

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

Regional channels in South India

South India is a key regional market from an advertisement and subscription standpoint since it accounts for more than 35 per cent of all C&S subscribers in the country.[28] The penetration of TV as well as C&S in the South region is more than the all India average. Tamil Nadu has the highest penetration of C&S and the largest advertising market amongst the four states.[28] Sun TV Network is the largest regional broadcaster in India, with leadership positions in three of the four South Indian language markets.[28] Three of the large national networks, Star India, Zee Entertainment and the Network 18 Group all have significant investments in Southern regional markets and are continuing to fortify their presence in regional markets, leading to intensifying competition.[28]

Content mix is heavily focused on fiction and movies in South India. While non-fiction shows have made inroads in the South Indian television market, they still remain a small proportion of the content mix. As per industry discussions, even though non-fiction shows help create marketing buzz about the channel and help advertisers in generating top-of-the-mind recall, they do not generate enough viewership to justify the higher production costs.

In the South Indian TV market, fiction shows continue to be the bread and butter. Non-fiction shows are not only more expensive to produce, they have not managed to garner loyalty and stickiness.

- K Madhavan
Managing Director,
Asianet Communications Limited (Star-Asianet)

Movies play a more dominant role in the content mix on South Indian regional GECs than on Hindi GECs. Apart from showing movies, comedy clips and music from movies also comprise a significant component of the content mix. In the past, Sun TV Network has been the largest purchaser of C&S rights for movies in South Indian languages garnering 70-80[28] per cent share of movies. However, in the recent years, Maa TV in Telugu and Suvarna TV (Star-Asianet) in Kannada have increased competition for C&S rights for movies. Zee Entertainment's South Indian language channels, Zee Telugu and Zee Kannada have also increased their investment in building a movie library. As a result of increasing competition, C&S rights for movies in South Indian regional languages have also increased significantly. In the Telugu market, movie acquisition costs for A-lister movies are now in the range of INR60-70 million, while in the Kannada market it ranges between INR30-50[28] million. Movie acquisition costs in the Tamil market are even higher at INR 110-150[28] million for A-lister movies.

The increase in purchase price of satellite broadcasting rights of South Indian movies is largely due to fewer movies by established stars who command more, perceptible improvement in quality of film making and the rising salaries of directors and other technical experts who are involved in production.

- S L Narayanan
Group Chief Financial Officer,
Sun TV Network Limited

28. Industry discussions conducted by KPMG in India

Adaptation of Hindi shows in regional TV markets

Regional markets are witnessing adaptation of successful fiction and non-fiction shows from Hindi GECs. 'Kaun Banega Crorepati' has been remade in Kannada, Tamil, Malayalam, Marathi, Bengali and Bhojpuri with reasonable success in all the languages. For instance, in the Marathi market, 'Kon Hoeel Marathi Crorepati' powered ETV Marathi's ratings from 36,800 GVTs (Week 3-17) to 49,700 (Week 18-32) in 2013.[29] Kannada version of another large format non-fiction show, 'Bigg Boss', was launched by ETV Kannada in 2013.[30] In fiction, 'Balika Vadhu' has been remade in Kannada, Tamil and Telugu languages and 'Uttaran' has been adapted for the Marathi market.[30] The success of these shows in regional markets is likely to ensure the continuing of this trend in the foreseeable future. However, each regional market has unique audience characteristics that are distinct from the Hindi audience and the ideas for remakes need to be carefully selected in order to be successful. Some regional markets such as Telugu are also seeing widespread adoption of Hindi shows dubbed in the local languages, which result in significantly lower costs while at the same time audiences receive higher production quality of the Hindi shows.[30]

News

The News genre arguably had the most tumultuous year among all television genres. The News genre comprising of general and business news in English, Hindi and regional languages had to navigate through a tough economic environment and adverse regulations. The News genre is heavily fragmented, with 389[31] news channels competing for an estimated INR25[30] billion ad pie. Flat advertising growth, limited or no reduction in carriage fees and low subscription revenues continued to put pressure on the companies in the genre. Most news broadcasters are currently not following the 12 minute ad-cap regulation. News broadcasters are leading the court battle against TRAI's 12 minute ad-cap as they are one of the most affected due to their advertisement-heavy revenue mix. News channels expect their top lines to be severely stressed if they are required to bring down their existing ad inventory from 20-22[30] minutes to 12 minutes.

Many companies such as Network18 Media & Investments Limited, NDTV Limited, Zee Media Corporation Limited, Bloomberg TV India Limited and BAG Films & Media Limited saw layoffs, restructuring and reorganization. With a focus on cost efficiencies, this year also saw the emergence of Integrated Newsrooms wherein a centralised team of journalists and crew serves print, TV and digital properties of a network, leading to a flatter and more efficient newsroom.

News channels have been trying to optimise on costs by being conservative on infrastructure spends and curtailing employee costs through hiring freezes. However, for the news business to become truly profitable, carriage costs need to go down further and digitisation benefits need to start flowing through. Though carriage fees have come down in 2013, the decline has not been in line with expectations.

- Ashok Venkatramani
Chief Executive Officer, Media Content & Communications Services (ABP News)

The upcoming Loksabha elections in 2014 are expected to boost the advertisement revenues of the new channels with ad rates for political advertising nearly 30 per cent higher than the average ad rates.[30] However, challenges continue to persist for the news business and much depends on the legal outcome on the ad-cap case, reduction in carriage fees and scheduled completion of digitisation.

Regional news

In 2013, viewership share of Regional News stood at 3.6 per cent, lower than the 3.8 per cent in 2012.[32] While the growth may have slowed down marginally, the Regional News space is still a high growth space. The ratio of local to national advertisers is in the range of 25-45[30] per cent for different markets, with the share of national adveriters being on the higher side in Marathi and Bengali markets.

Language differentiated news channels have higher viewership than national Hindi News channel in the region while regional/local news channels in Hindi compete with National News channels in their regions.

- Bhaskar Das
Group CEO,
Zee Media Corporation Limited (ZMCL)

There seems to be a growing trend of state-specific, local news channels, leading to further fragmentation of the ad pie. ZMCL acquired Prakash Jha's Maurya TV and re-launched it as Zee Purvaiya for Bihar and Jharkhand markets, following it up with the launch of Zee Kalinga for the Odisha market.[33] The Sahara India group launched state-level news channel 'Samay Rajasthan'.[34] For established news broadcasters, the incremental capex of launching a state specific/regional news channel is expected to be in the range of INR150-170[30] million while annual operating costs would be in the range of INR180-250[30] million per annum depending on the amount of programming and local news content in the news channel.

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29. After the successful game show, the channel has launched two fiction shows to replace KHMC but will also target to strengthen other slots, Afaqs.com, 9 September, 2013
30. Industry discussions conducted by KPMG in India
31. 786 licensed Indian channels as on 31 January, Indiantelevision.com, 31 January 2014
32. TAM; Week 1 to 52, 2013; 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
33. Zee Media launches Zee Kalinga in Odisha, Indiantelevision.com, 3 February 2014
34. Sahara launches its 'Samay Rajasthan' channel, Saharasamay.com, 18 September 2013

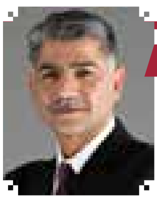
News content is fast becoming hyper local and state-specific and is being rapidly consumed in the regional languages.

- Jagi Panda
Managing Director,
Ortel Communications Limited (Odisha TV)

Kids

The Kids genre continues to be the largest after the Hindi and Movies, contributing 7.5 per cent of the viewership share in 2013.[35] Industry discussions indicate that advertising revenues in the Kids genre grew between 5-7 per cent in 2013. Advertisers from varied categories such as FMCG, automobiles, laptops, mobile phones, beverages and stationery advertise on Kids' genre channels.[36] However, the genre continues to be under-indexed with 7.5 per cent share of viewership but only 4.2 per cent share of the advertising revenue pie.[35]

The proportion of local content in the content mix is on the rise buoyed by increasing demand of Indian content as evident in the popularity of shows such as 'Chhota Bheem', 'Motu Patlu', 'Roll No. 21', 'Pakdam Pakdai' etc. However, creating local content remains challenging even though there is plenty of mythological and historical literature to reference as content creators need to keep political, cultural and religious sensitivities in mind. As per industry discussions, content costs for the genre range between INR1.5 to 2 million per 30 minutes of programming which is higher than that of most fiction shows on Hindi GECs. Developing content for Kids genre has a long gestation period and it takes several seasons to monetise the investment in animation and develop characters that become popular with the target group. According to industry participants, content trends in this genre are very dynamic and at present, localised content with a lot of action seems to be the preferred choice by viewers.



Proportion of local content in Kids programming is on the rise and currently contributes around 20-25 per cent of programming. However, developing content in Kids genre has a long gestation period and creating a pipeline of content takes time.

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

With parity in distribution across India, the choices that kids have at the press of a button are limitless and broadcasters need to keep in mind that compelling story telling, endearing characters and great quality animation created along the way is what will tick with kids today. Digitisation has enabled broadcasters to offer customised content catering to kids from tots to teens. Having said that, comedy, humour and action continue to be at the core of kids programming.

- Nina Elavia Jaipuria
Executive Vice President & Business Head – Kids Cluster, Viacom18 Media Private Limited

35. TAM; Week 1 to 52, 2013; 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
36. Kids' is the number 3 priority genre in Indian television today, Indiantelevsion.com, 24 July 2013

Local animated TV Series on Kids genre channels

Series Name	Broadcaster
Roll No. 21	Cartoon Network
Kalvakra Returns	Cartoon Network
Chhota Bheem	Pogo
Kumbh Karan	Pogo
Galli Galli Sim Sim	Pogo
Motu Patlu	Nickelodeon
Pakdam Pakdai	Nickelodeon
Keymon Ache	Nickelodeon, Sonic
Vir The Robot Boy	Hungama TV
Chorr Police	Hungama TV

Source: Compny websites, KPMG in India analysis

Going forward, the Kids genre is likely to see more localization and sub-segmentation of content along the lines of age, gender and language as the benefits of digitisation become real and channel carriage costs come down. This genre is also ripe with opportunities for innovation and creating additional revenue streams through brand extensions into films, gaming, merchandizing, licensing of characters and on-ground events.

English entertainment

The English entertainment space, comprising of English GECs and movie channels, has made significant gains from Phase I and II digitisation with viewership increasing by 40[37] per cent in the 8 metros since digitisation. Digitisation has widened the scope of English entertainment by making quality content available across the country. The genre enjoys premium SEC A viewership which helps it garner a disproportionate share of television ad revenue vis-à-vis its total viewership. The genre has been traditionally over-indexed as it corners 4 per cent of ad revenues with 1.1 per cent share of viewership.[38] In the English GEC segment, the ability to garner relevant eyeballs and generate buzz around the show matter more than ratings.

2013 saw a number of new channel launches in the English entertainment genre – Star Movies Action, HBO Hits, HBO Defined, Star World Premiere and Romedy Now. These new offerings are a manifestation of broadcaster efforts to build niche competencies in order to differentiate themselves in a fragmented environment. Apart from pure English GECs, English movies channels have also started showing English TV programming – AXN, HBO Hits, HBO Defined and Romedy Now show movies as well as TV series.

Networks are now developing premium offerings to move to a subscription based business model given that majority of their revenues come from advertising currently. Programming strategy on English GECs has seen a change in order to give viewers access to content as it airs in the United States. This was important since English GECs were losing to online viewership and downloads on account of delays in telecast of shows in India. Channels such as Star World Premiere HD, HBO Hits and HBO Defined give Indian viewers access to American television content in high definition at nearly the same time as it is telecast in the United States. Given the high content costs and the current low ARPUs, industry participants believe that premiumisation is required to pave the way for a subscription driven revenue mix to improve the financial viability of English entertainment channels.

Digitisation has opened up the doors for subscription-driven premium content, especially in English entertainment. The customer response to subscription-based HD channels has been impressive. There is customer appetite for paying subscription fees as long as there is good quality content.

- Monica Tata
Managing Director,
HBO India

A la carte English Entertainment channels

Channel	Broadcaster	Subscription Price (INR per month)
HBO Defined	HBO Asia	INR 45 for SD INR 90 for HD
HBO Hits	HBO Asia	INR 45 for SD INR 90 for HD
HBO Defined & HBO Hits combo	HBO Asia	INR 79 for SD INR 99 for HD
Star World Premiere HD	Star India	INR 60

Source: Company websites, KPMG in India analysis

37. Why English-language Channels are Growing, Business Today, Business Today, 10 November 2013
38. TAM; Week 1 to 52, 2013; 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

Sports

TIn terms of viewership, the Sports genre's share increased to 2.6 per cent of the total viewership in 2013, from 2.2 per cent in 2012.[39] IPL 2013 performed better than IPL 2012 in spite of the controversies around it. MSM is reported to have earned between INR9-10 billion[40] in the sixth edition of the league in 2013, a significant jump from the INR7.5 billion[41] in the previous year. The Sports genre faced some heat due to sharp depreciation in the Indian rupee as payouts for sports rights are in dollars.

The Sports genre had an eventful year in 2013 with every major player renewing their investments in content. Acquisitions of sports television rights continued to be driven by cricket but rights for non-cricket sports also picked up, primarily football. The foray was led by Star Sports which announced an investment of INR200 billion over the next five years to expand sports coverage in India.[42] The company phased out the ESPN channels and underwent a rebranding exercise across its network naming its six channels as Star Sports 1, Star Sports 2, Star Sports 3, Star Sports 4, Star Sports HD 1 and Star Sports HD 2. Star India paid close to INR2 billion[43] to become the sponsor for the Indian cricket team starting 1 January 2014 to 31 March 2017 and followed it up by licensing digital distribution rights for the 2014 edition of the IPL from Times Internet Limited. This follows Star India's acquisition of television and digital rights to domestic and international cricket from the Board of Control for Cricket in India (BCCI) until 2018 for INR38.5 billion in 2012.[43] The network is also looking at developing non-cricket sports properties such as the Indian Super League (Football), Hockey India League and the Indian Badminton League.[42]

Apart from the investments from Star India, TEN Network acquired broadcast and production rights of cricket played in Sri Lanka till 2020 for around USD 60[44] million while Sony Six clinched the deal to broadcast all international events of FIFA for a period of five years including the football world cups in 2014 and 2018.[45]

Key Sports events rights acquired in 2013

Sport	Tournament / Fixture	Broadcaster Group	Contract Tenure
Cricket	IPL Digital Distribution	Star Sports	2014
	International cricket played in Sri Lanka	Ten Network	2014-2020
	Pakistan v/s Sri Lanka in UAE	Sony Six	2013
	India New Zealand Cricket Series (2014)	Sony Six	2014
	Asia Cup	Star India	2014
Football	FIFA World Cup	Sony Six	2014 & 2018
	UEFA European Football Championship (EURO)	Sony Six	2016
	FIFA World Cup Qualification	Sony Six	2014
	UEFA EURO 2016 Qualification	Sony Six	2016
	FIFA Confederation Cup	Star India	2013
	FIFA World Cup 2018 European Qualifiers	Sony Six	2018
Others	Australian Open	Sony Six	2015 – 2019
	Summer Olympics Rio de Janeiro, Brazil	Star India	2016
	Winter Olympics Russia	Star India	2014
	Youth Olympic Games	Star India	2014
	Super Fight League	Star India	2013 – 2017
	TNA Wrestling	Sony Six	
	Tour De France	Ten Network	Till 2016

Source: Press releases, KPMG in India analysis

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40. Slashed rates help IPL get more sponsors, Livemint.com, 16 March 2013
41. IPL ends in style, but loses sheen, Hindustan Times, 28 May 2012
42. Star to invest Rs 20,000 crore to expand sports coverage in India, Times of India, 6 November 2013
43. Sahara out as Star India gets to sponsor Indian cricket team, Livemint.com 9 December 2013
44. Ten Sports bags SLC broadcast and production rights until 2020,Islandcricket.lk, 6 July 2013
45. SONY SIX bags exclusive rights for FIFA till 2018, Indiantelevision.com, 15 January 2014

Investment in rights for Sports events is more of a hygiene factor and all serious players would have long term contracts for the same. However, the need of the hour is investment in infrastructure - equipment, studio, master control room etc. - to enhance viewership experience.

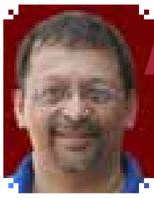
- Rajesh Sethi
Chief Executive Officer,
Sports Business, ZEE

Sports broadcasters are increasingly focusing on developing a regional play to expand their audience base. After Hindi, Star Sports is reportedly planning to launch regional sports channels for the Marathi, Bengali and Tamil market. MSM has had a Hindi feed for the IPL and Ten Sports ran a parallel Hindi feed for India-South Africa Cricket Series and the Junior Hockey World Cup in 2013. Sports broadcasters expect regional consumption and non-cricket properties to drive the next phase of growth in the Indian sports genre.

Music

The Music genre occupied a 3.6[46] per cent viewership share in CS 4+ All India and a 7.2[47] per cent share in CS 15-24 ABC HSM in 2013. The genre was given a jolt with TRAI's 12 minute ad cap regulation given its strong dependence on ad revenues and an existing ad inventory of ~20 minutes per hour. Music channels are actively involved in the legal challenge to TRAI's 12 minute ad cap regulation order and have obtained a temporary reprieve from the Delhi High Court. Industry discussions revealed that ad rates largely remained flat for all major channels.

The Music genre has benefitted from digitisation with increased shelf space for music channels driving penetration in untapped markets. Regional and youth music consumption have emerged as attractive avenues for players in the genre. Channels are attempting to create an identity for themselves through innovation in content and packaging and enhanced consumer engagement via digital media in order to break free from the cluttered music space. MTV's 'Unplugged', 'Coke Studio' and 'Soundtrippin', Mastiii's 'Golden Era with Annu Kapoor, Sony Mix's 'Mix Solos' and 'Mix Voices', and MTunes' 'MOriginals' and 'Off The Record' are some notable examples of music channels' endeavour to develop niche and differentiated music offerings for consumers.[47]



In my view, the genre of Music and Youth channels are two separate entities and are not an either/or option. Music in India, unlike in other parts of the world, is largely an offshoot of cinema. As long as cinema in India thrives, music which is a microcosm of the movies that they represent will always be popular. Add to it the popularity of TV as an entertainment medium in India, and you have the case for Music on TV. From a profitability perspective too, pure play music channels are certainly more attractive. While youth channels may provide additional stickiness on account of continuity of storylines and/or themes, the newness of music on regular basis (linked to movie releases) provides the impetus to keep watching music on television.

- Pradeep Guha
Managing Director,
9XM Media Private Limited

Given that most of the music channels are FTA, the outcome in the 12 minute ad-cap petition will be critical for the Music genre in 2014. Industry also expects to benefit from Phases III & IV of digitisation through increased reach and reduction in carriage fees.

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47. 2013: Music channels hunt for the right formula, Televisionpost.com, 31 December 2013

Lifestyle and Infotainment

With a viewership share of 1.2 per cent, the Lifestyle genre accounted for 2 per cent of the advertisement revenue in 2013.[48] This genre continues to evolve with increasing focus on localisation and regionalisation of content, repositioning of offerings and a more pronounced role of food-related content in channel content mix.

Food content on Lifestyle channels has been increasing and more than 50 per cent of Lifestyle category is now dominated by Food. Even GECs are trying to capitalise on the interest in the Food segment through shows such as Masterchef on Star Plus and Kitchen Khiladi on Sony.

- S K Barua
Chief Operating Officer,
FoodFood

NDTV Good Times underwent a rebranding exercise to develop a youth-centric play. The channel changed its tagline from 'Live the Good Times' to 'Live Young'. The channel is also extensively using social media to develop a better connect with its audience and has segmented its shows into bands such as style, food, travel and reality at specific time slots. FoodFood underwent a rebranding exercise as well changing its tagline from 'Khushi ke recipe' to 'It's sizzling' as it added lifestyle elements such as leisure, travel and healthy cooking to its food centric programming. TLC carried forward its content focus launching 25 new shows in 2013 including original productions like 'Style Inc. with Aalim Hakim', 'Ravinder's Kitchen' and 'Trinny and Susannah's Makeover Mission India'. This genre's advertisement revenues came under pressure like the rest of the industry due to economic slowdown. Cost of carriage has come down but industry expects further reduction. Digitisation has benefited this genre and are hopeful of a boost in subscription revenues as the digital eco system gets entrenched further.

Content production

The TV content production industry in India is estimated to be INR 20-25[49] billion in size. However, it is extremely fragmented with ~6,000[49] producers in the fray and most producers producing only one or two shows at a time. Given the highly creative nature of the industry, the barriers to entry are extremely low and this is unlikely to change any time soon. Only a few production houses such as Balaji Telefilms, Endemol, Big Synergy and Fremantle have managed to break into the INR1 billion club of content producers while other such as Sphere Origins, Optimystix and Contiloe Films are in the INR0.4-1 billion range.[49]

Increasing number of original programming hours

As Hindi GECs vie for highest overall weekly rating points they are increasing their original programming hours. The 12 minute ad cap is also expected to lead to an increase in fresh programming since ad inventory per hour is fixed and the only way for channels to increase ad volumes is by adding more hours of original content.

Going further we expect more increase in programming hours in the Hindi GEC space. Prime time now starts at 6pm instead of 7pm on Star Plus and other Hindi GECs are also expected to follow suit by the end of 2014. Afternoon programming hours are also making a comeback. Even other genres are seeing an increase in programming with Channel V showing fiction shows and Kids genre channels such as Pogo and Disney starting non-animation shows.

- Sunjoy Waddhwa
Chairman and Managing Director,
Sphereorigins Multivision Private Limited

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49. Industry discussions conducted by KPMG in India

Increasing production costs and higher investment in quality

Cable digitisation is expected to create significant opportunities for content providers, including:

- Existing channels investing in more content, and upgrading content quality.
- Narrower targeted offerings to segments which are currently under-served by one size fits all offerings, which will require more localised content.
- Launch of new premium channels that may see a viable business case on the back of reduced carriage fees and customer appetite for paying premium ARPU for quality content.

The increase in programming costs is not just inflation linked but also linked to improvement in production quality and high competitive intensity.

- Jay Sampat
Group Strategy Head,
Balaji Telefilms

Content producers believe that content is under-invested currently but with the expected digitisation-led improvement in economics, investment in content will grow. This is true for the regional space too, especially in South India.

The regional language TV industry is undergoing a major transformation. Today channels are willing to invest around INR0.5-1 million or even more per 1 hour episode for non-fiction shows on South Indian language channels. Though this is still lower than non-fiction content costs in HSM, this shows that players are willing to invest in programs with high production quality.

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

Owning IP rights to lead to scaling up

A majority of the TV programmes produced in India are commissioned, which means that the IP rights for the content and the characters remain with the broadcaster. Increasingly, content producers are recognising the need for owning IP rights for content so as to be able to monetise it better through – i) licensing content and formats in international markets, ii) dubbed or remade versions on regional language channels, iii) digital media. This would lead to TV content producers scaling up since they can then create formats that can be exported to international markets.

India is one of the biggest TV markets in the world. While there is consolidation in the broadcast industry (Zee, Star, Sony, Sun, Viacom etc.) and the distribution business, the content industry is extremely fragmented with only few players like Balaji Telefilms having many shows airing at the same time. Of the programming created, majority is commissioned and every major broadcaster in the Hindi space owns the IP rights; as opposed to the film industry where Balaji owns the IP of every film we make. This is indeed a big deterrent, as not owning IP does not allow us as content providers to get the maximum monetization for our creativity. Being pioneers in the industry we are working on various models where we can retain IP so that we can have better multi-platform monetization going forward. Ownership of IP is a critical requirement for the fragmented content industry to scale up. It will also create an environment where Indian formats and dramas can travel the world.

- Shobha Kapoor
Managing Director,
Balaji Telefilms Limited

Stars moving from silver screen to TV

A number of film stars debuted on the small screen. Anil Kapoor was the star of this transition by making his debut in a remake of the international series '24'. With the popularity of the series, Anil Kapoor raised the bar for film actors trying to make their way into the small screen. Bollywood actors Anupam Kher, Shabana Azmi, Rahul Khanna and Richa Chhada also had cameo performances in the show. Veteran actor Poonam Dhillon made her comeback to the small screen in a daily soap, 'Ek Nayi Pehchaan'.[50] Salman Khan has continued to host the 'Bigg Boss' series, Amitabh Bachchan returned with 'Kaun Banega Crorepati', while Aamir Khan will return to host 'Satyameva Jayate' in 2014. Other movie actors such as Shilpa Shirodkar in the serial 'Ek Mutthi Asmaan', Ruslaan Mumtaz in 'Jee Le Zara', Rahul Dev in 'Devon Ke Dev Mahadev' made their debuts on the small screen in 2013.[51]

2014 is expected to see Kajol working in a crime show directed by Rensil D'Silva and Amitabh Bachchan roped in for Anurag Kashyap's TV show focusing on social issues.[52] This trend of movie stars making the transition to the small screen is likely to add to the content production costs for channels.

50. 2013: Bollywood stars made small screen glitter, The Economic Times, 29 December 2013,
51. From Anil Kapoor to Rahul Dev: Film Stars debuting on TV in 2013, DNA India, 30 December 2013
52. Is TV a 2nd innings for Bollywood stars, The Times of India, 3 December 2013

Other Themes in 2014 and going forward

Disaggregation of broadcasters

Over the past two years, the TV industry had witnessed a trend of broadcasters coming together to consolidate their distribution functions, to improve bargaining power with MSOs and DTH operators for negotiating subscription revenue deals and carriage costs. This had led to MSOs and DTH operators complaining of cartelization from major Indian broadcasters and having to pay for weaker channels that were being bundled together with the stronger channels by the aggregators.

The TRAI regulations over channel aggregators will help the MSOs reduce the burden on subscribers. Currently MSOs are compelled to carry unwanted channels which are bundled together. In the existing scenario, a Telugu language channel of one broadcaster can be bundled with a Kannada channel of another broadcaster which does not make sense from the customers' perspective.

- Sankaranarayana G
President and Chief Operating Officer,
Asianet Satellite Communications Limited

Channel aggregator	Stakeholders	No. of Broadcasters	Pay TV channels	% of total pay TV channels	Channels owned by stakeholders	% of total channels by stakeholders	Number of most popular channels as per GRP (2013)			
							Top 5	Top 10	Top 20	Top 50
MediaPro	Star-Den and Zee-Turner	15	76	32%	69	91%	2	5	10	21
IndiaCast	TV18, Viacom18, Disney India	8	36	15%	24	67%	1	1	4	11
TheOne Alliance	Multi Screen Media and Discovery	12	28	12%	19	68%	2	3	3	6

Source: TRAI - The Telecommunication (Broadcasting And Cable) Services (Second) Tariff (Tenth Amendment) Order 2014, 10 February 2014, KPMG in India analysis

In response to this, in January 2014, TRAI made changes to the regulatory framework that governs the relationship between broadcasters and Distribution Platform Owners (DPOs) such as MSOs and DTH operators. As per the changes, while broadcasters can continue to use channel aggregators as agents, only broadcasters can publish the reference interconnect offers (RIOs) and enter into interconnection agreements with DPOs. Most importantly, broadcasters should ensure that their authorised agent does not alter the bouquets as offered in the RIO of the broadcaster and in case an agent acts as an authorised agent of multiple broadcasters, the individual broadcasters shall ensure that such agent does not bundle its channels or bouquets with that of other broadcasters. However, broadcaster companies belonging to the same group can bundle their channels. A timeframe of six months has been set for the broadcasters to amend their RIOs, enter into new interconnection agreements and file the amended RIOs and interconnection agreements with TRAI.

While it is still too early to assess the full impact of TRAI's effort to dilute the power of the channel aggregators, as per initial reactions, even if the channel aggregators can continue to act as agents, their bargaining power will be heavily curtailed since they cannot bundle channels of two different broadcasters.

Smaller broadcasters with fewer channels are expected to be affected more from this move, rather than the larger broadcasters with a large bouquet of channels. Smaller players will now have to set up their own distribution teams that will add to their cost base. Also, the negotiating power of smaller players will be reduced since their channels cannot be bundled with those of other broadcasters, tilting the balance of power back to the MSOs and DTH operators.

Evolution of TV measurement

2013 has been an eventful year on the ratings front. Several broadcasters were unhappy with the fluctuations in TV rating points post the addition of LC1 markets, with ratings dropping for some large broadcasters. Many broadcasters discontinued their TAM subscriptions in the middle of the year and the issue was settled only after TAM switched from TVRs to TVTs that would show growth in audiences in absolute numbers.

The broadcasting and advertising industries have long been vocal about the need for more competition in the television ratings measurement service in India. With this objective, BARC was initially registered in July 2010, and was launched in March 2013. BARC is a joint body of advertisers and broadcasters with three shareholders – IBF, AAAI and ISA. IBF holds 60 per cent in the JV, with the balance 40 per cent equity being shared by AAAI and ISA. BARC has been formed on similar lines as BARB (Broadcast Audience Research Board) that compiles audience measurement and television ratings in the U.K. The broadcasting industry has in the past indicated that transparency is a key pillar for BARC, and the latter is looking to segregate the functions of data collection, analysis and reporting between three independent agencies.

BARC has selected Médiamétrie, a French audience measurement company as its ratings partner after evaluating multiple bids.[53] Médiamétrie, as a part of the six year arrangement, will provide technological know-how and licenses to BARC to use it TV metering system already in use in three markets – France, Netherlands and Morocco and assist BARC in metering hardware procurement. The new ratings system expected to be in place by October 2014, will begin by servicing 20,000 panels compared to the existing 9,600 provided by TAM and would gradually increase the panel size to 50,000.[53] This is in line with TRAI television rating guidelines cleared by the Cabinet that stipulate a television ratings provider ought to have at least 20,000 panels and must increase the panel size by 10,000 every year to eventually reach 50,000.[53]

As the industry awaits the operationalisation of the new system, it also faces the prospect of a TV ratings blackout. As per the guidelines for television rating agencies issued on 16 January, 2014, no legal entity either directly or through its associates is allowed to have substantial equity i.e. 10 per cent or more of paid up equity in both broadcasters/advertisers/advertising agencies and rating agencies.[53] TAM Media Research, the sole provider of television audience measurement in India and a joint venture between Kantar Market Research and Nielsen (India) Private Ltd stood disqualified as per this criteria. Kantar Market Research filed an appeal with the Delhi High Court to get a stay order on these guidelines or an extension of deadline to comply with the new shareholding norms. The Delhi High Court has provided some respite to Kantar by extending the deadline by 15 days to comply with the guidelines that include increasing panel size to 20,000 and staying the contentious cross-holding norms. The Court is expected to hear the matter again on 6 March 2014. Industry discussions indicate that, if as a result of the regulations, TV ratings are not available for a few months it will not significantly impact the market leaders in each genre. Advertisers will continue to depend on the background and history of ratings. However, any TV ratings not being available for a longer period is likely to impact TV advertising revenue spend.

TRAI's guidelines on TV rating agencies were along expected lines. However, any ratings blackout for a prolonged period of time is detrimental to the industry. BARC has released RFPs for technology and research to global vendors and is on track to start operations from 1 October 2014.

- Punit Goenka
Managing Director & Chief Executive Officer, Zee Entertainment Enterprises Limited and Chairman, BARC

Looking ahead, the TV measurement systems will have to evolve to include capabilities such as, i) measurement of the impact of deferred viewing (catch up TV), ii) viewership measurement across multiple media as consumption of TV content across platforms rise, iii) integrating social media engagement into audience measurement.

53. BARC to roll out new system from October, Business Standard, 21 January 2014

The Emerging TV Ratings Scenario

BARC's plans and progress

BARC expects the new system to be commercially available later this year. The major operating blocks are in place. Recruiting, training and activating panel homes is a large and time-consuming effort. This exercise will unfold soon and is expected to be complete in good time for a late summer launch.

- **RFPs issued to technology and research partners:** The first major contract that BARC needed to award was for the Establishment Study. This became moot when BARC decided to repurpose the Indian Readership Survey for this purpose. This also ensured that there would continue to be only one reference study for determining audience segmentation. The second and third RFPs were issued for System Technology and Panel Management. Médiamétrie of France won the Technology mandate. Panel Management proposals are currently under evaluation. BARC has also issued RFPs for 'Design, Quality and Analytics' and 'Playout Monitoring'. Proposals are being evaluated and awards will be announced in due course.
- **No. of meters planned:** Planning is more centered on the number of homes to be metered and the number of meters deployed is a derived number. BARC plans to start by metering 20,000 homes in the first stage. After this, 10,000 homes will be added each year until the panel reaches 50,000 homes. At this time, less than 5 per cent of all homes are multi-TV. BARC may require up to 21,000 metering devices to meter the initial panel.
- **Measurement technology:** The current meters are based on audio matching. In the new system, each channel that wishes to be metered adds a special audio encoder that inserts a unique ultrasound code into the audio track. This signal is inaudible to human ears as it lies in a frequency range beyond 20 kHz. The signal continually embeds channel identification and a timestamp into the audio track. This signal can be retrieved by a metering device. Coupled with information about who was watching, BARC gets complete information about what was watched, when and by whom. If the same content is being simulcast by more than one channel, the legacy, audio matching technology is unable to determine source. This problem is eliminated in encoding. In addition, the embedded code survives even if content was not viewed live, or was viewed on a device other than the conventional TV. This ensures that time- and device-shifting can be accurately tracked. As consumption moves to computers, smartphones and tablets, this capability will be critical in ensuring accurate measurement of reach and viewership.

Switch from TVRs to TVTs

The switch from TV rating points to TVTs is a very important step taken by the industry in 2013. While TVRs and TVTs are equivalent in mature, unlike stable markets in the West, the Indian television footprint continues to add millions of new homes every year. By implication, the audience volume represented by 1 TVR increases each year. When KBC Season 3 with Shahrukh Khan as host started airing in 2007, many commentators assessed it less popular than the first season featuring Amitabh Bachchan as the TVRs were lower. This was a wildly incorrect assessment as the underlying audience had grown sizably over the period and KBC 3 actually enjoyed much larger audiences than the previous seasons had. However, the unfair and inaccurate criticism carried the day as we were trapped in relative rather than absolute measures. Contrast this with the US where ratings are always reported in absolute numbers. Super Bowl, the finals match of the US NFL, is America's most watched television event every year. The 2 February 2014 finals this year set a new record of 112.2 million viewers, not 'x' TVRs.

Media planners will be most reluctant to accept the shift to TVTs as it makes it very easy for broadcasters to argue for year-on-year price increases to reflect audience growth. However, this resistance is unsustainable given that the entire reporting mechanism is decisively shifting to absolute measures of audience from relative measures of audience. Given that the audience measure has changed, it will become harder and harder to defend and insist on pricing on the relative measure. There will be plenty of resistance, for sure, but this is only to be expected.

Regulation on rating agencies:

The regulations, it must be emphasised, are issued by Ministry of Information & Broadcasting, albeit based upon recommendations of the TRAI. It is reported that the incumbent agency has recently applied for registration with the Ministry. The legal challenge by one of the incumbent agency's parents is still pending in Court and as a matter sub judice, more speculation about the regulations is inappropriate.

Ratings blackout as a result of TRAI's regulations appears to be a matter of great worry for many commentators from the advertising value chain. It is very important that the transformational exercise being undertaken by the JIC created specially to administer television audience measurement, BARC, be allowed to run its course. This is truly a once-in-a-generation undertaking and impatience will be counterproductive. Anxiety about a 'ratings dark' hiatus will, in hindsight, prove misplaced as the new system will more than justify the time, effort (and heartbreak) that went into establishing it.

Evolution of rating points in the future:

The main evolution over the next three years is going to be wider and deeper coverage of the fast expanding audience for conventional television. Looking beyond, it become clear that audiences consuming content on alternative, personal devices will continue to grow by double-digit percentages and even pure-play online content will attract such sizable audiences that it will demand agnostic measurement. PCs, Smartphones and Tablets will be the new frontiers for measurement and we will shift to thinking measurement of audiovisual (AV) content rather than television (TV) content.

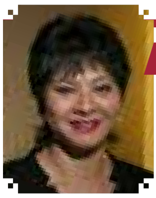
Paritosh Joshi
Member - TechComm, BARC and
Principal, Provocateur Advisory

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

Online viewing of TV content

Consumption of TV content on screens other than the television, such as PCs, mobile phones and tablets is a growing phenomenon. Online video viewership has witnessed significant traction in India, with 60[54] million people having watched online videos on their PCs, a growth of 16[54] per cent between December 2012 and December 2013, indicating the growth potential for online viewership of TV in India. Further growth in online consumption of TV content is dependent on developments across different aspects of the ecosystem – content, platforms, devices, data services and payment mechanisms.

Broadcasters are looking at various options to make their content available to users on multiple screens, including YouTube. YouTube accounts for 58 per cent of online video viewership in India and the YouTube channels by the top 4 Hindi GECs – 'starplus', 'colors tv', 'zeetv' and 'setindia' – are among the top 10 YouTube channels in India.[54] Most channels seem to be focused on making available existing long format TV content for online viewership. However, re-purposing TV content as short format videos, suitable for watching on wireless connections on smaller screens is expected to be the way forward.



Cross platform distribution is the way forward for the sector. For content owned by channels, there is an opportunity to exploit the vast content library by way of selling the raw footage in terms of one minute videos or stills taken of locations etc. The price range for such content is expected to be derived from international standards.

- Smeeta Chakrabarti
Chief Executive Officer - NDTV Lifestyle &
Head of Operations - NDTV News

Players across the value chain are attempting to capitalise on consumer demand for watching TV content anywhere, anytime. Multi-screen platform launches by broadcasters such as Sony LIV from MSM India, Ditto TV from Zee Entertainment and Star Player from Star India, has been followed by launch of online/mobile platforms by DTH operators in 2013. Both Tata Sky and Dish TV launched, mobile and tablet apps through which subscribers could watch live TV, catch up TV and video on demand (VoD) for an additional monthly fee. Independent VoD services such as Apalya, Geodesic, Zenga, DigiVive (nexGTV) and Spuul continue to see traction but are yet to see any significant amount of paid user base.[55] There is also an increasing trend of platform owners tying up with device manufacturers to increase the chance of users logging in if the app is already pre-embedded on the device. Favourable trends in device affordability, increasing screen sizes of mobile phones and adoption of tablets continue to make online viewership of TV content more attractive.

54. Comscore, December 2013
55. Industry discussions conducted by KPMG in India

Multi-screen platforms by DTH operators

DTH operator	Availbility	Pricing
Dish TV	Available on Android & iOS devices via mobile app for Dish TV subscribers	Additional fee of INR 69 (Jumbo pack) or INR 29 (Starter pack) per month
Tata Sky	Available on Android & iOS devices via mobile app for Tata Sky subscribers	Additional fee of INR 60 per month

Source: Company websites, KPMG in India analysis

As content availability and technology platforms improve, online distribution could be a key revenue generator for the TV industry. In the short term, monetisation is expected largely through advertising, since availability of cheap content on C&S platforms is a challenge for monetisation via subscription. Given the low prices for C&S TV and the high cost of bandwidth, providing online TV at competitive price points would be difficult for mass adoption. However, for premium and exclusive content subscription revenues can be a big driver.

The ads on digital screens are more targetted and based on user engagement, when compared to those on the TV screen. Advertising on new media platforms are not expected to take share away from TV advertising. Instead, expect new media platforms to grow the ad pie.

- Nitesh Kripalani
Executive Vice-President: New Media, Business Development & Digital/Syndication, Multi Screen Media Private Limited

Challenges for mass adoption of online TV viewing

While platforms and content owners are gearing up for uptick in online TV viewing, broadband availability remains a challenge for large scale adoption of online distribution of TV. Even though accessing content on-the-go is becoming affordable as mobile companies cut prices of wireless data services, speed and coverage of data services continue to be constraints especially for long format TV video content. Launch of the much-awaited 4G services is expected to provide the impetus to online TV viewing. Online TV viewing in India is expected to be mobile-driven in India and skip a couple of steps in the evolution compared to more developed markets.

Skepticism from content owners to license digital rights, piracy and lack of clarity on revenue sharing arrangement are other challenges.

The only thing holding back Digital media is the data speeds and coverage, in spite of which online and mobile viewership has shown impressive growth. On digital media, unique and exclusive content will always get value, while me-too content will not. There is tremendous scope for sports viewership online, given its exclusive nature. However, for monetisation beyond advertising on digital media to pick up, payment mechanisms and piracy issues needs to be resolved.

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

The range of entertainment available for viewers to consume through pirated means on the internet is enormous and rapidly growing. Facilitating technology and pirate business models are evolving at a rapid pace. There are unavoidable leakages and hence continuous protection and safeguard mechanisms are one of the keys for successful IPR Management. MSM has been actively combating with piracy for the last 3 years. We could not find any quantitative and qualitative criteria to measure impact on viewership and revenues by taking down more than 25,000 hours of content until date.

- **Ritesh Khosla**
Vice President – Legal,
Multi Screen Media Private Limited

Multi-screen engagement

In a scenario of heightened competition, broadcasters are beginning to depend on the 'other' screens (PC, tablet, mobile) to increase viewer engagement and stickiness. Across the board, be it GECs, Kids, Music, News or Lifestyle genres, broadcasters seem to be keen on using the online platform for better engagement with their audiences. While multi-screen engagement is still at a nascent stage in India broadcasters and advertisers are both trying to capitalise on this growing phenomenon.

Reality shows with television contests are leading this digital engagement. While earlier, television contests and voting was largely via dial-ins and messages, now most shows provide the option to log on to the channel's website or vote through a mobile app. Channels have also started show-specific websites, where users can participate in contests, watch episodes in part or full, find information on the participants and watch behind-the-screen action.

Over the past couple of years, broadcasters have started using social media platforms as well to increase visibility and viewership. Facebook fan pages and Twitter handles for popular channels, shows and characters have become the norm. The next big thing is 'social TV' where channels encourage viewers to converse on social media about the television programmes they are watching as it helps in pulling in new viewers and makes TV viewing a real-time group experience. Advertisers are also supportive of this growing trend since, social TV can offer better insights, help in campaign optimization and improve effectiveness of ad purchases. In the US, Twitter, Facebook and Google are all vying for each other to capture a share of the social TV market. For instance, Twitter has launched Twitter Amplify, a programme designed to help brands sync up television ads and promoted tweets. Twitter has tied up with several broadcasters for the same and helps amplify social TV conversation with real-time, dual-screen sponsorships and in-tweet video clips from broadcasters.

Given the 15-34 year old target group for music channels, we believe building an aggressive second screen experience something is one of the key differentiators. In addition , social media engagement and not just presence would help channels to build a Tribe of their own in the music space.

- Punit Pandey
Executive Vice President & Business Head, 9XM Media Private Limited

Going forward, social media is also expected to become a fundamental part of how TV shows are measured. For instance, Nielsen has launched a twitter-based TV measurement system in the US to capitalize on the 2-way causal influence between TV viewership for a programme and the conversation around that programme.[56]

International revenues to be driven by advertising and content syndication

While subscription revenue growth has been the mainstay of international revenue growth for Indian broadcasters in the past, advertising revenue is expected to be the main driver going forward, in contrast to the trend in domestic revenue mix. Content syndication in international markets is also emerging as a key revenue stream for Indian broadcasters. While a large part of the international market is for Hindi content, there is sufficient scope for Indian regional language content too in international markets, especially South Indian languages.

In the past, international subscription revenue growth for Indian channels was driven by signing multiple deals with different distribution platform players in a single market. However, subscription revenue growth for Indian channels in several international markets such as US, Canada and Europe has matured. Newer markets such as Middle East and Africa are driving growth in international subscription revenues. Subscription ARPUs vary from market to market, but the premium charged in international markets is quite significant. As per industry discussions, Indian channels earn USD1.5-12 per subscriber, depending on the channel and the country.

Going forward, a larger part of the revenue growth would be driven by reaching out to the local audience in each of these countries. Since the non-Indian audience in these markets, can not be expected to pay a premium subscription ARPU, Indian channels are now looking at expanding business through the ad route by going FTA to attract local audience. Channels are looking at both adding sub-titles and dubbing for localising the content. However, Indian content does not lend itself easily to localisation and adaptation to local context would require understanding of local culture.

Localisation in international markets is tricky as Indian content is not easily transferable to international markets. Entertainment requires understanding of culture and innovation in content to work. Adaptation of the Indian content to local context is much more difficult than in the case of an FMCG product, for instance.

- Sunil Lulla
President - Corporate Development, Bennett, Coleman & Co Limited

56. Nielsen Starts Measuring Twitter TV Ratings, Mashable.com, 7 October 2013

Premium channels offering niche content

Industry movement towards subscription-driven niche channels picked up pace in 2013 with some broadcasters beginning to offer differentiated content catering to sub-segments within their target audiences. While digitisation support for subscription-driven business models is still some time away, a few broadcasters have already taken the lead in launching advertisement free, subscription driven, premium channels. Many of these channels are available only on digital platforms and have shown good traction in subscription. However, overall investment in niche and high quality content remains low.

While there is consumer demand for niche content, lack of monetisation and profitability has resulted in limited investment. Our discussions with industry participants indicate that the cap on ARPUs in the digital system and the 12 minute ad cap put together do not create a good environment for niche channels to thrive. Also, the current system of TV ratings is not able to capture niche channel viewership adequately. Industry discussions indicate that until measurement evolves to truly reflect the viewership of niche content and digitisation results in support for subscription-led business models, it is difficult to monetise this viewership which in turn has led to lower profitability and lower investment in niche content.

While benefits of digitisation in the form of increased subscription revenues and lower carriage costs is expected to come in over the next 2-3 years, broadcasters of non-mainstream channels have already seen positive impact from digitisation in the form of higher viewership leading to better advertising revenue growth.

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

While digitisation has surely led to a substantial subscription revenue uptake, the viability of niche genres on TV is still at least a couple of years away, give the carriage fees imperatives, delay in pass through of digitisation benefits to broadcasters and insufficient ratings representation.

- Achint Setia
Head - Corporate Strategy & Business Development, Viacom18 Media Private Limited

Even as Indian TV industry is catching up on the HD bandwagon, international markets are already looking ahead to 4K Ultra HD (4K) content,which has four times the picture resolution of 1080p Full HD content. [57] 4K content and delivery platforms are expected to gain traction in international markets in 2014.

57. Ultra HD and 4K TV: Everything you need to know, Techradar.com, 11 February 2014

Industry wish-list

TRAI has completed a decade of media regulation but has a long way to go on creating a level playing field for independent media companies. Content disaggregation is a welcome first step. It needs more powers to enforce its diktats.

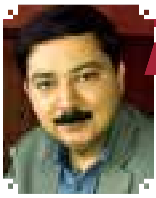
- Ashok Mansukhani
Whole Time Director,
Hinduja Ventures Limited

Entity	Wish-list	Comment
MSOs	Incentives and support from the Government	• Providing infrastructure status to the cable industry will enable easier MSO access to domestic funding critical for successive phases of digitisation. • Custom duty on set top boxes has been doubled to 10 per cent. MSOs indicate that has been done in order to provide a boost to the indigenous manufacturers. • MSOs prefer that instead of MSOs subsidising the subscriber for the increase in STB cost, government provide these local manufacturers incentives and subsidies to enable them to be more cost-competitive vis-à-vis imported boxes. • Reduction in custom duty on digital head-end equipment and STBs will provide a boost to the digitisation initiative.
	Rationalise taxes	• The DTH industry is subject to multiple taxes. The tax levies on DTH industry includes an average of 10 per cent entertainment tax, 10 per cent in license fees, and an additional 10 per cent customs duty on set-top-boxes. • Rationalization of taxes is expected to provide a boost to the industry enabling providers to invest in infrastructure development and subscriber acquisition.

Though improving ARPU and increasing scale has led to an improvement in economics for most DTH operators, DTH industry has been around for more than 10 years with not a single player making bottom line profits. It is high time government takes care of issues around parity with digital cable and high rate of taxation.

- Rohit Jain
Deputy Chief Executive Officer, Videocon DTH

	Timely access to transponder space	• Timely access to transponder space has been cited as a key concern. • Allowing DTH operators to buy transponder space in the open market will enable faster access to transponder space and eliminate capacity constraints.
	Reduction/ removal of customs duty on set to boxes	• Approximately 95 per cent of customer-end equipment (STB and antennae) are imported. • DTH providers would also like to see a reduction in custom duty on digital head-end equipment and STBs.

Entity	Wish-list	Comment
Broadcasters	Delayed implementation of 12 minute ad cap	• The 12 minute ad cap should be implemented only after subscription revenues from digitisation started accruing. • The ad cap for genres such as News and Sports has to be different from that of GECs. Also the ad cap for Free-To-Air and Pay channels should be different.  Though the cap on advertising minutes is in theory good for the broadcasting industry in the long term from the perspective of quality control, the cap needs to get implemented only once the benefits of digitization start to come in. Also the cap on advertising minutes has to be different for FTA and pay channels. **- Gulab Makhija** Chief Financial Officer, Independent News Service Private Limited (India TV)
	Remove cap on channel prices	• TRAI expects broadcasters to declare the retail prices of their channels and broadcasters are allowed a maximum annual increase in retail pricing, which is linked to the inflation index. • Also, while increase in retail pricing has been theoretically cleared, the regulator has so far approved such hike only twice so far and the third increment has been pending with the regulator.  Cap on wholesale prices in the digital system and an incomplete implementation of digitization leads to inefficiencies in monetization for broadcasters & platforms. Pricing should be market driven while discounts and bundling should be regulated, to give the power of choice truly to the end consumer. KYC, CAF, a robust Subscriber management system will bring in transparency, fair revenue sharing, and growth of the TV industry. **- Asheesh Chatterjee** Chief Financial Officer, Reliance Broadcast Network Limited
	Mandate Cost Per Subscriber (CPS)	• In the DAS regime, the government has regulated the revenue share between LCOs and MSOs but not mandated CPS. The government needs to be stricter with MSOs to implement the CPS like DTH operators.  MSOs have shown good performance in rollout of STBs. However, there should be a level playing field between Digital Cable & DTH. Going forward, CPS (cost per subscriber) should become the currency for the TV industry as CPS deals are critical for subscription revenues to grow for the broadcasters & Digital Platforms. **- Gurjeev Singh Kapoor** Chief Operating Officer, Media Pro Enterprise India Private Limited

Entity	Wish-list	Comment
MSOs	Allow bundling of channels by aggregators	• Channel aggregators should be allowed to bundle channels of multiple broadcasters together, at least till the benefits of digitisation start flowing to the broadcasters in the form of higher revenue share. • While there is a 'must provide' clause for broadcasters, there is no 'must carry' clause for distribution platform owners.

If TRAI wants to restrict ad inventory, it should also look at other aspects of the broadcaster business model. There is a perception that channel aggregators may now have less power to negotiate for higher subscription revenues and bring down carriage fees. TRAI had earlier promised to intervene if carriage fees were unreasonable, and had once indicated that a reasonable level would be INR0.5 per subscriber per channel per year. In actual fact, carriage fees are ten times that level, and this is an area where TRAI needs to act.

- Vikramaditya Chandra
Group CEO & Executive Director,
NDTV Limited

Entity	Wish-list	Comment
	Improvement in TV viewership measurement	• Stability in TV ratings and a holistic measurement system that allows for tracking the performance of niche channels as well. • Acceptance of CPT metric instead of the CPRP metric to arrive at advertisement rates is critical since a CPT metric based system better represents the new C&S households added every year.

Post digitisation and the panel expansion into the LC1 towns the ratings have just not stabilised with major fluctuations seen week after week. The GEC genre saw a 20 per cent drop in its overall share, the English movie genre saw a huge increase initially and then a sudden drop, Cricket ratings have seen a huge drop over the last one year. With increased coverage the sample size seems to be small leading it to be instable. The industry is waiting for BARC to happen soon as with the panel size of 20,000 meters from the beginning and with a new robust technology we should get more accurate ratings.

- Rohit Gupta
President - Network Sales, Licensing & Telephony,
Multi Screen Media Private Limited

Entity	Wish-list	Comment
	Issue licenses to new channels	• The MIB should approve new channel launches. There are more than 200[58] channels pending for approvals at the MIB.
Content producers	Higher investment in content	• As digitisation progresses further, content producers would like see higher investment in content. • Limited availability of quality personnel across the value chain constrains the ability of the television industry to innovate and create disruptive strategies for rapid growth.
	Ownership of IP rights	• Content producers want to own the IP rights of programs so that they can monetise the content better, especially on online platforms and international markets. • Also owning IP rights would create enough entry barriers, leading to consolidation in a fragmented industry.

TV content production industry is heavily fragmented today. Currently there are no entry barriers. IP rights and access to key talents can create those barriers. If TV production houses wish to retain IP, they may have to share the business risk.

- Indranil Chakraborty
Chief Operating Officer, BIG Synergy Media Limited

58. MIB slows down licensing TV channels, Cable Quest, 5 December, 2013

Digital Transformation in Broadcasting

The broadcast industry continues to undergo major transformations. Digitization may mean more avenues to reach and engage the consumer – be it traditional or new media. Notwithstanding, the fundamental economic forecast of Broadcasters worldwide remains one of flat revenues and growing costs. India will be no exception to this, as Broadcasters like enterprises in other sectors have to embrace technology for driving outcomes like greater efficiencies, lower cost of operations and new revenues. With content becoming digital files, one of the default choices of technology for Broadcast industry has been Media Asset Management (MAM) to help store and manage the digital content. MAMs are like what database management was to digitized information two decades ago. Learning from technology evolution and adoption in other sectors, it is imperative that MAM is only an essential start. Just as the world of enterprise applications came into being helping digital transformations, M&E sector is waiting for a similar technology revolution.

Over the last decade, the Indian Broadcast industry has grown in scale – with new channel launches and enhanced digital distribution. With the increase in the number of channels (GEC and niche genre specific channels alike), the scale of business operations has grown manifold. To get a sense on the scale, national networks like Zee and Star produce between 9,000 to 12,000 hours of fresh content each, every year, which is about 3 to 4 times what the entire film industry in India produces in a year. Not counting for the production staff, it is estimated that at least 20 to 35 individuals are involved in the orchestration of the various processes for every episode as it finds its way from the Production House to the actual Broadcast play out. This orchestration cannot continue to remain manual in the midst of this scale dovetailed with global expansion (both TV distribution and content syndication) and TV Anywhere initiatives fundamentally driving the need for digital transformation.

Digital Transformation amongst others, have meant bringing together the 35 stakeholders across the digital content supply chain to collaborate on a single technology platform for every episode, every day. This translates in to over a million B2B transactions within Linear TV business for a TV network. This calls for going beyond MAM to managing the orchestration of the various creative business processes.

Just as traditional enterprises embraced enterprise applications like Enterprise Resource Planning (ERP), a new class of applications, deemed Media ERP have become essential to manage content, digitally mediate the various internal and external stakeholders within the content supply chain, and interwork with the other IT systems within M&E organizations. This virtualization holds the key to manage the scale, complexity, speed and efficiency dimensions. This transformation also calls for combined Media and IT skills within Broadcast networks.

So long as there were physical media in the midst, the industry traditionally has been very slow in adopting MAM solutions citing lack of clarity on the Return on Investment (RoI). With the migration to HD and the digital consumer, MAM adoption became imminent. Leading independent software MAM vendors like Dalet, Avid's Interplay MAM, Viz Ardome and Cinegy, and traditional system integrators like IBM, Accenture, HCL and Cognizant were engaged in implementing these solutions for M&E companies. Such implementations called for upfront high capital expenditure and met with little success resulting from the fact that MAM is still not solving key business problems. Prime Focus Technologies (PFT) launched CLEARTM, a Media ERP platform in 2008, which today runs revenue and time critical content operations for the world's biggest broadcast networks like Star, Zee, Bloomberg and Disney, and content owners like BCCI and EROS to name a few. CLEAR was built as a Cloud-based platform, and offered to clients on a SaaS (Software as a Service) basis allowing Broadcast Networks to 'pay as you go'. The other players who have similar Cloud platforms include Tata Communications' Mosaic and Airtel.

This transformation within the Broadcast industry also brings along fundamental changes to post production industry. The zeal for making better content would also mean better sound and picture quality for productions. Virtualization calls for integrated processes and world class infrastructure within production, translating in to modern digital infrastructure and TV Hubs that need to be created to cater to the demand. PFT created True North, a unique TV hub to realise this vision for the industry.

Digital transformation has also meant Broadcasters building Direct to Consumer platforms. The digital consumer has thrown open new complexities for Broadcasters to deal within the IT and online video domain. Star India's digital foray in 2012 to woo the sports fan is a good example of a broadcaster embracing data and video in the presentation of a consumer experience. We will see more such endeavors that will redefine the landscape of TV business.

Broadcasting revenues in the US are expected to remain flat over next 5 years while operating costs are expected to rise at a faster pace due to proliferation of screens. Compared to the West where the Broadcast Operations and Engineering (BO&E) spend as a percentage of revenue is 9.3 per cent, Indian broadcast players spend approx. 4.5 per cent today. By proactively endorsing virtualization of content supply chain operations, enterprise digitization and media process outsourcing, India's broadcast industry can escape the challenges that have bedeviled the US and greatly benefit from enhanced efficiencies, greater organizational agility and sharper focus on the creative product.

The Indian subcontinent with around 150 million TV households, present a lucrative market for broadcasters. And broadcasters in turn require the best of technology innovation to remain competitive as screens multiply epidemically. Globally the market for media ERP solutions and media services is estimated to be about USD10 billion. In India we size the market for broadcast segment alone at roughly INR10 billion and growing steadily.

In order to harness opportunities of the multi-screen revolution, broadcasters require a strategic partner with deep domain-specific insights, utmost flexibility and IT expertise for digitally transforming the business of content. Such a partnership can help them build sustainable businesses in the long term while remaining focused on the core product and core constituent – creative content and the omnipresent consumer across devices, apps and platforms.

Ramki Sankaranarayanan
Founder, President & Chief Executive Officer, Prime Focus Technologies

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

03

Print

Regional rupees

Print industry overview

Summary

Print media market	2011	2012	2013	2013 Growth	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
Total advertising	139	150	163	8.7%	179	199	222	248	275	11.1%
Total circulation	69	75	81	8.1%	85	88	92	95	99	4.2%
Total print market	**209**	**224**	**243**	**8.5%**	**264**	**287**	**313**	**343**	**374**	**9.0%**
Total newspaper revenue	197	211	230	8.7%	250	273	300	329	361	9.5%
Total magazine revenue	12	13	14	4.5%	14	14	14	14	14	0.3%
Total print market	**209**	**224**	**243**	**8.5%**	**264**	**287**	**313**	**343**	**374**	**9.0%**

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

2013: Steady in a volatile market

The calendar year 2013 saw the print industry in India grow by 8.5 per cent from INR224 billion in 2012 to INR243 billion.[01] The growth achieved was slightly better than KPMG in India's estimation of 7.6[02] per cent last year. The long term growth in the sector looks promising with industry players witnessing strong growth and a possible future demand in the regional market.

Even though print media has shown steady growth in the past calendar year, the macroeconomic environment continues to be challenging. The Indian economy has witnessed a slowdown in the growth momentum, clocking an average GDP growth rate of only 4.9 per cent in FY 2013-14.[03]

The slowdown can be attributed to a host of factors, primary among them being the global scenario affecting Indian markets, weakening of the domestic currency contributing to higher deficits, consistently high interest rates and inflation and investment bottlenecks that prevent corporate and infrastructure growth.

Contrary to the prevailing trends in global print media, where there is intense competition from digital media, the print sector in India is showing a strong upsurge. The print industry is expected to grow at a CAGR of 9 per cent for 2013-18, as against estimated 8.7 per cent expected last year.[04] Much of this growth can be attributed to print media's advertising revenues and the faith shown by advertisers in this medium. Most advertisers have shunned their cautious approach, backing the extensive reach and localisation benefits that print offers. Some of the big spending sectors such as FMCG, Retail, and Real Estate have increased their media spend on print this year. Print has also witnessed a boost in its advertising revenues due to the elections in several states this past year. Advertising spends by political parties are expected to benefit the print media in this calendar year as well.[04]

Keeping in view the challenging and competitive environment of the last few years, print media companies have continued to take a very progressive marketing approach. While keeping a tight control on operational costs, they have focused on ensuring that the quality of product was not compromised at all and therefore efforts were concerted on offering more readership delight to customers, which in turn meant providing differentiated, unique and very customised content across all markets. This has served the industry well, because with top consumer brands now focusing on Tier 2 and 3 markets, print companies are able to offer higher effectiveness through a good mix of a high quality content with innovative campaigns. Given the wide diversity of markets covered by regional publications, they have also been successful in driving an agenda of verticalisation of media solutions in a few key categories, viz, FMCG, LifeStyle and Real estate etc, thereby delivering great results to media agency partners and clients.

- Pradeep Dwivedi
Chief Corporate Sales and Marketing Officer,
D B Corp. Ltd.

01. KPMG in India analysis. Industry discussion conducted by KPMG in India
02. FICCI – KPMG Indian Media and Entertainment Industry Report 2013
03. Central Statistics Office, Ministry Of Statistics and Programme Implementation
04. KPMG in India analysis. Industry discussion conducted by KPMG in India

The print industry continued to derive most (94.4 per cent) of its revenues from the newspaper category.[05] The INR14 billion magazine segment had a roller coaster ride this year. Some prominent publishing houses discontinued their magazines this year. On the other hand, specific niche magazines witnessed high growth with their well-defined readership and advertiser base. However, the magazine space in India continues to face growth challenges. The growth in the magazine industry is expected to decline over the next 5 years and may constitute 3.6 per cent of the total print industry.[05]

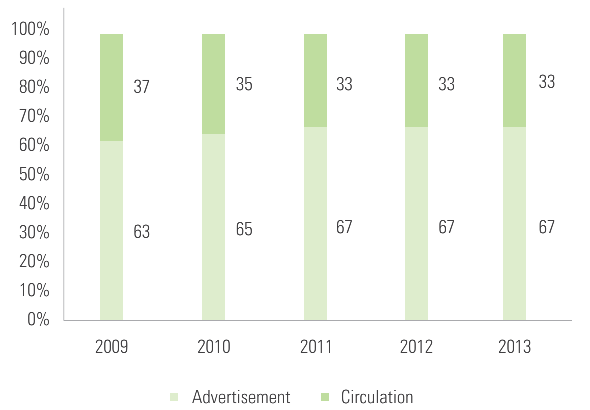
Projected revenues from newspapers and magazines

Revenue contribution	2012	2013	2014p	2015p	2016p	2017p	2018p
Revenue from magazine industry	6%	5.6%	5.2%	4.8%	4.4%	4.0%	3.6%
Revenue from newspaper industry	94%	94.4%	94.8%	95.2%	95.6%	96.0%	96.4%

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

Advertising, as stated earlier, is a prime contributor (67 per cent in 2013) to the total revenue earned by the print sector.[05] However, increased dependency on advertising revenues can hurt the business model of publishers. Taking cognizance of this fact, a few large players have taken a step towards increasing cover prices to bring out balance in the advertising-circulation mix.

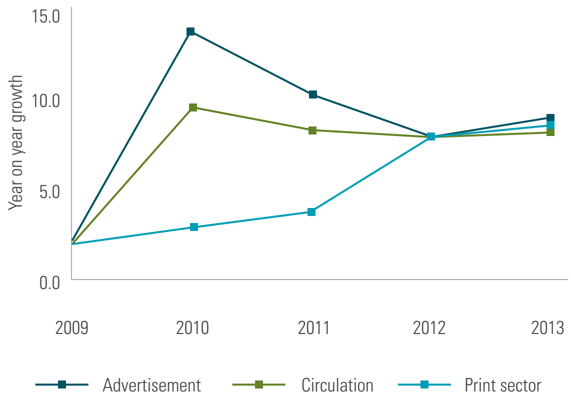
Percentage share of advertising and circulation revenues



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

Growth in the previous year was driven equally by an increase in advertisement and circulation revenues. The drivers for advertisement revenue growth were volume and yield increase. 2013 saw a rise in circulation revenues by 8.1per cent year on year as compared to 7.3 per cent in 2012.[05] One of the primary reasons for sustaining this high growth rate was an increase in cover prices of and launch of newer editions. Most publishers have increased their cover prices in mature markets such as metros and tier I cities.

Print sector growth during the last 5 years



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

While English dailies continued to witness subdued growth in comparison to the overall industry growth, regional and vernacular markets performed exceedingly well on the back of low media penetration, high population growth and rising income and literacy levels. The growth of the overall print industry was, hence, largely driven by Hindi and the vernacular print markets. The Hindi print market grew by 10.5 per cent from INR68 billion in 2012 to INR75 billion in 2013 and vernacular grew by 10 per cent from INR69 billion in 2012 to INR76 billion in 2013.[05]

05. KPMG in India analysis. Industry discussion conducted by KPMG in India

2013 was a year of consolidation for the Print media industry. Advertising showed signs of revival, led by a healthy growth in Hindi print markets despite a difficult economic environment. Our investments in markets like Mumbai and UP are bearing fruit, while our Radio business continues to grow profitably.

- Vinay Mittal
Chief Financial Strategist,
HT Media

Print media market mix

Print media market	2010	2011	2012	2013	Growth in 2013
English Market	79	83	86	91	5.8%
Advertising	53	57	59	62	5.2%
Circulation	26	26	27	29	7.0%
Hindi Market	58	62	68	75	10.5%
Advertising	37	41	45	50	11.3%
Circulation	21	22	24	26	9.0%
Vernacular Market	56	63	69	76	10.0%
Advertising	36	42	46	51	10.8%
Circulation	20	21	24	26	8.5%
Total print market	**193**	**209**	**224**	**243**	**8.5%**

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

Going forward, in 2014, the growth of the industry is expected to be promising with the general elections expected to pump up the growth in the print sector. The print industry in India is estimated to grow by 8.5 per cent in 2014 and reach INR373 billion by 2018, registering a CAGR of 9 per cent. By 2018, the print industry is estimated to contribute for 26.5 per cent to the Indian M&E industry.[06]

However, a vital factor for the industry's future performance will likely be the stability in the overall macroeconomic environment, and publishers' innovating on content as well as distribution to engage with their consumers in a better way. Industry players are expected to continue their focus on optimizing efficiencies, rationalizing newsprint consumption, expanding reach to new geographies and consolidating in the existing markets.

The emergence of e-newspapers and the digital media is a challenge for the print industry. However, poor internet penetration and relative lack of content beyond English, can be a major hindrance for the digital medium to make any significant impact to the print industry in India in the near future. Thus, print industry is expected to ward off the perceived threat posed by digital media and clock strong growth in the future. Though the decline in Indian print media isn't as pronounced as it is in the west, yet the flow of English readers from print to digital media and increasing advertising pressure cannot be ignored.

Key trends of 2013 and sector growth drivers

Circulation revenues give a much needed push

In 2013, circulation revenue witnessed growth of 8.1 per cent which is marginally higher than the growth in the circulation revenue in 2012 of 7.3 per cent.[06] Various national as well as regional players have expanded their reach by means of launching newer editions in local languages or sub-editions by adding printing centers in the local areas. Some examples include The Hindu launching a Tamil edition[07]; Times of India launching a Gujarati edition NavGujarat Samay[08] and Dainik Bhaskar's entry into Patna.[09] DB Corp has also consolidated its presence in MP with the launch of a 4th edition.[10] HT Media also has separate editions for Gurgaon and Noida.[11]

Given below are the total number of newspapers and periodical registered with The Registrar of Newspapers of India.

Number of registered newspapers and periodicals

Year	Dailies	Others	Total	Growth
2002-03	5,966	49,814	55,780	7.4
2003-04	6,287	52,182	58,469	4.8
2004-05	6,530	53,883	60,413	3.3
2005-06	6,800	55,683	62,483	3.4
2006-07	7,131	57,867	64,998	4.0
2007-08	7,710	61,613	69,323	6.7
2008-09	8,475	64,671	73,146	5.5
2009-10	9,355	68,029	77,384	5.8
2010-11	10,205	72,017	82,222	6.3
2011-12	10,908	75,846	86,754	5.5
2012-13	12,511	81,556	94,067	8.4

Source: Registrar of Newspapers for India - http://rni.nic.in

06. KPMG in India analysis. Industry discussion conducted by KPMG in India
07. Tamil Nadu Telugu Makkal Katchi launched, 4 March 2014, The Hindu
08. Times Group launches NavGujarat Samay, 17 January 2014, The Times of India
09. Dainik Bhaskar launches Patna edition, 21 January 2014, www.afaqs.com
10. Dainik Bhaskar expands footprint in Hindi heartland with 4th edition from MP, 4 December 2013, www.exchange4media.com
11. HT Media launches Hindustan Times for Gurgaon, 23 May 2013, www.afaqs.com

In the year 2012 – 13, the highest number of newspapers and periodicals were registered as compared to the last one decade. This has contributed significantly to an increase in circulation revenue. Out of the total 7313 new editions registered, English (696 editions) and Hindi (3,240 editions) accounted for approximately 54 per cent. As on March 31, 2013, total registered English and Hindi newspapers and periodicals were 12,634 and 37,891 respectively.[12]

Circulation revenue mix

Language	2009	2010	2011	2012	2013	Growth in 2013
English	25	26	26	27	29	7.0%
Hindi	20	21	22	24	26	9.0%
Vernacular	20	20	21	24	26	8.5%
Total circulation revenue	**65**	**67**	**69**	**75**	**81**	**8.1%**

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

As seen in the previous years, the penetration pricing strategy followed by new entrants, which also forced the incumbents to cut prices to sustain their volumes, was not witnessed on a large scale in 2013. However in Bihar, in a bid to fortify their market shares, existing players Dainik Jagran, and Prabhat Khabar have cut down their cover prices to INR2.5 from INR4 (Dainik Jagran) and INR3 (Prabhat Khabar)[13]. On the other hand, there are instances wherein publishing houses have increased the cover prices as a counter measure against the increasing newsprint cost and depreciating rupee.[14] HT Media has systematically increased the cover price over a period of time in few markets such as mumbai and UP.[14] ABP Pvt. Ltd., which runs The Telegraph, an English daily and Anandabazar Patrika, a Bengali daily, had raised the cover price in September 2013.[15] The cover prices of its Bengali daily and newly launched E bela tabloid was increased to INR3 from INR2 while the Anandabazar Patrika was increased to INR5.[15] For Jagran Prakashan 8 to 9 per cent out of 14 per cent growth in subscription revenues came from improvement in cover prices.[16] The Hindu has increased its cover price in some markets. Inspite of the increase, the cover prices of Indian newspapers still remain one of the lowest across the globe.[17]

The significant growth experienced by print companies in circulation revenue is not expected to continue. The CAGR from 2013 to 2018 is expected to be 4.2 per cent.[14] The marginal growth in circulation revenue will be largely be driven by increase in circulation and number of editions by regional players.

Projected circulation revenues

Language	2013	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
English	29	30	31	32	32	33	2.7%
Hindi	26	28	29	30	32	33	5.2%
Vernacular	26	27	28	30	31	32	4.8%
Total circulation market	**81**	**85**	**88**	**92**	**95**	**99**	**4.2%**

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

Innovation - product, content and distribution

There is possibly nothing worse than a newspaper facing the lack of interest from its readers. To differentiate themselves from competitors and to grab eyeballs, most newspapers consistently innovate on design, info-graphics, supplements, features and other approaches. One such example is Hindustan Times' 'Page One Plus'. This is a vertical perforated page appended on the front page, which gives the readers an option to remove it and read it on the go. It compiles all the important news in concise manner and provides the reader with a quick snapshot of everything that he needs to know about the important stories in the newspaper.[18]

A few other examples of innovations which have given an impetus to the revenues of the publishing companies are given below:

- Times of India introduced a 3-D advertisement of the TV series Mahabharat in mid-September last year.[19] The 3-D ads have generated a lot of interest among the readers especially youth, who access multiple sources for news and information. The Hindu, the south India-based English daily has launched a micro site, www.thehinduhub.com[20], that carries information about the readership numbers and circulation of The Hindu newspaper and its several editions, as well as other publications of the group across different states and cities. This is an attempt to communicate better with media planners, buyers and marketers and provide relevant information on the events executed, various innovations on offer and its future plans for advertisers.[20]
- Magazine for Visually impaired - National Association for the Blind. With the launch of this magazine, visually impaired individuals in India are able to get their monthly dose of leisurely reading. Titled White Print magazine, the monthly offering is touted as the India's first English lifestyle magazine in Braille.[21]

In addition to product innovation, distribution innovation was also seen with i-next introducing vending machines for selling newspapers in 10 cities across UP, Jharkhand, Bihar, and Uttarakhand.[22] Newspaper vending machines are used worldwide, and they are often one of the main distribution methods for newspaper publishers abroad. In India, however, the trend is catching up somewhat slowly and thus is likely to give the 'first mover's advantage' to the publication.

12. Registrar of Newspapers for India - http://rni.nic.in
13. Print war in Bihar intensifies; Dainik Bhaskar set to enter next month, 17 December 2013, exchange4media.com
14. KPMG in India analysis. Industry discussion conducted by KPMG in India
15. ABP raises cover prices of its Bengali dailies, 10 September 2013, Business Standard
16. Expect higher news print price going forward, 26 November 2013, www.moneycontrol.com
17. FICCI - KPMG Indian Media and Entertainment Industry Report 2013
18. HT refreshes Page One, 12 September 2013, www.afaqs.com
19. Innovations that make newspapers alive and kicking, Issue: Nov-Dec 2013, Vol. # 8, # 6, All About Newspapers
20. The Hindu launches hub of information, 29 August 2013, www.afaqs.com
21. Now a magazine for visually impaired, 29 April 2013, www.afaqs.com
22. The challenge of multiple transitions in India - Press Institute of India, 1 September 2013, www.pressinstitute.in

State and Lok Sabha Elections to give necessary boost to the print sector

Election spending by the government and political parties is set to significantly add to the ad expenditure across all media, with print emerging a frontrunner.[23] Recently concluded State elections in five states provided a much needed fillip to the media sector, especially the print segment which was struggling from slowing revenue streams. Further, since most the state elections were carried out in the Hindi heartland (Madhya Pradesh, Chhattisgarh and Rajasthan) the Hindi print media benefited significantly from the state elections.[24] DB Corp's Q3 results prove the point. The print major has posted revenue growth of 18.1 per cent YoY largely because of higher ad revenue. However, if adjusted to election-related spending in MP, Rajasthan and Chhattisgarh, print ad revenue growth stood at 15 per cent YoY.[25]

One of the key drivers for advertisement growth in 2014 could be the advertising spends by political parties on the Lok Sabha election. According to the Pitch Madison Media Outlook Report 2014, approximately INR25 billion of advertisement revenue across all the media segments is expected to come from the Lok Sabha elections. This is significantly higher than approximately INR5 billion spent during the 2009 election.[26] The ad spend may not only be driven by political parties, but also by hundreds of individual candidates, who may also carry out small campaigns in print, radio and outdoor.

One of the national parties in India has allocated INR4 billion for its mass media ads, which include, television, print, radio, outdoor and digital and around INR1 billion for on-ground activities. Out of the total spend, around 30 per cent is estimated to be spent on the print medium.[26]

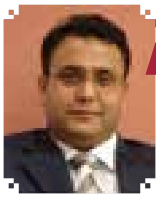
Is regional really the new national for print media?

With the metros and larger cities increasingly witnessing intense competition, marketers, advertisers and publishers are trying to consolidate their presence in the regional markets through new launches and acquisitions. The process of expansion and consolidation has been taking place for the last couple of years and states such as Maharashtra, West Bengal, Gujarat and Tamil Nadu have seen several major players enter the market.[27]

The regional media has been an important element in the growth of the Indian M&E industry over the past few years. Given the size and diversity of the Indian market, media owners and advertisers are increasingly adding a regional element to their strategies. As a result, regional markets have grown in size and importance.[27]

Changing demographic dynamics and rise in incomes most likely have ensured a surge in purchasing power in tier II and tier III cities. The rise in literacy rates, significant population growth, high aspiration, resilience of the agrarian economy, increasing demand for region-specific content, and expansion by players into new geographies and languages could drive future expansion of regional newspapers' circulation and readership across India.

Further, the penetration levels of product categories such as consumer durables, automobiles and financial products in these towns are substantially lower than in the large cities. Circulation growth of Hindi and vernacular papers is and would continue to be higher than English papers.[27] Existing Hindi and vernacular players are expanding by either launching editions in new geographies or by launching sub-editions at a place, where an existing edition is already available for e.g. it is in recognition of the power of Hindi that both BCCL and HT Media have thrown their clout behind Navbharat Times and Hindustan respectively.[28] Navbharat Times re-launched its Lucknow edition earlier this year, after closing it in 1985.[29] Hindustan Media Ventures Ltd. (HMVL) Hindi daily, Hindustan, is also planning to start more editions in its core markets of Uttarakhand, Bihar and Uttar Pradesh.[28]



At a macro level, the economic environment seems to be taking steps towards recovery as the country gears to refocus on implementing measures to restore fiscal and economic health. We look forward with cautious optimism as we continue to fortify our competitive strengths to harness the existing potential of the regional print media segment. We have taken an even more aggressive stance to further strengthen the fundamentals of our business through various growth-oriented initiatives that were sown as seeds of change this year. Cost rationalisation, operational efficiency, content innovation and adaptation, and market expansion in high growth regions were the four key strategic areas that were very closely monitored and delivered visible results. We took confident strides towards expanding presence to seven editions in Maharashtra with new launches of Divya Marathi in Akola and Amravati, while we also look forward to our launch in Bihar for which we made good progress this year. Our 'Dainik Bhaskar Unmetro - The markets driving India' endeavour has created even more excitement amongst us that analysed and highlighted the potential offered by the cities of India, beyond the metros and brought together wide ranging perspectives of industry stalwarts. Evidently, we continue to be excited with the growing consumption potential of these regions.

- Girish Agarwaal
Promoter Director,
D B Corp. Ltd.

23. Print ads to pip TV in poll year, 10 February 2014, The Hindu Business Line
24. Industry discussion conducted by KPMG in India
25. Elections boost DB Corp's Q3 performance, 17 January 2014, Television Post
26. Nail-biting for politicians but win-win 2014 for ad agencies, 11 February 2014, The Indian Express
27. KPMG in India analysis. Industry discussion conducted by KPMG in India
28. Print special report, afaqs reporter, August 2013, www.afaqs.com
29. Navbharat Times to re-launch in Lucknow after 28 years, 20 March 2013, www.floost.com

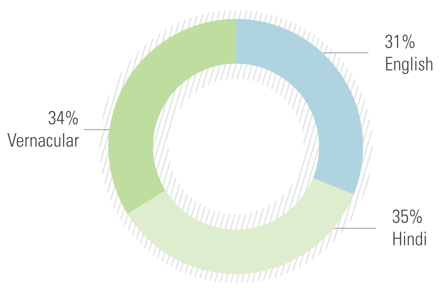
Moreover, from the point of view of advertisers, the cost of reaching the audience is much lower compared to national media like television mostly due to lower advertising rates. However, with the rollout and implementation of radio phase 3, print is expected to face some competition in these markets.

Traditionally, English language papers have enjoyed a substantial share in revenues; however, revenues from non-English papers are growing, erasing the traditional advantage that English papers enjoyed. As more advertising spends are being directed towards tier-II and III cities, existing players are expanding in these regions, by launching more editions. Share of English papers was 37 per cent in 2013, however, it is expected to be 31 per cent by 2018.[30]

Estimated share of business by language in 2013

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

Estimated share of business by language in 2018



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

The Hindi print market has seen both advertisement and circulation revenues grow in double digits. On the other hand, circulation revenues have not picked up as strongly in the vernacular markets compared to the Hindi market.[30] One of the major factors for this has been limited increases in the number of editions.

FMCG sector favours print media

For the first time, FMCG became the largest contributor to print and TV, overtaking auto and education.[31] As per the Pitch Madison Media Advertising Outlook, the advertising pie of FMCG companies was 12.3 per cent, which is significantly higher than the share of FMCG companies in 2009 of 7.2 per cent. Auto sector was the second highest spender on the print medium followed by Education and Real Estate. Share of Education sector has been continuously declining over the last 5 years i.e. from 17.3 per cent in 2009 to 9.7 per cent in 2013.

FMCG companies are targeting Tier II and Tier III cities for their next level of growth and the ability of the print medium to directly reach out to the target audience with it plethora of editions has likely resulted in increase in advertising spend on the print medium. Further, the combination of print advertisement and ground activation has also worked as a successful formula for the FMCG advertiser.

Print, especially Hindi newspapers, had their own ups and downs. On the up side, FMCG sector, particularly, personal products category has given remarkable growth to print revenue. Education sector has been a cause of concern. This category used to be one of the biggest revenue generator for the newspapers, but now is exhibiting depressing trends. May be expansion phase of this category, for time being, seems to be over and it is entering the consolidation phase.

Real estate, another important contributor to print revenue, it is heavily impacted by local and state governments rules and by laws. Any small changes in them create ripples on negative or positive side.

- Arvind Kalia
National Head - Marketing,
Patrika Group

30. KPMG in India analysis, Industry discussions conducted by KPMG in India
31. Elections set to fuel Ad industry growth, 21 Feb 2014, The Hindu

Penetration of large media houses into newer geographies

This year, several publishing houses entered new markets with regional editions. A prominent example being, 'The Hindu', launching a Tamil newspaper edition to cater to Tamil speaking consumers.[32] There was a time when a select group of newspapers ruled a particular region and they mostly were self-contained and did not wish to foray into other regions. For example, Hindustan Times was confined to Delhi region, The Hindu in Chennai region, while Tribune was dedicated to Ambala (later Chandigarh) and Anandabazar Patrika was confined to West Bengal.[33] As newspaper groups try to develop a 'network' of editions across states an languages, change is likely being ushered in; bigger publications which primarily catered to metropolitan cities are mostly trying to make inroads into the interior parts of country in search of newer readers. This in turn may have led to region specific editions across the country and acquisitions of smaller players in these markets.

Apt use of Social Campaigns

Newspapers today are taking their social service role to a whole new level with not just news articles, but by supporting causes and using their widespread reach to create awareness about these issues. DNA's latest campaign 'Good is in our DNA' looked to connect with good samaritans and provide people a platform to share good activities that are happening.[34] Apart from the national dailies that have a wide reach, many regional players are also making a difference with these social campaigns.

Hindustan has recently launched 'Friends of Hindustan' in Patna.[35] The initiative aims to identify people's problems, empower them to voice these and in the process create a movement. These 'Friends' would reunite to discuss various problems, the progress made on them and also the way ahead. Dainik Bhaskar for its social campaigns like 'Beti Bachao' and 'Jid Karo Duniya Badlo' has used on-ground activities in addition to print and TVC. The Bhaskar Group has also launched a second edition of Brain Hunt, to engage with young readers who a key demographic for any newspaper – especially when keeping an eye on the inevitable digital surge.[36]

Hindu's Undumb India campaign used various ATL and BTL activities to drive home the message that knowledge is cool, with a vision of making India an informed country.[37]

Digital yet to make a significant dent on the revenues - however the threat cannot be ignored

In Western countries, many publications are transitioning away from their print business and focussing their attention on digital, to cater to the changing needs of their consumers.

Most Indian publishers have created an online presence, but the actual wave of digitization is yet to be felt in India. In India, where print is still strong, most publishers are still focused on print with digital being a category that supplements print. Very few Indian publishers are focused on trying to monetize digital. However, large media houses in India have been increasingly participating in the digital ride. For example, The Indian Express has been quite vocal about its digital ambitions. The group has re-launched its digital properties. In June 2013, the group's online property witnessed more than 60 million page views as compared to 20 million in January 2012. Other examples are the Times Group that has partnered with Gizmodo and Business Insider to push digital revenues. Mint, the financial daily of the Hindustan Times Group, has gone digital and has launched several online initiatives.[38]

Digital media requires media companies to deliver content through print, digital and mobile.

- Pradeep Gupta
Chairman,
Cyber Media

The emergence of digital and social media news delivery has the potential to pose a challenge for the print industry. However, low literacy rates and poor internet penetration could be a major hindrance for the digital medium to make any significant impact to the print industry in India. Another point to note is that newspaper consumption habits are different in India as compared to the western world. In addition to extremely low cover prices, India is also a high home delivery market[39] – which often plays a role in habit formation. Digital has a very important advantage in terms of reaching the consumers quickly and distribution of real time content to the consumers. More than reach, digital offers a great opportunity to interact and involve the reader in a two-way communication. The bigger risk for the print medium is not from technology alone, it comes from the content itself. It is very important to engage readers in a constructive dialogue in an era where facts are available freely through multiple sources. Newspapers could be expected to need to experiment more, provide differentiated content and start building communities to thrive in this highly competitive era.

Even as print media shows steady growth, digital media is showing higher growth than print.[39] So, the question advertisers and publishers face today is whether digital is finally beginning to eat into the print pie in a significant way. For the display advertisement business, the impact may not significant, but the classified business has likely borne the brunt of digital medium. In India, the size of the online classifieds industry was estimated at INR18 billion at end of 2013 and it is expected to grow to about INR45 billion by 2018 with a CAGR of 20 per cent.[39]

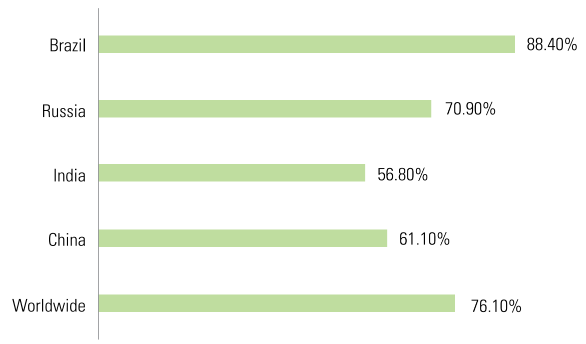
32. Tamil Nadu Telugu Makkal Katchi launched, 4 March 2014, The Hindu
33. Indian newspapers – latest trends, 7 Sep 2013, www.printweek.in
34. Print takes social route to engage readers, 30 December 2013, www.exchange4media.com
35. Hindustan launches 'Friends of Hindustan' in Patna, 21 December 2013, www.exchange4media.com
36. Dainik Bhaskar launches second edition of 'Brain Hunt', 19 December 2013, www.exchange4media.com
37. The Hindu's multi-media campaign making education cool goes viral, 24 July 2013, www.inma.org
38. Indian Print Media's Innovation Dilemma: Digital Natives are coming, 30 July 2013, www.nextbigwhat.com
39. KPMG in India analysis, Industry discussions conducted by KPMG in India

"In order to increase relevance, publishers have invested in augmenting printing capability to ensure that the pages are finalised as late as possible so that most recent news can be covered, covering more stories on the front page, creating hyper local editions etc are some of the initiatives."

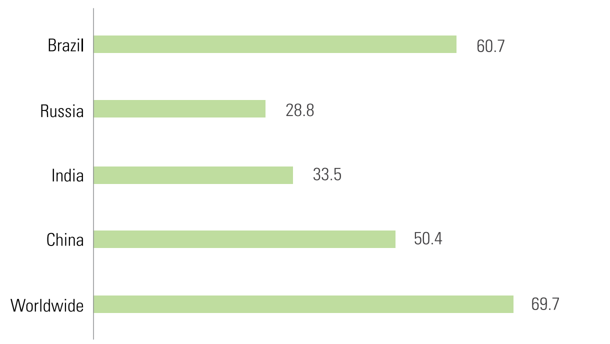
- **Bijoy Sreedhar**
Senior Executive Vice President
Lokmat

Compared to the past, the scenario at present is that the digital medium has not made significant impact on the reader base for print companies. Most readers have now started using mobiles, tablets and computers to access news. The personal relationship that readers of the past had with newspapers is slowly being replaced by their relationships with their smartphones and social media. It is a battle for attention minutes as much as it is for media.

Reach of News/Information Category



Average Time Spent on News/Information Category (Minutes)



Source: ComScore – India Digital Future in Focus 2013.

The news and information market in India is underdeveloped as compared to the other BRIC countries. As compared to Brazil, where the reach of news/information is 88.4 per cent and the average time spent by each user is 69.7 minutes, in India, the reach is 56.8 per cent (lowest among all BRIC countries) and the average time spent is 33.5 minutes.[40]

However, the trend seems to be fast changing. ComScore released a report highlighting online news readership in India based on data from its ComScore Media Metrix service. The report showed that there has been significant growth in daily readership of news and information content in the past year, with an increase of 34 per cent to 9.4 million average daily visitors to the category.

40. ComScore – India Digital Future in Focus 2013

Till now, it is believed that print sector has been nourished by its smaller editions and printing centres, which drives growth. In future, these smaller centres may not be key drivers of print revenue due to more acceptability of smart phones and other options of advertising such as regional TV channels etc.

- Arvind Kalia
National Head - Marketing,
Patrika Group

Online news readership

	August-12	August -13	% change
Total Unique Visitors (in '000)	40,044	45,902	15%
Total Visits(in '000)	2,59,686	3,64,592	40%
Average Daily Visitors (in '000)	7,042	9,402	34%
Average Minutes per Visitor	31.6	41.6	31%

Source: ComScore Media Metrix

BTL Activities and Activations gain prominence

Another important development in the print media is that companies today are not only buying space on newspapers, they want innovative strategies of how to drive home the message through the print medium. In the coming years, media sales are likely to become more about ideas and solutions and less about physical formats such as space and time. Media sales teams and planner, therefore, may invest in expertise in below-the-line activities, activation, etc. Advertisers have started to and could continue to focus more on the ground activities to reach out to their customers.

There is a clear trend of shifts in client spends from ATL to BTL. With the increase of modern trade, the desire to reach and engage the consumer directly is increasing for the advertisers. In 2000, the ATL: BTL spends ratio was approx. 80:20. Aegis Media calculations indicated that by 2015 this may change to 50:50.[41] Even if this ratio is not achieved, there seems to be a clear movement in that direction. There is a clear trend and potential need for areas such as Events, Ground Activation, Retail and Rural Marketing to get their share of marketing spends. 2014 may only see this trend increase.

DAVP ad rates for print media raised by 19 per cent[42]

FThe government announced a 19 per cent increase in advertising rates it pays to newspaper companies for publishing its advertisements. DAVP ad rates have been hiked to account for the significant increase in newspaper costs since the last hike. DAVP is the media buying and publicity arm for the government. The government spent INR4 billion[42] through DAVP last year and is a large buyer of print media. The price increase could boost this figure.

This change augurs well for print media companies which are struggling in a challenging economic environment. In addition, the hike is expected to influence the state governments to increase rates. State Governments spend nearly INR20 billion[42] on print advertisements in a calendar year. Regional languages and Hindi newspapers could stand to benefit more from this hike than their national counterparts.

Publishers had been building a case for a 100 per cent increase in DAVP rates as the costs of newspapers have more than doubled since the last hike. They, hence, feel that the proposed increase has been very meager compared to the industry scenario. Nonetheless, the hike is certainly in the right direction and brings cheer to the print industry.[42]

Print likely to gain at television's expense

With the 12 minute advertisement cap development in the broadcasting sector, there will be considerable decline in the inventories and many broadcasters are likely to face financial difficulty in the coming years. Some of this loss of inventory is expected to be captured by print, as some advertisers analyse the impact to their media budgets based on an increase in rates by leading broadcasters.[43]

The quantum of advertisements has increased on the print side in the last few months of 2013, especially in the dailies. The benefit of the ad cap was not completely reaped in 2013, but in 2014 print companies expect the gain to be material. In 2013, leading consumer brands, especially technology brands, have allocated a bulk of their ad pie to print dailies. Recent supplements of major national dailies saw four pager and two pager advertisements from various brands like Apple, Samsung, Amazon, Sony, Micromax, etc.[43]

41. Consolidation, activation and BTL among key trends in media industry in 2014, 9 January 2014, www.exchange4media.com
42. DAVP ad rates for print media raised by 19 per cent, 18 November 2013, www.livemint.com
43. Print and digital to gain at television's expense, 29 October 2013, www.exchange4media.com

Key challenges

Readership Measurement: A challenge which remains unresolved

Readership measurement still remains one of the key challenges for the print media market with The Indian Newspaper Society (INS), an umbrella association of the newspaper industry, rejecting the Indian Readership Survey (IRS) 2013[44] conducted by research agency Nielsen and the Media Research Users Council followed by the discontinuance of association by 18 print players including BCCL, DB Corp, ABP Pvt. Ltd. and India Today group.[45]

Having begun on a fresh slate, the new IRS data was expected to bring more accuracy in the measurement of readership. Contrary to the expectations, the IRS data has not been accepted by the print industry. The Media Research User Council Board (MRUC) and Readership Survey Council of India (RSCI), are the two bodies that undertook the readership survey. On being published, several large media houses protested after seeing significant variance in the results as compared to previous years. The media houses claimed that the survey results grossly contradicted the audited circulation figures (ABC).[46]

The MRUC has taken cognizance of these protests and has subsequently put on hold the survey results till March 31. In the meantime, they have already initiated the re-validation of data.[46] In absence of a credible measurement parameter and given the lack of clarity, advertisers and media owners face huge challenges in media planning and spending.

Implementation of Majithia Wage Board to adversely impact newspaper industry[47]

The print industry faces another challenge with the recent decision of the Supreme Court that asks newspapers and news agencies to implement the recommendations of the Majithia Wage Board, which means newspapers and news agencies will now have to pay their employees the revised pay scale with arrears from November 2011. Furthermore, the employees will also be paid revised wages from April 2014 onwards, as per the Supreme Court's decision. The revised pay scale has proposed a considerable pay hike for the industry employees. This could spell trouble for the print industry which is already reeling under pressure from rising newsprint prices.[47]

Thus, the Supreme Court decision has received a lot of flak from the industry players and experts who claim that implementation of the revised pay scales will negatively affect the financial health of the newspaper publishers. In a free economic environment, when no other industry has wage boards, industry experts believe that it is not desirable to have the Majithia Board decide wages for the print industry.[47]

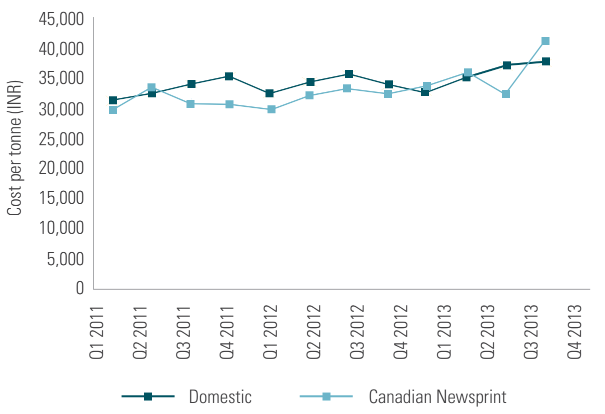
Global headwinds continue to unleash a spate of inflationary pressures on the industries' Supply chain. Insolvency of European equipment manufacturers, as also calibrated winding down of newsprint capacities, have been topped up by debilitating impact of currency meltdown during 3Q 2013. The situation is further aggravated by the high volatility quotient of these trans-national nuances.

- Mohit Jain
Executive President,
The Times of India Group

Indian print industry hit by depreciating rupee and increasing newsprint cost

Weakening rupee-dollar exchange rate coupled with increasing newsprint prices has taken a toll on the print industry in India. INR has weakened approximately 20 per cent in the past year and the increase in newsprint prices has been approximately 5-10 per cent YoY. Nearly 48 per cent of the newsprint used by Indian publishers is imported and the weakening rupee has significantly increased the newsprint costs for the print companies.[48]

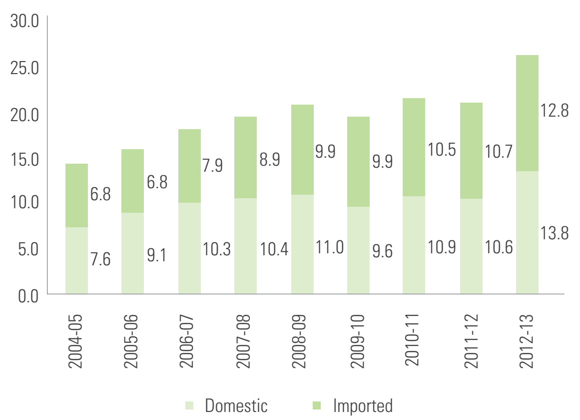
Newsprint price



Source: Crisil research

44. Indian Newspaper Society rejects IRS 2013 findings, 5 Feb 2014, articles.economictimes.indiatimes.com
45. Top newspapers quit IRS in protest, 5 Feb 2014, The Times of India
46. Does the industry need an alternate currency to the IRS?, 6 February 2014, www.exchange4media.com
47. Blow to newspaper industry as SC upholds wage board's advice, 8 February 2014, timesofindia.indiatimes.com
48. Indian print industry hit by depreciating INR and increasing newsprint cost, 19 July 2013, www.exchange4media.com

Break-up of domestic and imported newsprint consumption



Source: ComScore – Crisil research

Moreover, print forms a major portion of the publishing company's total costs. This effectively means this is a cause of worry for the newspaper publishers. Although some publications have increased their cover prices to factor this cost increase, other publications are focussing on optimizing other costs. The rupee depreciation has wiped out around INR12 billion from the Print Media. It is assessed that English press – where imported newsprint accounts for more than 50 per cent of the total requirement – is affected more than the language newspapers. Worst hit by the hike in newsprint prices could be the smaller publishers, who already operate on thin margins and bottom lines.[49]

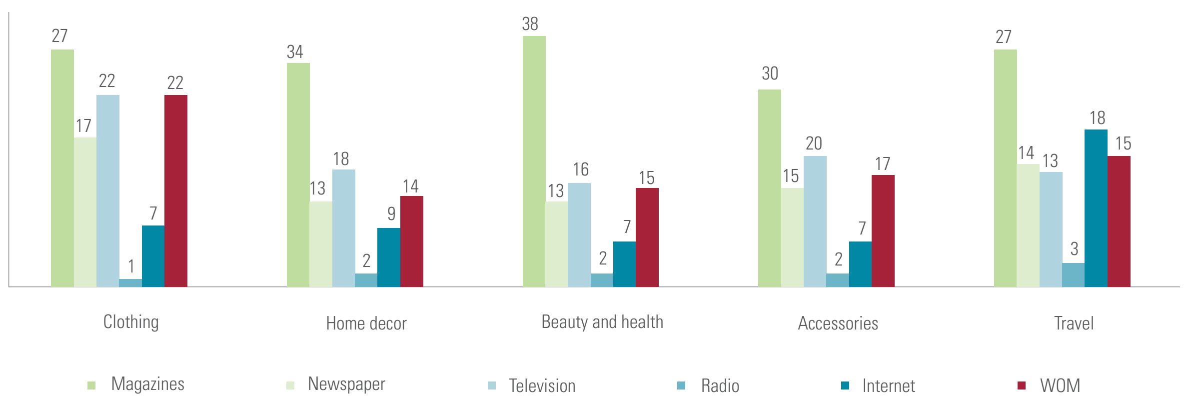
Magazines – growth continues to be a challenge

The magazine industry witnessed a growth of 4.7 per cent[50] and is valued at INR14 billion[50]. The industry is concentrating more on focussed content category magazines as compared to the general content category ones. because it feels that readers are interested in special interest and niche content magazines and this could be an opportunity formonetisation in the long run. Few such launches include a 60 page annual magazine launched by Mumbai Indians, an IPL team[51]; Discovery Channel Magazine introduced by Discovery Networks Asia-Pacific and the India Today Group[52]; 'Highlight Champs' and 'Highlight Genies' unveiled for children by Delhi Press[53] and Highlights and Discover Kashmir, the first ever travel magazine from the travel trade fraternity of Kashmir.[54]

Due to the increasing pressure from competitive media, magazines are witnessing closure of some of the national and international titles, e.g. The Outlook Group had announced the closure of three of its magazines, Marie Claire, Geo and People.[55] The industry is also increasing the cover price in order to bridge the gap between the product revenue and publishing cost and reduce the burden on advertisement sales.

But, despite the challenges magazines do enjoy the undivided attention from readers. According to Engagement survey report conducted by Association of Indian Magazines, 87 per cent of the readers do nothing else while reading a magazine. Further, the survey also highlights that for genres like home decor, health, accessories, travel and clothing, magazines remain to be the preferred source of information.[56]

Magazines - preferred source of information for various segments



Source: Association of Indian magazines - Engagement survey

49. Indian Print Media hit by depreciating INR and increasing newsprint cost, 19 July 2013, www.exchange4media.com
50. KPMG in India analysis, Industry discussions conducted by KPMG in India
51. IPL 2013: Mumbai Indians launch annual magazine, 19 April 2013 , www.cricketcountry.com
52. Discovery, India Today to launch new magazine in India,14 February 2013, www.exchange4media.com
53. U.S. Magazine "Highlights" and Delhi Press Launch New Children's Magazines in India, 18 April 2013, newdelhi.usembassy.gov
54. Kashmir's First Travel Magazine Launched, 10 June 2013, www.kashmirlife.net
55. Outlook group shuts down 3 magazines, 27 July 2013, The Hindu
56. Association of Indian Magazines, Engagement survey, 2012

Industry wants to increase FDI Ceiling to 49 per cent[57]

The Indian Newspaper Society (INS) has made a pitch to increase the FDI limit in print media from 26 to 49 per cent stating that print companies need inflow of funds to expand and grow. At a time when the print industry is likely on a path of decline in the western world, India has observed strong growth in this medium. To sustain this growth and mitigate the risk of rising cost, media companies may need inflow of funds to expand and reach every corner of the country.[57]

Conclusion

Indian print industry saw a steady growth of 8.5 per cent in the year 2013, the growth being backed by impetus from state assembly election advertisement revenue, increase in circulation and cover prices.[58] Although the first quarter of the next year looks promising on the back of an advertisement boost from Lok Sabha elections, the second half seems to be challenging and could depend on how economy shapes up. The upcoming election results could decide whether the policy measures taken by the government can pave the way of recovery for the Indian economy and restore its fiscal health.

Print continues to be the most engaging medium. It captures undivided attention of the reader as it is consumed in personal space with a relaxed mind .

- **Pradeep Gupta**
Chairman,
Cyber Media

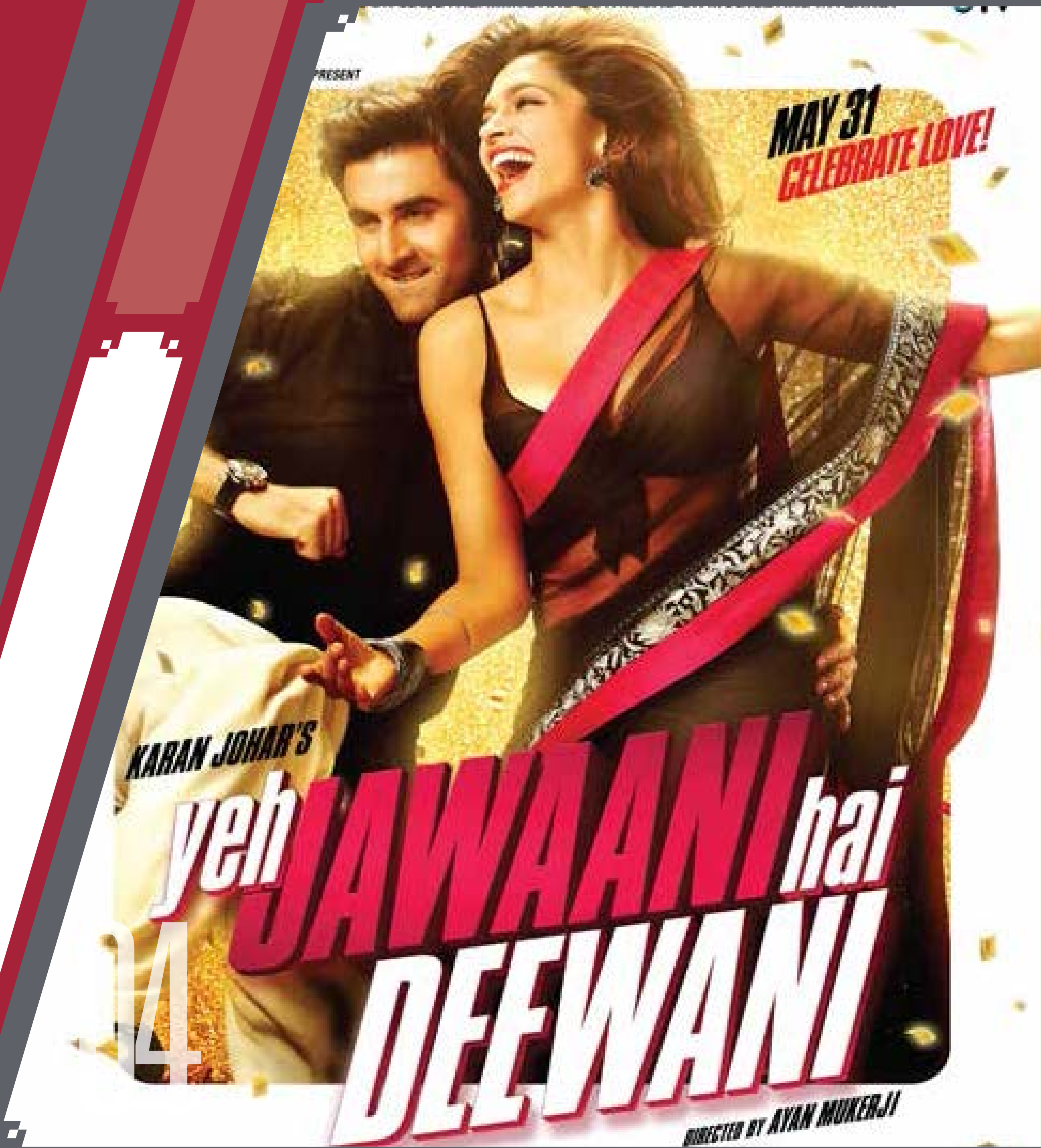
The sector is projected to grow at a CAGR of 9 per cent and touch INR373 billion by 2018.[51] The opportunity may lie in capitalising on expansion opportunity and tapping the growth potential in regional markets while concurrently the challenge could be to explore consolidation opportunities within the existing markets.

Newspaper industry continues to battle muted advertising growth resulting from the uncertain economic environment. On the other hand, saturation of metro markets is driving publishers to cost-intensive forays into Tier II / Tier III markets. Recent judgment of the Supreme Court, upholding an archaic act to prescribe employee salaries, will cast an onerous burden on an already stressed Business margin. Non-remunerative pricing of Government's advertisements is further under-mining viability of the Indian Print media.

- **Mohit Jain**
Executive President,
The Times of India Group

Innovation in product, content and distribution; increasing demand for region-specific content; and expansion by large players into new geographies and languages resulting in increased penetration of regional print media; appropriate usage of social media and increase in below the line activities can pave the way for growth in the next year. The print industry operates in a dynamic environment with readers' needs and preferences changing continuously. In such an environment, it is imperative for publishers to innovate consistently and also engage and interact with their readers on a real time basis. There are a plethora of opportunities that could benefit the flexible players who can adjust to the changing environment. Going forward we may witness expansion in regional markets and consolidation in established markets with only the fittest players surviving the changing environment.

57. Print media to govt: raise FDI ceiling to 49 per cent, 27 September, 2013, www.zeenews.india.com
58. KPMG in India analysis, Industry discussions conducted by KPMG in India



04

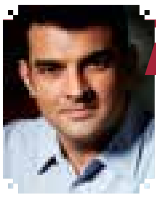
Films

Exhibiting strength

Executive summary: Year 2013

2013 was another good year for the film industry. Coming off 2012, a record year[1], the industry recorded a strong performance both in terms of content and box office collections. As anticipated, the year was marked with movies which scored big at the box office with stronger stories, grander sets, experimental concepts, new faces, multistarrers and strategic marketing initiatives, which has pushed the envelope further for the Indian film industry.[2] While the capital poured in through organised and unorganised channels, the industry still faced challenges in delivering robust bottom line results. In order to deliver better returns, players have started contesting the 'traditional success formulas'. A quick look at the recent box office collections shows that the traditional notions of delivering a 'blockbuster' performance have been tested, defeated and buried deep under. The audience have shown their appetite for differentiated content, continuing the story of evolution of the Indian audiences. The audiences, in many cases, stayed away from the regular run-of-the-mill concepts, barring a few megastarrers that were able to pull in viewers based on star persona and past successes.[2]

Content has always been 'the king', however it used to struggle to reach the audience on time and content owners thus grappled with issues such as piracy which would eat away a major share of producer's revenues.[2] The necessary digital infrastructure has now been developed to allow 'the king' to travel quickly to its audiences in both metros and regional parts of India. The Indian film industry's growth has been fuelled by the expansion of the multiplexes that have enabled players to effectively segment the market.[2] While the audience now have access to a greater variety of content, available at various price points, production houses can now seek to develop theme based movies which attract a niche audience but deliver a strong positive return on investment.



> It has been another year of strong growth for the theatrical business which still accounts for the lion's share of the overall revenue, albeit revenues from other streams have also grown, though not at the same pace as theatrical. While star driven blockbusters continue to draw in audiences, high concept movies with younger talent in front and behind the camera are showing signs of increasing in salience.
>
> **- Siddharth Roy Kapoor**
> Chief Executive Officer,
> Disney India

The industry has been one of the greatest beneficiaries of digitisation; from shooting the movie on digital formats and distributing content across various locations, to marketing the film on various social media platforms to monetizing content on video on demand (VoD) platforms. Wider acceptance of ticketing systems and online ticket booking have also been catalysts in driving transparency. The industry did not stop there as many exhibitors focussed on encouraging the audience to use online platforms for booking tickets. While monetising of content on digital delivery platforms remains a concern in the short term, the industry is buoyant about its long term potential due to improved internet access at affordable prices. The drop in 3G prices and the imminent launch of Reliance Jio are encouraging developments in driving broader adoption of high speed internet.

The Indian film industry is uniquely characterised by its heterogeneous nature. The industry is a confluence of 10 key language markets - Hindi, Telugu, Tamil, Malayalam, Kannada, Punjabi, Bengali, Marathi, Bhojpuri and Gujarati. Each market is unique in its behaviour and audience preferences. The industry is observing greater interaction across the language markets from exchange of talent to remake movies in different languages. Most of this has been possible due to studios forming alliances with regional players and co-producing movies.

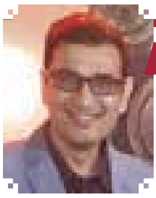
> Each market in the country is evolving differently; Hindi and Telugu movies continue to have a star centric wide release strategy with most of the box office collections accruing in the first week of release. In the case of regional language movies, especially Tamil, Bengali, Marathi and Malayalam, it has been noticed that 'native' content driven smaller budget movies release in fewer screens initially and, based on audience reception and positive word of mouth, the number of screens for the movies increase in the forthcoming weeks, many a time running for even up to 50 days with high occupancy.
>
> **- Arvind Ranganathan**
> Chief Executive Officer,
> Real Image

Production

The Indian film industry has players like Yash Raj Films, Dharma Productions, Rajshri Productions, Mukta Arts etc. who have been involved in film production since the 1960s and 1970s. These larger production houses and international players including corporate houses like Disney India, Viacom18 Motion Pictures, Fox Star Studios, Reliance Entertainment, etc. continue to drive a professional and management driven approach to production, distribution and marketing of films.

Indian production companies are increasingly placing emphasis on a balanced slate and are shifting away from producing star-driven films to content-oriented films with new talent. The move is primarily driven by considerable increase of over 15–30 per cent[2] in production costs. While the cost structure varies for different films; artist fees continue to constitute a major portion of the overall film's budget. Corporatisation is leading the industry to become more prudent in producing movies. The pre-production phase of movies has become more structured with greater emphasis given to acquisition of script, planning, budgeting and financing activities.

01. "The power of a billion-Realizing the Indian dream", FICCI-KPMG Indian Media and Entertainment Industry Report 2013
02. Industry discussions conducted by KPMG in India



The key challenge the Indian film industry is dealing with is unity between all the stake holders in the industry. If all the producers, distributors and the exhibitors unite, then we can have the collective power to negotiate with all the vendors during production, marketing and distribution stages. Also, we can form a common platform to discuss matters with the government to reduce/remove the various taxes, namely service tax, entertainment tax etc. and provide incentives for film making. This will reduce the cost of production and marketing of our films and increase the revenues from the theatres resulting in a better bottom line.

- Aashish Singh
Vice President- Production,
Yash Raj Films

Many of the family-run production houses have started moving away from being a 'one man army' to developing in-house producers and providing them with a platform to produce films. Yash Raj Productions, for instance, has begun launching its in-house producers under the Yash Raj Films (YRF) banner. Going forward, movies will not only be made by Aditya Chopra but by other in-house producers as well, which is expected to almost double its slate from the existing 10-12 movies per annum to almost 18-19 movies in a year.[3]

The industry has learnt to operate cohesively and leverage each other's strengths. During 2013, various production houses forged alliances. Filmmaker Karan Johar's Dharma Productions partnered with Reliance Entertainment to market and distribute four films; 'Gori Tere Pyaar Mein', 'Hasee Toh Phasee', 'Ungli' and 'Humpty Sharma Ki Dulhaniya' in the overseas market.[4] Aamir Khan Productions also teamed up with Ritesh Sidhwani and Farhan Akhtar's Excel Entertainment to co-produce future projects.[5]

The last few years have been great for the Indian film industry. The focus is shifting towards developing content driven films where the story is the hero. Corporatisation and increased competition has brought efficiencies across the entire value chain. Unlike before, production function is now better organised and follow a top down approach where cost of production is decided first and rest of the things planned later. Rising talent costs remain a concern for the industry and Balaji is confronting it by nurturing talent internally.

- Ekta Kapoor
Joint Managing Director and Creative Director,
Balaji Telefilms

Distribution

The studios are now adopting diversified marketing strategies to promote their film - on one hand Amir Khan starrer 'Dhoom 3' decided to almost 'go mute' and let the brand 'Dhoom' do the talking and on the other Shah Rukh Khan starrer 'Chennai Express' went head on and exploited various media platforms to promote the film. On an average, an A-starrer film starts its marketing and promotion activities 6 weeks in advance with a budget of INR250-300 million while medium and low budget movies try to create as much impact as they can with limited budgets. It has been observed that with increasing media costs a minimum budget of INR60-80 million is required to run at least a 4 week promotional activity.[6]

The filmed entertainment space is in rapid change mode, the success of movies, other than a superb content, has now lot to do with a detailed marketing and distribution strategy, which is more systematic and continuously evolving. Other than traditional marketing, digital marketing is becoming a key element of the overall strategy. There has been an increase in the digital marketing spends for movies in the year 2013. The number of YouTube hits at the launch of movie trailer is now used as a barometer of success for the marketing of the film.

- Kamal Jain
Group Chief Financial Officer,
Eros International

Television continues to be the prime platform to promote a film followed by print and OOH. During 2013, rising media costs across platforms led to a 20 per cent growth in print and advertising (P&A) spends over 2012.[6] The year 2013 saw introduction of a new advertising regulations on television. As per the new TRAI regulation, broadcasters will be constrained to carry 10 minutes of commercials plus 2 minutes of channel promotions per hour which has led to an increase in the ad rates by television channels. The TRAI ruling has been a major cost driver for production houses and has impacted medium to low budget movies the most.[6]

Digital platforms are now the preferred platforms to connect with the urban youth. Accordingly, digital marketing budgets have witnessed a robust growth of 200 to 300 per cent while for big budget films spends have increased in the range of 400 to 800 per cent.[6] On an average, a big budget movie will spend INR10 to 15 million on its digital marketing platforms.[6]

03. Yash Raj widens umbrella, to begin new trend in Bollywood, 24 January 2014, Business Standard
04. Karan Johar ties up with Reliance Entertainment for 4 films, 10th October 2013, NDTV Movies
05. Ritesh and Farhan team up with Aamir Khan Productions, 26 Nov 2012, Times of India
06. Industry Discussions conducted by KPMG in India

More than 65 per cent of Bollywood audiences on the opening weekend are under the age of 25, while family audiences walk in only from the second week onwards if the content generates great Word-of-Mouth. Youth are driven more by star cast, promos and music, than by the story itself. This makes content secondary and packaging more important for box office success today. But true successes (such as Bhaag Milkha Bhaag or Aashiqui 2) are films which manage to marry packaging with content, and thus sustain beyond just the first week.

- Shailesh Kapoor
CEO,
Ormax Media Pvt. Ltd.

Traditionally, print, television and OOH were areas for significant media spends for films, however online and mobile is gaining importance because it is a medium that offers significant engagement with the target audience. Movies like ship of theseus, marketed online, demonstrates how film media strategies are evolving for specific genres and audiences.

- Shikha Kapur
VP and Head of Marketing Studios,
Interactive & Youth and Movie Channels,
Disney India

Ship ofTheseus - distribution and marketing case study

Brand and communication objective: Ship of Theseus (SOT) had won awards at various international film festivals and was hailed as a masterpiece by critics. Despite this, its producer Recyclewala Films couldn't find distributors to release it. This is a predominant problem for non-star cast, indie films. Therefore, filmmaker Kiran Rao and UTV Motion Pictures decided to support the film.

It was critical that the marketing costs be kept low in order to ensure profitability. Accordingly, SOT had a marketing budget that was one-fifteenth the average amount spent on promoting a regular Bollywood film. The challenge was to identify the target audience for such a niche art house film and ensure there was no wastage in distribution i.e. release the film in just the right number of theatres, in the right cities and ensure occupancy levels remained high.

It was decided to release the movie in three phases and allow the word-of-mouth build demand for the movie. The challenge was to identify the right target cities and theater locations. Based on detailed analysis of cinema going behaviors five cities were shortlisted. Then the focus shifted to identify cinemas and cities where the movie would be released in subsequent weeks.

Target audience: People who appreciate aesthetic and 'makes you think' cinema. Additionally, test the hypothesis that audiences for such films don't necessarily just exist in affluent pockets of major metros.

Campaign: To break through the media clutter and get this film noticed UTV Motion Pictures, Recyclewala Films and director Anand Gandhi's social media reach was deployed.

While it was initially decided to release the film in five metros, a number of queries from fans based in other cities lead SOT to 'Crowd-source the release plan'. A Facebook application called 'Vote for your city' was created. The app enabled people to vote to get the film released in their city.

To add to the buzz, a special press conference was held where the 'Vote for your city' initiative was presented to digital journalists. This was the first time ever that any studio restricted a press conference to digital journalists and bloggers, thereby emphasizing the focus on digital platforms.

Other Major Highlights

- Google Hangout with Kiran Rao and Anand Gandhi on UTV Motion Pictures' YouTube channel
- Special screening for film stars hosted by Aamir Khan resulted in the movie getting rave reviews from celebrities on Twitter
- Special screenings were held in major cities for prominent bloggers and fans with high Klout scores
- Bookmyshow and PVR carried movie banners on their homepage, sent e-mailers to their database and posted updates on their social media properties. All this was done in exchange for their contest winners getting to meet the film's director, Anand Gandhi
- Infibeam shipped SOT bookmarks to everyone who bought books through their portal
- Live chat on Yahoo India with Kiran Rao and Anand Gandhi with the song 'Naham Janami' premiering on the website.

Results

The demand measurement model enabled by the Facebook application was a first-of- its-kind initiative in the Indian film industry, which has now become an industry case study for how niche/indie films should be marketed.

- Social media enabled SOT to reach 2.2 million (estimate) fans at no additional cost
- The crowd-sourced approach resulted in SOT trending on Twitter in India for 4 days during its release week
- The SOT 'Vote for your city' app got 5832 votes, reaching over 1.7 million people
- The App resulted in the film being released in 24 cities, instead of the original plan of 5 metros
- The value of free media coverage for the SoT 'Vote for your city' tab is estimated at INR7.5 million
- Social media enabled an optimal selection of theatres and show timings, thereby resulting in an above average theatre occupancy level
- SOT earned INR20 million from 60 cinemas
- The campaign got extensive online media coverage and Lighthouse Insights rated it amongst the 30 most Interesting Indian Social Media Campaigns Of Quarter III 2013.

Source: Disney India Studios

Exhibition

The growth in domestic theatrical revenues can be largely attributed to the growth in number of screens via growth of the multiplex segment, coupled with increased ticket prices and a steady supply of content across genres and languages.

With metros and most of the tier I markets getting saturated, the focus is now shifting to the tier II and III cities which are experiencing rapid urbanisation and greater economic growth. The industry achieved approximately 90-95 per cent digitisation of screens, and almost all commercially viable properties have been covered.[7] Digital technology is now enabling reaching the unserved population which sits near the bottom of the pyramid. The key advantages of digital technology are affordability, security and timely access.

The distribution strategy for a film is dependent on several factors such as the genre of the film, the content, cost of the product etc. Also crucial for the release of a film is the release date which is a deciding factor after determining the right release window keeping exams, festivals, long weekends, other releases in mind. It is important to gauge the target audience for a film and then develop a distribution strategy.

- Nandu Ahuja
Senior Vice- President (Theatrical), Eros International

Multiplexes, as of today, account for approximately 25 per cent[8] of the total number of screens in the country with a low screen density of 8 screens per million in comparison with 117 per million in the US.[9] Given the low screen penetration, India has the potential to significantly increase the number of existing multiplex screens in the country over the next decade without causing an oversupply of screens.

In 2013, the industry added approximately 150-200 screens[7] with major growth coming from expansion of multiplexes in tier II and III cities. Leading multiplex chains such as PVR Cinemas (PVR) added 60 screens, Inox Movies added 21 screens and Satyam Cineplex added 12 screens[7]. Growth of the multiplex industry is highly correlated to the level of real estate development. Organic growth of the industry is expected to be mostly through green field investments as the industry does not perceive value from converting single screens into multiplexes. Accordingly, in the short run, organic growth could be constrained by the bottlenecks created due to slowing development of malls and commercial real estate– a potential result of India's slowing economic growth.

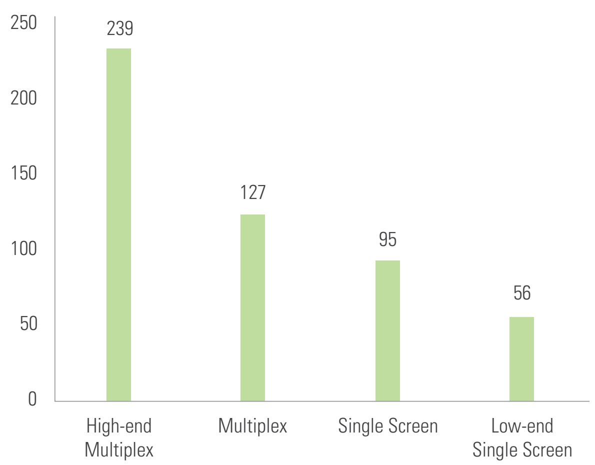
The year 2013 has been a great year for INOX as all 3 revenue streams – Box Office, F&B and Advertising have seen a healthy growth. Cinema in India has seen a sea change over the years with audiences becoming increasingly discerning, film makers experimenting with their content and exhibitors luring in audiences with unmatched service and latest technology. At INOX we believe that the pace of expansion and growth will only get better and we will continue to bring in the best movie viewing experience to our guests across the country.

- Alok Tandon
Chief Executive Officer, Inox Leisure Limited

Consolidation in the industry has led to a significant improvement in the bargaining power of most exhibitors. Industry discussions indicate another round of consolidation in the next few years. The growth of domestic theatricals can be attributable to both – improvement in occupancy levels, as well as growth in average ticket prices (ATP).

- Occupancy levels for major multiplexes players have risen from approximately 23-27 per cent in 2011 to more than 30 per cent in 2013[8]. The exhibitors are adopting differential pricing across weekdays and weekends and maximizing footfalls across the week.
- Average ticket prices have also grown over the years from INR150-160 in 2011 to INR168-175 in 2013 for leading multiplex chains.[8] According to Ormax, the gap between high-end multiplexes and regular multiplexes is far more than the gap between regular multiplexes and regular single-screens. 3D movies continue to be priced at a premium of 15-20 per cent over regular movies[7].

Ticket price by theatre type (INR)



Source: The Ormax Bollywood Audience Report, 2013

07. Industry discussions conducted by KPMG in India
08. "The power of a billion-Realizing the Indian dream", FICCI-KPMG Indian Media and Entertainment Industry Report 2013
09. KPMG in India analysis

Currently, an exhibitor's revenue comprises of 70 per cent of ticket sales, 20 per cent of food and beverages and 10 per cent of cinema advertising.[10] While the proportion more or less remains the same, the volume in absolute terms goes up.

Cinema exhibition industry in India is going through a paradigm shift and last couple of years have seen significant consolidation in the multiplex space. We expect 2-3 large operators to drive bulk of future growth in this space in India. Multiplex penetration in India is still very low with only 18-20 per cent of total screens in India being multiplexes, as compared to most developed countries where multiplexes constitute 85-90 per cent of total capacity. India is seeing a shift in how people go to cinemas. Single screens will continue to decline while multiplexes will become more prevalent in India.

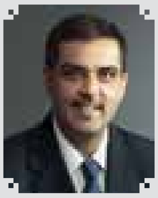
- Nitin Sood
Chief Financial Officer,
PVR Limited

Single screens continue to face challenging times with many shutting down in 2013. Players are making attempts to compete with multiplexes by improving the movie watching experience. Most players are making renovations around improving technology systems, seating and air-conditioning, parking spaces, quality of food and beverages and maintenance of clean washrooms. All such initiatives have helped to bring back the family audience back to single screen theaters.

The growth in the theatrical collections in India will come from the increase in screens in tier 2 and tier 3 cities. The saturation of screens in metros will lead to new markets being explored for exhibition and newer audiences will flock to cinemas.

- Gaurav Verma
Executive Director - Theatrical Distribution,
Studios, Disney India

Is consolidation the answer?



Alok Tandon
Chief Executive Officer,
Inox Movies

A little over a decade old, the multiplex industry is going through its most interesting phase. With expansion of multiplexes at its peak, investments pouring in, and content at its all-time high in quality and quantity, the industry is maturing gracefully.

Multiplexes blossomed and brought in the much needed enhancement in the movie viewing experience. Over the years, investments into the industry came in from different fronts. Big corporate houses diversified and entered the multiplex industry, entrepreneurs jumped onto the band wagon and international players entered India to expand their existing business. For the consumers, multiplexes became the new 'go to' destination across the country. Besides ushering in a top of the line, comfortable and safe movie viewing experience for audiences, multiplexes additionally became aspirational venues to spend time in. As malls and shopping arcades sprang up, multiplexes became their most integral anchors. However, this growth is just the tip of the iceberg. While everyone is aware that we are a nation which produces the largest number of movies and sells the maximum number of tickets in the world, yet we are grossly under-screened. With a screen density standing as low as 8 screens per million people and the multiplex screen density even lower at 1.8 screens per million people, the scope for this industry is huge, to say the least.

To grow at a fast pace, one has to grow organically as well as inorganically. The first consolidation within the industry took place in 2007 with INOX Leisure Limited acquiring Kolkata based Calcutta Cinema Private Ltd. (CCPL). This helped in further strengthening INOX's leadership position in the East. INOX followed this up by acquiring Fame India Limited in 2010 thus giving it a strong foothold in the West; PVR Limited also acquired Cinemax India Limited in 2012. The reasons for these amalgamations may be manifold: to increase foot print, to gain access to new geographical areas or strengthen brands. However, it is clear that this is a natural progression in the growth trajectory of this industry.

Consolidation has helped reap benefits for the multiplex operators as also everyone associated with the industry. For the operators there are immediate benefits in terms of larger sales volumes, a wider consumer base as well as increased geographical coverage besides obvious synergies in terms of economies of scale in capital deployment/purchase, reduction in cost of operations, better negotiation positions with vendors, rationalisation of cost structures, etc . There are also advantages in terms of sharing of best practices and being able to better engage in policy discussions with authorities.

10. Inox Investor Presentation- January 2014; PVR Exhibiting growth, UBS Securities India Private Ltd, Feb 2014

Film makers, producers and distributors, now have to deal with only a few multiplex operators before they release their movies. These exhibitors have become their one-stop destination. Advertisers get greater reach and impact with national chains having a pan India presence since these afford them a single window access to multiple locations spanning the length and breadth of the country for their national campaigns and yet also allow them to micro target their campaigns to a specific location if need be.

Though amalgamation has helped the companies grow and establish themselves faster, they have also developed organically at a very aggressive pace over the years. As mentioned earlier, being a grossly under-screened nation, the industry has a huge potential to grow both organically as well as inorganically. Either way, there's a vast scope in taking these aspirational destinations to every movie-crazy citizen in the country.

With the advent of multiplexes, film content has also seen a sea-change across the country. Film makers got a chance to experiment with varied subjects and a new genre called the 'multiplex' genre of movies came into being. Regional movies today have a lot more opportunity and a much wider release and reach afforded to them by the multiplex chains. International studios have entered the regional arena by dubbing their movies into various Indian languages. Technology deserves a special mention with multiplexes leading the digital charge with never seen before picture quality as well as immersive sound experience. Technology today has changed the entire movie going experience and it is only going to develop further in days to come.

With two acquisitions (CCPL/Fame) in a little more than a decade since its inception in 2002, INOX has come a long way. We definitely believe that these two acquisitions were necessary for the growth of the company and have helped us reach where we are today. Now the question is what is our growth strategy for the future? I believe that consolidation will continue together with organic growth and multiplexes have to continue increasing their footprint across the country. To aid this expansion, a huge help in bringing in a single-window clearance of all necessary licenses and permissions is required from the Government. As is common knowledge, cinematic law which governs the various aspects of this industry, varies from state to state. The industry will grow a lot faster and bring in more benefits not only to the industry players, but also to the overall growth of the country if there is a uniform law.

The entertainment industry today is going through its most exciting phase where multiplexes are concerned. With consolidation and organic growth, the industry can well be one of the largest contributors to the national exchequer in the years to come. It is just a matter of time. After all, this country has only two religions – cricket and movies.

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

Industry performance and projections

Film industry performance

Revenues (INR Billion)	2009	2010	2011	2012	2013	2014p	2015p	2016p	2017p	2018p	2012-13 (YoY growth)	CAGR 2013-18
Domestic Theatrical	68.5	62.0	68.8	85.1	93.4	102.2	116.9	133.3	146.3	160.2	9.8%	11.4%
Overseas Theatrical	6.8	6.6	6.9	7.6	8.3	9.4	10.3	11.4	12.0	12.7	9.4%	8.9%
Home Video	4.3	2.3	2.0	1.7	1.4	1.2	1.0	0.9	0.8	0.7	-18.0%	-13.0%
Cable & Satellite Rights	6.3	8.3	10.5	12.6	15.1	16.1	18.4	20.9	23.0	25.2	20.2%	10.7%
Ancillary Revenue Streams	3.5	4.1	4.7	5.4	7.0	9.1	11.7	14.7	17.8	21.0	29.3%	24.7%
Total	**83.1**	**83.3**	**92.9**	**112.4**	**125.3**	**138.0**	**158.3**	**181.3**	**200.0**	**219.8**	**11.5%**	**11.9%**

Source: KPMG in India analysis

The Indian film Industry has been witnessing significant growth on the back of differentiated content, wider release across digital screens and aggressive promotions by production houses. The film industry is estimated to be worth INR125.3 billion in 2013. The industry is heavily dependent on domestic theatricals which contribute more than 75 per cent to the industry's revenues. Factors such as rapid urbanisation, penetration of multiplex in tier II and III cities, increasing sophistication in production and marketing of films and audience's receptivity to differentiated content are together expected to help the industry sustain its growth over the next few years and be worth INR219.8 billion by 2018.[11]

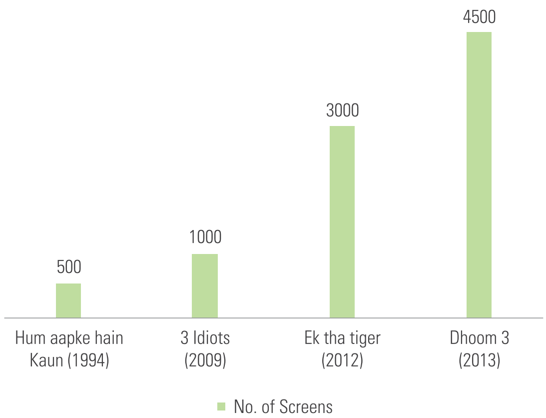
There will be further consolidation in the exhibition business and growth will be driven by the multiplex growth in tier 2 and tier 3 cities where the screen density is still very low. While the multiplexes will provide a platform for growth, the implementation of Goods and Sales Tax (GST) is expected to be a game changer as it provides greater clarity and transparency to various film industry stakeholders.

- Deven Chachra
Managing Director,
Satyam Cineplex

Domestic theatricals

Theatricals continue to remain the main source of revenues for the industry contributing contributing INR93.4 billion to the INR125.3 billion film industry. Digital technology, apart from securely delivering films in a cost efficient and secure manner across the country, has also helped cut revenue losses owing to piracy. Today, 80-100 per cent of films are distributed digitally vis a vis 50 per cent physical prints in 2010[11]. The industry has achieved 90-95 per cent digitisation of screens[11]. Wider reach and coordinated release of movies has been a key revenue driver for the industry. Digital prints cost one-fifth of analog prints, leading to swift reach of movies across the country at a much lesser price which has resulted in an increase in the number of screens in which the movie is released.

Increase in No. of screens



Source: Bollywood no longer talks of piracy; but ignoring dangers of online can be costly, Economic Times, February 2013
Dhoom 3 trailer attracts huge advance booking, Business Standard, November 2013

11. KPMG in India analysis based on industry disscussion

Movies are now released on 3,000-4,500+ screens across the country. Additionally, more consumers are present to watch the films on the first day itself. Even non A-starrer movies are now able to afford a nationwide release through digital distribution. The industry has moved away from delayed release of movies to same day and date release of movies across its viewing centers leading to shortening of box office window. In August 2013, 'Chennai Express' became the fastest film to enter the INR 1 billion club in just 4 days of its release and by December 2013 'Dhoom 3' broke previous records and became the first film to cross the INR2 billion mark in the first week of its release.[12]

In 2014, screen counts in tier II and tier III cities will increase with the right kind of investment mix as India is a hugely under-screened market. Digitisation has turned the traditional wisdom of huge 1000 seater cinemas on its head and the age of compact 150-200 seater cinemas will drive the exhibition industry. Along with the INR200 Crore club films, niche and regional cinemas will be the biggest gainers going forward. The exhibition industry is heading towards consolidation and an era of transparency and increased corporatisation.

- **Sanjay Gaikwad**
Chief Executive Officer and Managing Director,
UFO Moviez

In an industry where change is a vital factor and there is a need for new faces and stories from time to time. Director Shoojit Sircar of 'Vicky Donor' moved into the spotlight yet again for his Indian political espionage thriller film 'Madras Café' which won the hearts of audiences . Other movies like 'Shorts', 'Bombay Talkies', 'ABCD -AnyBody Can Dance', 'Kai Po Che', 'Lunchbox', 'B.A. Pass' and many others, with similar unconventional themes, proved to be successful at the box office despite not being mainstream movies. Directors, not afraid to experiment with a range of subjects, can now expect their films to be accepted by the audiences, where content of the film matters the most.

Thanks to the power of multiplexes , content led stories are a sizable figure of the total revenue mix. The beauty of content led cinema is that unlike blockbusters they are not high-cost projects, and hence a decent run at the box office will result in commercial success.

- **Jay Sampat**
Group Strategy Head,
Balaji Telefilms

12. Dhoom 3, Chennai Express, Krrish 3, The Lunchbox: Highest grossers and trend setters of Bollywood in 2013, DNA, December 2013

It was also a 'Year of Sequels' for the Hindi film industry with 9 sequels released during the year. The year kick started with the release of 'Race2' in January 2013 and drew to a close with the release of 'Dhoom3' in December 2013.

Chennai Express- Marketing case study

Chennai Express was one of the highest grossing movies of 2013 and was hailed for its marketing campaign which involved a 360 degree marketing campaign with several innovations. The details of the marketing campaign are stated below:

Events/PR/Tie-up

Interactive Train Bogie: Large standees resembling a real train bogie with TV screens as windows were created. The lead pair from the film was seen interacting through the windows; present in all major airports across the country, in addition to cinema theatres and malls

IPL Association: Promos were shot featuring actor Shah Rukh Khan (SRK) inviting people to watch the IPL finals which play across the Sony network channels as well as a special appearance by SRK on Extra Innings on the finals of the IPL

Music Launch: Innovative video brochures containing film content was given out at the music launch of the film. Asus launched their new transformer laptop at this event

City Visits: Massive crowds with numbers ranging from 30,000 to 150,000 came to see the movie stars SRK and Deepika Padukone in Bhopal, Ahmedabad, Kolkata, Jalandhar, Delhi and Chennai. A radio tie-up ensured buzz and contest winners came in Chennai express avatars to meet SRK

Media Alliances

A weekend GEC promotion for the movie was created on three leading reality shows on prime time. SRK, Deepika Padukone and Rohit Shetty made an appearance on 'Comedy Nights with Kapil' on Colors, 'DID Supermoms' on Zee TV and 'Jhalak Dikhlaja' on Colors. The team also promoted the movie on 'Tarak Mehta ka Oolta Chashma', 'Indian Idol Junior' and appeared on soaps 'Madhubala' and 'Diya aur Baati Hum'

The Brunch Night Out event in Delhi with a discussion on all good things in life with SRK and Deepika Padukone was supported by a print campaign on Hindustan Times. SRK also visited the Rajasthan Patrika concerned communicator awards in Mumbai. ABP and the Bhaskar group helped sponsor the Kolkata and Bhopal visit respectively

Leading TV channels and networks – Aaj Tak, ABP Group, Zee Cinema created a co-branded campaign supported by mainline advertising in print. The media worth of these alliances is estimated to be around INR 200 million

Post Release Campaign

Rakshabandhan special: A special offer was released on rakshabandan wherein 1 ticket would be given free on the purchase of 2 tickets. The offer created tremendous buzz and more than 100,000 free tickets were given out by the end of the day.

The song Lungi dance giving tribute to the legendary South Indian actor - Rajnikant gained immense popularity from the launch.

Digital

Website and browser based games: A 'Chennai Express' website was created, which was completely integrated with social media sites. The website also had about 8 different games, which were also adapted for use on mobile and social media sites

Trailer Launch Innovation: 'Chennai Express' was the first Bollywood movie which used Twitter to engage users and give them live redemption, users were required to Tweet their comments to make a train move over a virtual rail line from Mumbai to Rameshwaram. The more the tweets, the faster the train moved and as soon as the train reached Rameshwaram, the trailer was released

CE Mobile Game: 'Chennai Express: Escape from Rameshwaram' was created as an endless running game where users take control of Rahul (Shah Rukh Khan's character in Chennai Express) while he runs and tries to escape from Rameshwaram, facing goons and a variety of obstacles. The game crossed 3 million downloads across platforms since its launch

Karaoke App: The Social Karaoke app was created for users to sing a song from the movie, share the score on Facebook and also dedicate the songs to their friends

Brand Associations

The brand associations for the movie included. those that have SRK as their brand ambassador - Nokia, Lux, Emami Fair & Handsome, Nerolac, Videocon and others such as Mc Donalds, Genus Inverters, Lovely Professional University, Best Rice, Reliance Digital, Asus, Lawman, Lenskart, Baskin & Robbins. The total media worth from brands was close to INR 300 million

Source: Disney India Studios

Regional markets

The four southern markets including Tamil, Telugu, Kannada and Malayalam continue to dominate the regional film market with Tamil and Telugu being the largest language markets. Tamil cinema produces more than 250 movies per annum.[13] In 2013, the two biggest box office successes for the Tamil industry were 'Vishwaroopam' and 'Arrambam' collecting INR2 billion and INR1 billion respectively. Other movies such as 'Singam 2',' Soodhu Kavvum', 'Raja Rani', 'Varuthapadatha Valibar Sangam' and 'Theeya Vela Seiyyanum Kumaru' successfully did business of above INR500 million each, with additional revenues coming from international markets such as Australia, Malaysia and United Kingdom.[14]

The Telugu film industry, witnessed wider release, higher occupancy and greater success. 'Attarintiki Daredi' was the biggest movie release of 2013. The movie earned revenues of almost INR1.87 billion across 1200 screens with an occupancy rate of 100 per cent across several screens in Andhra Pradesh. The spectacular performance was despite facing piracy issues because of which the movie had to be pre-released.[15]

In terms of system, processes and global best practices, regional markets are 10 to 15 years behind Bollywood. However, in terms of cinema as a passion, and position of cinema in day to day life of common individuals and society as a whole , films of regional markets (especially those in the south) are much stronger than to Bollywood films. Sheer per centage of footfall numbers of audience in theatre are disproportionately high in case of Tamil and Telugu films. Theatre infrastructure needs to be further improved in regional markets to further increase absolute theatrical contribution.

- Shibashish Sarkar
Chief Financial Officer,
Reliance Entertainment

Other regional language movies have shown a significant uptrend with several small budget movies with new artists and relevant topics doing extremely well and establishing a trend. The number of small budget movies has doubled while the big budget movies has remained more constant. These smaller films release in 30-50 screens in the first week and add screens over the next few weeks to peak at 150-250 screens.[16]

Other prominent regional markets are Bhojpuri, Marathi, Punjabi, Bengali and Gujarati. The Marathi industry is estimated to have grown by almost 50 per cent.[16] 'Duniyadari' has been the first Marathi movie to collect INR250 million[17] at the box office. The Punjabi industry is estimated to have grown by 10-15 per cent[16] with movie such as 'Jatt and Juliet 2' earning more than INR200 million[18] at the domestic box office. However, the regional industry is heavily dependent on theatrical revenue – approximately 95-97 per cent.[16] The same trend as witnessed in Hindi cinema i.e. wider distribution and dependence on opening weekends is also evident in these markets even as theatrical revenue climbs. For example, the first day box office collections of Bengali movies breached records. In August, Jeet-starrer Boss (a Bengali film), produced by Reliance Entertainment and Grassroot Entertainment, collected INR 7.25 million on the first day[19], while in October 2013, Mishawr Rahasya (Bengali) collected INR 6.5 million, Khiladi INR 5.5 million and Rangbaaz INR 7.5 million.[20]

Regional cinema continues to face challenges in building scale, developing broader markets through greater distribution and generating non-theatrical revenue.

13. Journal of Film Chamber, Feb 2014
14. Kollywood Box Office Hits of 2013, KollyInsider, December 2013
15. http://www.apherald.com/Movies/ViewArticle/44149/Industry-Hit--Attarintiki-Daredi-reaches-100-Days-Successfully-Trailer/, http://www.ibtimes.co.in/articles/509988/20130930/attarintiki-daredi-box-office-collection-pawan-baadshah.htm, http://www.teluguone.com/tmdb/news/attarintiki-daredi-40-days-collections-en-27213c1.html
16. Industry Discussions conducted by KPMG in India
17. http://www.boxofficecapsule.com/collection/4th-Weekend-Box-Office-Collection-Of-Marathi-Film-TIMEPASS-2117 accessed on 10 Feb 2014
18. http://www.punjabicinema.org/highest-grossing-punjabi-movies
19. Corporates join Tollywood bandwagon, Bengali film budgets rise to about 5-6 times, Economic Times, 2 Jan 2014
20. Boxofficecollections.com

Hollywood

Until few years back, Hollywood was considered as an urban phenomenon and the movies were released for English speaking audience. However, much has changed over the last few years, most theatres are now DCI compliant allowing movies to be released across a wider number of screens. 'Iron Man 3' was released across more than 1000 screens (in four languages) in comparison to historical average of 250-300 screens.[21] Franchise films with high recall value and high quality visual effects continue to perform well in India. The share of Hollywood is small in the overall domestic theatricals market however, players are not complaining as movies are continuing to draw footfalls. During the year, 'Oblivion' had an occupancy of 25-35 per cent, 'The Great Gatsby 3D' had 30-40 per cent while for the best performing movies such as 'Gravity' and 'The Conjuring' the occupancy level ran up to 50-60 per cent.[22]

Due to almost 100 per cent digitisation of screens in Bengal, we are seeing a significant improvement in collection and decline in piracy; integrated production, distribution and exhibition models are also coming into vogue – especially in Tier III and IV towns – and the prospect of Bangladesh market opening up is encouraging. However, the Bengali film market continues to suffer from sharp divide of what content works in urban (Kolkata metro) and non-metro markets. Quality films are still less in number , we need more regular producers and more talent pool to combat Bollywood and Hollywood film.

- Himanshu Dhanuka
Director,
Eskay Video Private Limited.

Top Hollywood films released in India 2013

Titles	Realease Date	Genre	Screens	Total GBO* (INR million)
Iron Man 3	26-Apr-13	Action/Sci-Fi/Thriller	1054	667
Fast & Furious 6	24-May-13	Action/Crime/Thriller	828	573
Man of Steel	14-Jun-13	Action/Adventure/Fantasy	706	370
Gravity	11-Oct-13	Drama/Sci-Fi/Thriller	195	363
The Wolverine	26-Jul-13	Action/Adventure/Fantasy	710	281
G.I.Joe: Retaliation	29-Mar-13	Action/Adventure/Sci-Fi	528	230
Thor 2: The Dark World	08-Nov-13	Action/Adventure/Fantasy	600	227
The Conjuring	02-Aug-13	Horror/Thriller	128	222
World War Z	21-Jun-13	Action/Drama/Horror	570	177
A Good Day to Die Hard	22-Feb-13	Action/Crime/Thriller	678	124

Source: Kinematograph Renders Society
Note: *Up to 5 Weeks

Overseas theatricals

Overseas theatricals witnessed a 9.4 per cent increase from INR 7.6 billion in 2012 to INR8.3 billion in 2013. While the overall revenue generated has increased, the overall contribution is 7 per cent of the total revenue. Typically, only a few star driven movies have witnessed theatrical success in the overseas market and the films are normally watched by persons of Indian origin. In most countries where theatrical audience is weak, films are distributed directly on home video platform.

North America, U.K. and the Middle East are the key markets and together they contribute about 80 per cent to the total overseas revenues.[23] The Middle East market has showcased an impressive Y-o-Y growth of 30 per cent while the U.S. market grew at ~10-12 per cent.[23] In U.K. the 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, South Korea and Peru where films are distributed with subtitles in the native language of those markets.[23]

21. Iron Man 3 to get biggest Hollywood release in India, 25 April 2013, Hindustan Times
22. Hollywood losing screen fight with regional, Bollywood flicks, 06 February 2014, Times of India
23. Industry Discussions conducted by KPMG in India

It has been observed by the industry that content driven films such as '3 Idiots' perform well in such markets, while 'masala' films are not appreciated by the audience. Shah Rukh Khan continues to be the most popular actor in such markets while Ranbir Kapoor is emerging as a choice of the younger generation. In 2013, some of the biggest successes were films such as 'Dhoom 3' and 'Chennai Express' which garnered box office revenues amounting to USD27.6 million and USD18.8 million respectively.[24]

During the year leading production house Yash Raj Films entered into a partnership with the Nikkatsu Corporation, a 100 year old Japanese production and distribution company, to increase the number of Hindi movies accessible in Japan. The partnership has resulted in the release of films such as 'EK Tha Tiger', 'Don2', '3 Idiots, and 'Jab Tak Hai Jaan' across 9 major cities in Japan including Osaka, Kyoto, Sapporo and Kobe.[25]

VPF fee (Approx USD1500-2000) charged by international cinemas in the key markets of North America, U.K. and Australia is a prohibitive cost for independent and regional films. This is potentially restricting the reach of Indian independent and regional cinema in theatres for overseas audiences. Day and date release on VOD platforms could be a potential solution to help independent and regional films from India to reach overseas audiences in a cost effective manner and generate revenue for these films.

- Mohit Mehra
Cinema Capital Venture Fund

Cable and Satellite

Cable & Satellite (C&S) rights form a major chunk of revenues for film producers and contribute almost 12 per cent to overall industry's revenues. C&S revenues saw a 20.2 per cent increase from INR1,260 million in 2012 to INR1,510 million in 2013.[26] Going forward, the industry expects less aggressive growth in acquisition price of C&S rights and a more rationale 'box office success' linked movie acquisition criteria.[27]

During the year, average C&S rights for high budget Bollywood movies were sold at an average of INR 400-500 million compared to INR 300-400 million in 2012 [27].

Sony Pix signed a deal with Metro Goldwyn Mayer (MGM) Studios to provide its English movie channel access to Hollywood hits like 'Skyfall', 'The Hobbit' and the future remake of 'Robocop'. It also has exclusive deals with Universal, Paramount, Lionsgate, Reliance Entertainment and PVR.[28]

More of the same will no longer work for the Indian audiences – this has been the key lesson learnt in 2013! The Theatrical business continued to exhibit strong underlying growth which augurs well for the future. A lot of strong content based mid-segment movies performed well at the box office. Growth in the digital theatrical distribution platform has been an important enabler in reaching a wider audience base through an increase in the number of screens.

- Vijay Singh
Chief Executive Officer, Fox Star Studios

With almost 50 per cent of box office collections depending on the first three days, importance of pre-release marketing cannot be negated. During the year we have seen some extreme marketing strategies with certain A-lister movies not spending any money on the marketing of their film to others going all out on their marketing spends. On an average, P&A spends for the industry has increased by around 20 per cent due to media costs going up y-on-y. As a trend we are seeing digital marketing fast emerging as an important platform and the digital budgets are finding a decent outlay amongst the overall spends and have increased by close to 100-150 per cent from their previous allocations.

- Vivek Krishnani
India - Head of Distribution, Marketing and Syndication, Fox Star Studios

Records were set when Viacom 18's Hindi entertainment channel Colors signed a multi-layered, performance linked agreement with Karan Johar's Dharma Productions for 12 films over the next 4 years estimated at INR 3.5 billion.[29]

Marginalisation of Home video segment

The contribution of home video revenues to overall industry revenues is extremely low (~1 per cent). This segment witnessed a decline of 18 per cent from INR1.7 billion in 2012 to INR1.4 billion in 2013.[26]

Home video segment as a revenue stream has been marginalised due to consumption shifting to digital platforms. Home videos are now being released much earlier for most films – Overseas home videos release in ~2 weeks while domestic home videos release in about a month's time. Further, the revenue generation potential of home videos is not very lucrative and ranges up to INR10 million for an A-starrer film.[27]

During the year Shemaroo Entertainment inked an acquisition deal with Viacom18 Motion Pictures for exclusive video rights for a pipeline of blockbuster movies released in 2013 and a few unreleased titles. The deal included video rights for Hindi films such as 'Bhaag Milkha Bhaag', 'Bombay Talkies' and 'Madras Café'; Marathi and Bengali movies.[30]

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24. Box Office India, boxofficeindia.com accessed on 5th March 2014
25. Trying to create demand for Indian films in Japan, 08 March, 2013, Economic Times
26. KPMG in India analysis
27. Industry Discussions conducted by KPMG in India
28. Sony Pix inks 3 year deal with MGM, 30 April 2013, Economic Times
29. Colors, Karan Johar sign 12 film deal for next 4 years, 16 Dec 2013, Economic Times
30. Shemaroo Entertainment inks pact with Viacom18 Motion Pictures, The Economic Times, November 2013

Ancillary Revenue Streams

Ancillary revenue streams are increasing their share in the overall revenue pie. This segment witnessed 29.3 per cent increase from INR5.4 billion in 2012 to INR7 billion in 2013.[31] 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.[32] Music rights contribute 2 per cent to total film industry's revenues with big budget films selling their music rights for a massive INR70-100 million.[33]

Licensing and Merchandising: The licensing and merchandising market in India is still at its nascent stage. The growth drivers for the market is expected to be consumer awareness, distribution network, technology, social media, e-commerce, reduced piracy and movie franchises, which together can drive demand for licensed merchandise. Film merchandise in general is being bought by the youth in India depending on factors such as value for money, brand value, style, trend and star cast. The ease of access to find these products is also important, and today they can conveniently shop for these products.

2013 has been a better year for the merchandising of Indian films. Historically, there was little or no revenue from merchandising. However, the trend is beginning to change with movies such as 'Dhoom' and 'Krrish' focusing on building franchise properties and paying attention to merchandising as a promotional and revenue stream. Filmkraft Productions ('Krrish 3') developed a merchandise collection that was focused more on a younger audience including apparel for children, toys, school gear, candy, ice cream, donuts, home furnishing and fashion accessories that ran into a total of 400 products ranging in price from INR50 to INR3500 retailing across 8000+ stores, both standalone and larger chains such as Lifestyle, Crossword and Hypercity.[34] It also tied up with Graphic India and Hungama Digital along with Carving Dreams to launch original digital comic series and comic magazine called 'Krrish: Menace of the Monkey Man'.[35]

The work for the merchandising programme for 'Dhoom 3' was started 18 months before the launch of the film where partners were identified on the basis of product utility and fit with the film. The major target audience for the products was the youth, and hence products were developed to match their sensibilities. Another critical factor was the distribution strength of the partners in order to make all the products easily available. Mattel distributed products amongst 2,000 distribution outlets and created a buzz about the products online. 'Dhoom 3' partnered with 20 marketers to launch over 200 merchandise items priced between INR70 to 9,000.[36]

The production house had two in house designers ideating on the products and developing a broad range of images based on various elements of the movie. They provided licensees with a considerable amount of creative material for the manufacture of products. Dhoom 3's mobile game exceeded over 10 million downloads, making it one of the most successful Indian produced games. Many other products such as D:3 tablet, phones , dolls, utility products, accessories also received a positive response.[32]

31. KPMG in India analysis
32. Industry Discussions conducted by KPMG in India
33. Business economics of Chennai Express, Indicine, November 2013
34. Bollywood learns new tricks: Merchandising here to stay, The Sunday Guardian, November 2013
35. Graphic India and Filmkraft partner to launch Krrish comics, 24 September 2013, Indiantelevision.com
36. Katrina Dolls and Aamir Khan bikes herald Bollywood's steps into a new revenue stream, Economic Times, December 2013

Merchandise partnerships for Dhoom 3

Partner	Dhoom 3: Merchandise offering
ICEX Electronics	ICE created an innovative range of electronic gadgets inspired by the movie theme
Mattel	Mattel created limited edition collector dolls of lead actor Aamir Khan and actress Katrina Kaif, Hot Wheels die-cast replica of the bikes used in the movie, a range of racetrack sets, a set of Dhoom 3 UNO cards and a Barbie Kids Apparel range inspired by the Dhoom franchise
Mountain Dew	Started a promotional offer where consumers would have a chance to win a BMW motorcycle
99 Games	Developed a bike racing game on mobile platform. The game achieved over one million downloads
IlyXpress	Greeting cards, gift wrapping papers and calendars featuring Dhoom 3 music, vibration effects and fiber optic light technology
CEAT	Limited edition Dhoom 3 based tires have been marketed by the company
Orosilber	Created a line of fashion accessories for men including pendants, rings, wallets, bracelets, dog tags, belts, key chains, tie pins and cufflinks.
Collectabillia	Developed a range of fashion bags, sling bags, hats, USB sticks, hat magnets, caps, bandanas and other accessory products.
Classic Stripes	Developed a line of Dhoom 3 bike decals
Nightingale	A range of Dhoom 3 stationery - diaries and notebooks that feature graphics based on the movie
Bombay Dyeing	Dhoom 3 branded bed linens, cushions and bath linens
Diva'ni	Dhoom 3 clown theme scarves
Archies	The retailer developed exclusive range of Dhoom 3 inspired paper stationery products that includes photo albums, calendars, posters, autograph books and more
LINE	Dhoom 3's official account and sticker for the LINE mobile application
Steelbird	Dhoom 3 inspired helmets for bikers
Parksons	Dhoom 3 playing cards
Vox Pop Clothing	Dhoom 3 inspired t-shirts for the youth

Source: Yash Raj Films launches 'Dhoom:3' Merchandise, Indiawest, November 2013

Merchandising in India, however, still awaits the holy grail of organised retail. Organised retail is a critical channel for the growth of this business and the merchandise segments fortunes will grow in tandem with this channel.

Monetisation of content on digital platforms:

Content consumption on personal screens is expected to rise significantly with the advent of 4G. Developing an appropriate subscription model and curated content are necessary for effective digital monetisation. With consumers becoming accustomed to free content, monetisation of online media assets remains a challenge. While digital revenues are still very small, the industry is not discounting their future potential. The industry is making investments and getting its act together to take advantage of the future opportunities.

Faster networks (4G) and smarter devices will lead to an explosion of rich media content consumption on digital devices. In India, the primary access device to the Internet is the mobile phone and that will increasingly be used as an entertainment device to watch videos and play games. As producers of content for digital platforms, at Rajshri we recognise the fact that video platforms like YouTube have no geographic boundaries and our videos are viewed by a global audience. The world is flat on platforms like YouTube. This ups the ante significantly in terms of the quality of content programming. We have to benchmark ourselves against the best in the world and not the best in India. We also have to ensure that our content is relevant for a global audience. Producing content in English language is the first step in that direction.

- Rajjat Barjatya
Managing Director & Chief Executive Officer,
Rajshri Entertainment Private Limited

One of the drivers in the growth of C&S rights acquisition prices is the bundling of ancillary rights which includes the digital rights along with the C&S rights. However, players whose main focus is not digital distribution, may not be able to effectively monetize the digital rights of movies which ultimately may result in a lost opportunity for the industry.

- Hiren Gada
Director,
Shemaroo Entertainment Ltd.

VOD platforms in India

VOD Platforms	Content Library	Pricing	Distribution
Itunes	• Movies, TV shows, music, games, books, podcasts • 40,000+ movie titles and 190,000+ TV shows	Standalone prices for each download. Some are free while some are paid	Available for viewing on any PC/ laptop and all major mobile/ tablet platforms with iOS
Google Play store	Movies, TV shows, games, books in English, French, Spanish and Hindi	Standalone prices for each download. Some are free while some are paid	Available for viewing on any PC/ laptop and all major mobile/ tablet platforms with Android
Ditto TV (Zee)	• 50 TV Channels available (Entire Zee Bouquet, Sony Entertainment, BBC etc.) • Library of ~3000 movies • Movies across genres and all major Indian languages plus English and German • Carries classics (Bollywood and Hollywood)	• TV Channels Monthly Subs: 3 for INR 49; 7 for INR 99; All for INR 129 • 30 Movies a month: INR 49 • 30 TV Serials a month: INR 49	Available for viewing on PCs and all major mobile/ tablet platforms
Box TV **(Times Internet)**	• Catalogue includes Bollywood and Hollywood content, classics and contemporary movies, independent films (short films) • Content agreement with Sony, Disney India and Shemaroo; also streams IPL	• Freemium model; Part of content available free (ad-supported); Premium content is charged • Unlimited streaming of movies at Rs 199/month	Available for viewing on PCs and all major mobile/ tablet platforms
Big Flix (Reliance)	Online streaming of over 2000 movies in 15+ languages by genre and year of release	• INR 249 - 1 month • INR 599 - 3 months • INR 999 - 6 months • INR 99 - 7 days trial	Available for viewing on PCs and all major mobile/ tablet platforms
Lukup	• Content library includes Movies, Music, Sports, News, Lifestyle, Kids and interactive services such as shopping, education and advertising. • Contemporary Bollywood content	• Initial device cost is INR 7,000 • Stream to multiple devices through the Lukup gadget	Available for viewing on PCs and all major mobile/ tablet platforms
Eros Now (Eros International)	Movies and music videos only	• Audio tracks, music videos, and trailers can be viewed free of cost • 14 day trial period, and a membership fee of INR 270 (USD4.99) thereafter for premium pack • Movies on rent at INR 110 (USD1.99)	• PC, and iPad via the ErosNow App • Eros Now iPad app supports TV connectivity via the apple AirPlay feature
Spuul	• 900 movies and ~300 TV titles • Movies across genres and all major Indian languages • Partnered with Viacom18 's IndiaCast and YRF to host their content	• INR 250 -1 month • INR 50 to INR 150 per rental	• Available on PC

Source: Company websites

There is a need to create customised targeted content for digital consumers. It is age and not economic strata which is defining consumption on digital platforms. Digital consumers primarily lie in the 13-45 age group and are willing to pay money for high quality content. India has 146 million cable subscribers paying monthly subscription fee for entertainment the 13 to 45 years olds will pay similar amounts for online video viewing or digital content/entertainment going forward. To best monetise content, content providers will have to start creating separate Channels/Apps Brands on the Internet and mobile either using YouTube or other independent fat pipes for online video viewing.

- Gautam Patel
Managing Director,
Zodius Advisors

In cinema advertising is worth between INR10 – 20 billion if you get the metrics right. In United States of America the ad rate for theaters is 4 times that of a premium TV ad spot while in India the ad rate for theaters is 1/3rd that of a basic TV ad spot. Cinema advertising had traditionally been affected by the fragmented nature of the exhibition industry, the inherent lack of proof of play out, high logistical costs associated with delivery and projection of ad-films which has now been addressed through networked digitised screens operated by digital cinema integrators like QUBE & UFO.

- Senthil Kumar
Founder Director,
Real Image

In-cinema advertisement:

The size of the in-cinema advertising market is estimated to be INR3.9 billion in 2013 [37]. The growth for in cinema advertising is no longer coming just from local advertisers but from large national advertisers.

Digital Cinema provides significant benefits to the advertisers which include:

- No Additional Prints – In case of traditional in-cinema advertising, each theatre required a separate print, but digital cinemas require only one print and the advertisement can be played in any number of theatres
- Multi Lingual Ads – Digital cinemas allow advertisers to play a single tape in different language commercial across different states as per the linguistic requirements of target audience
- Quality of the commercial remains unaltered irrespective of the number of airings as compared to traditional system where the print had a restricted life
- Transparency- Electronic logs are provided to advertisers for each spot played with digital cinema

So far, media spends were skewed towards television and print as advertising platforms leading to rising threshold limits to achieve minimum impact. The rise of digital cinema is transforming the positioning of Cinema as a media touch point by establishing credibility and traction in the advertiser's and media planner's minds and budgets. Inclusion of cinema in a media plan now has the potential to deliver effective reach and a robust Return on Investment for media spends across categories.

Sale of music rights:

During the year A starrer movies such as 'Dhoom 3' and 'Chennai Express' sold music rights at INR90 million and INR70 million respectively.[38] The music rights for big budget films are sold outright to music labels while in the case of certain smaller films the music labels did a revenue share with the production companies.

The music labels then further sell these rights on multiple platforms including mobile phones, music channels, radio stations, physically and digitally. While the physical sales of CDs have significantly declined digital revenues from the sale of music is still growing.[39]

37. KPMG in India analysis
38. Chennai Express is fastest 100 crore grosser, Business Standard, August 2013, Dhoom 3 vrooms past box office records, Business Standard, December 2013
39. Hungama becomes Bollywood Gateway for music providers, Bloomberg, July 2013

Key themes

Unconventional themes

Perhaps Indian cinema's biggest success story this year was Ritesh Batra's 'The Lunchbox'. Five years in the making, it started off as a documentary and was funded by eight investors from across the world. The movie wowed audiences and dazzled critics at the Cannes Film Festival in May 2013, where it premiered in the International Critics' Week side category. It had a good start in first weekend in India with about INR110 million coming in the 1st week of its release with a huge INR70 million coming in the first 3 days. The business of the first three weeks was INR200.9 million[40] and the fourth weekend would have added INR4-5 million net. During the year, smaller, content driven films continued to find support from large studios like Viacom 18 (for Madras Café), Excel (for Fukrey) and Disney India (for ABCD).

Today the industry needs unique platforms that create a balanced and inclusive growth in the film sector and aligns the independent film sector with the global film fraternity. The growing participation at the Film Bazaar is a manifestation of the attractiveness of the diversity inherent in Indian and South Asian Cinema. The 7th edition of the event saw close to 831 delegates from 36 participating countries from a merely 204 delegates from 18 countries in 2007.

- Vikramjit Roy
GM- Executive Producer & Head Marketing
NFDC

Consumer preferences are changing rapidly. Today's audience, especially the youth, are demanding high-quality content driven movies and it is up to the producers to raise their game and do so in a financially prudent manner.

- Vikram Malhotra
Founder and Chief Executive Officer, Abunduntia

However, it is a constant struggle to make unconventional movies in contrast to the mass market entertainers with high budgets. These movies look for a platform to reach the niche audience. These unconventional movies are either studio funded or crowd funded. For example, movies like 'Madras Café', 'Lootera', 'ABCD' were funded by studios and big production houses like Viacom 18 or UTV Motion Pictures. Kannada writer-director Pawan Kumar's 'Lucia' was backed through crowd funding and managed to raise INR750,000 from 110 investors. It has since won accolades at international festivals, got an all-India release, turned a profit and has been acquired by Fox Star Studios (for Hindi language rights). Many, however, did not even have a budget as big as 'Lucia's'. Kenny Basumatary made the Assamese action-comedy 'Local Kung-Fu' in under INR100,000 and nearly half of it went into hiring a camera. Using amateur actors who were martial arts students and locations which didn't require shooting permission, the movie managed a pan-India release.

Hollywood meets Bollywood

Many Bollywood stars have started heading westwards for featuring in Hollywood movies. The trend though new, is fast gripping the Indian film industry. Amitabh Bachchan, in his over four-decade-old acting career, featured in a Hollywood film - 'The Great Gatsby' - for the first time. It was his first 3D film as well. Priyanka Chopra lent her voice for an Asian character in an animation film, 'Planes' and her second international music single 'Exotic' was also launched earlier this year. On the other hand, Swedish actress Elli Avram and Australian actresses Kristina Akheeva and Rebecca Breeds made inroads into Bollywood this year with 'Mickey Virus', 'Yamla Pagla Deewana 2' and 'Bhaag Milkha Bhaag' respectively. Anupam Kher appeared in 'Silver Linings Playbook' as an affable therapist for Bradley Cooper whereas Shabana Azmi and Om Puri starred in 'The Reluctant Fundamentalist' alongside Kate Hudson and Liev Schreiber. Bollywood actor Irrfan Khan has starred in several Hollywood movies like 'The Namesake', 'New York', 'I Love You', 'A Mighty Heart', 'Slumdog Millionaire', 'The Amazing Spiderman' and 'Life of Pi', as well as in the HBO series 'In Treatment'.[41] On the other hand, Hollywood actors such as Sharon Stone, Kristen Stewart, Jackie Chan, Kim Kardashian, Daniel Radcliffe, Julia Roberts, Brad Pitt and Jean-Claude Van Damme have showed interest to work in Bollywood movies.[42] Going forward, the industry expects a greater interaction between the two industries.

After multiplexes, it's time for megaplexes

Continuous innovation and technology evolution have been the key drivers of the exhibition industry. After PVR pioneered multiplexes in India in 1997, several players such as Inox Movies, Fun Cinemas, Big Cinemas and Cinepolis have made inroads in the industry. We notice premium multiplex formats such as the PVR Director's Cut and other entertainment formats which include gaming and bowling.in a bid to attract audiences. Certain players are now developing megaplexes with 11-15 screens capable of showing 60-80 screenings per day. Such megaplexes would be built at an average cost of about INR 20 to 25 million per screen and would have a capacity of 2000 to 2500 seats.[43]

40. The Lunchbox does well at the Box Office, 15th October, 2013, Box Office India
41. Bollywood Stars in Hollywood Movies, 5t September, 2013, Zoom TV
42. Bollywood is the Buzzword among Hollywood actors, Hindustan Times, 22nd November, 2013
43. Industry discussion conducted by KPMG in India

With the number of movies releasing in every language increasing every year the challenge for exhibitors is to showcase diverse content effectively and successfully. Megaplexes allow a greater flexibility in programming and an opportunity to showcase a wider range of content. Another trend noticed is that the movie going habit has gone up from 3 movies a year to 10 movies a year and the audience is maturing to appreciate the script of the movie rather than just big stars.

- Devang Sampat
Business Head-Strategic Initiatives,
Cinepolis

Megaplexes are apt for a country like India where it would give freedom to tap and grow regional markets such as Telugu, Tamil, Marathi, Gujarati, Bhojpuri and other regional movies and give them space on the larger screens along with Hindi and English movies. It would also provide a fair opportunity for small and medium budget movies to release across various theatres and multiple screens.

Focusing on Tier II & Tier III consumers

With the focus now shifting to tier II and III markets, exhibitors are constantly exploring ideas to target the consumers. For instance, in order to gauge the actual potential of its online booking portal, BIG Cinemas developed an exclusive offer for its customers in tier II and III markets. Accordingly, BIG Cinemas offered '3+1 Free' for tickets booked from its portal. The initiative led to a 20 per cent increase in the number of online bookings for BIG Cinemas, without causing a significant reduction in the numbers of tickets booked online through third party ticketing portals.

The dichotomy in the exhibition business is that several pockets are saturated with the number of screens, while there are certain other pockets that continue to be underscreened. The opening weekend business for films is now an increasingly important parameter while defining the success of any film. Interestingly though, the same film behaves differently in West and in North over the week. While it is important for the film to take a big opening all over the country, but thereafter the behaviour of the film changes. The weekend to weekday business in west is heavily skewed towards the weekends but in north, the weekday business is still significant because the number of screens in a multiplex are lesser in North vis a vis West.

- Ashish Saksena
Chief Operating Officer,
BIG Cinemas

State incentives for film industry in India

Various Indian state governments are incentivising film makers to shoot films in their respective states. The film industry (Bollywood, regional and international) acts as an important partner for state governments to promote tourism in the locations where shooting takes place. Audiences are captivated by various aspects of the locations where the film was shot – aesthetic appeal, cultural vibrancy of the city/village, heritage, etc. Films also help spread awareness of 'Brand India' across countries globally and within India itself. Due to the weakening rupee, film makers are tending to shoot more films within India itself rather than foreign locales as earlier. In view of the enhanced exposure and tourist demands, the state governments are improving regional infrastructure, hotels, connectivity, safety, etc to increase tourism industry earnings. Hence, multiple state governments are offering incentives to film makers for shooting films in their respective states. Incentives offered by local governments are of various types:

- Fiscal benefits: Tax concessions provided to all film makers or grants provided to subsidise production costs.
- Promotion of regional cinema: Benefits provided specifically only to regional films or films satisfying certain language criteria.
- Film festivals and awards: Festivals, exhibitions, etc. to honor film makers and events to promote film shooting in states.
- Facilitation of shooting of films: Single window clearances for filming at locations, assistance in travel and accommodation, etc.
- Others: Film cities/studios, animation films and studios, etc.

Films act as catalysts by providing employment and impetus to the industry and more importantly it encourages the audience for visiting locations showcased on screen thereby promoting cinema tourism. The fall in the value of the rupee has increased the number of bollywood movies being shot in India, this presents an opportunity for more overseas movies to shoot in India, however film-makers have to obtain multiple shooting permits which has deterred them from shooting in India; a single window clearance to shoot films is the need of the hour.

- Kulmeet Makkar
Chief Executive Officer,
The Film and Television Producers Guild
of India Limited

Key initiatives of some of these states are listed below:

S. No.	State Name	Fiscal Benefits
1.	Maharashtra	• Mumbai, being the film hub of the country, has many film studios and film festivals taking place within it. Additionally, the film city has had many iconic Indian movies shot here. • The state government has provided 5 year tax exemption to single screen theatres under municipal councils and 7 year tax exemption to those located in rural areas.[44] • The state government has provided sanctions of INR 150 million to set up a film city in Chitranagari to serve as an alternative to the Goregaon film city.[45] • The Maharashtra Tourism Development Corporation (MTDC) has announced 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.[46] • Maharashtra was one of the Indian states which provided tax breaks to 'Bhaag Milkha Bhaag' due to the patriotic theme of the movie.[47]
2	Gujarat	• The state government is offering 100 per cent entertainment tax exemption to Gujarati films. The state government is also offering INR 500,000 subsidy to Gujarati language film makers.[48] • The state government is working on a policy to attract more film shoots in the state. The state of Gujarat also plans to facilitate film makers and provide discounts on government accommodations at shooting locations.[49] • The state government has started a single window clearance desk to help film makers scout locations and to provide logistic support.[50]
3	Andhra Pradesh	• Andhra Pradesh is the first state to earmark 7 per cent of the entertainment tax collected so that it is used for the development of cinematograph films and arts in the State.[51] • The state government has provided entertainment tax concession of 7 per cent for low budget Telugu films and 15% for high budget Telugu films. • As per the Andhra Pradesh animation, media, and entertainment policy (2014-2019), there are multiple incentives for the film industry – reimbursement of INR 500,000 to animation film makers, lease rentals and power subsidies, etc.[52]
4	Karnataka	• The state government has increased the reward given to national award winning Kannada films from INR300,000 to INR500,000.[53] • The government has decided to increase its subsidy to the Kannada film industry. The subsidy will now aid 100 films instead of 75 films earlier.[54] • The Karnataka AVGC policy aims 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.[55] The government also plans to set up an AVGC Centre of Excellence with funding from central/state governments and private players.[56]
5	Tamil Nadu	• The state government will provide 100 per cent entertainment tax exemption on films with Tamil names which also have a U certificate.[57] • The Tamil Nadu government has spent INR 80 million to upgrade infrastructure at the M.G.R. film city – setting up an animation and visual effects studio, dubbing theatre renovations, construction of hostels, etc.[58]
6	Uttar Pradesh	• Hindi films which are shot at least 75 per cent in Uttar Pradesh would be eligible to receive a grant of 25 per cent of its production cost or INR 10 million (whichever is less).[59] • The Uttar Pradesh government handed INR 10,000,000 to 'Dedh Ishqiya' and 'Bullet Raja' producers to attract producers to the state.[60] The state government has also exempted 'Dedh Ishqiya' from all entertainment taxes due to the state.[61] • Films in the local dialects of Awadhi, Braj, Bundeli and Bhojpuri to be extended the same sops. • Film directors selected for award under the Policy would be eligible for a grant of INR 12.5 million, if they produce their successive venture in UP.

44. Business Standard, Jan 2013, 'Maharashtra to charge extra entertainment duty'
45. Times of India, Dec 2014, 'Maharashtra sanctions Rs 15 cr for Chitranagari'
46. Financial Express, Dec 2013, 'Bollywood tourism takes off in Mumbai'
47. Hindu Business Line, July 2013, 'Bhaag Milkha Bhaag gets 6 months tax waiver'
48. Times of India, Dec 2005, 'Govt gives Gujarat films new lease of life'
49. Financial Express, April 2013, 'Indian states look to draw film makers'
50. www.gujarattourism.com
51. Ipr.nic.in
52. www.avcgi.org
53. Times of India, Feb 2009, 'Boost for Kannada film industry'
54. Times of India, July 2013, 'Subsidy makes more movies'
55. IBN live, Feb 2012, 'Karnataka unveils animation policy'
56. Business Standards, March 2012, 'Karnataka unveils animation policy'
57. IBN live, Feb 2009, 'No entertainment tax on films with Tamil name'
58. Times of India, Nov 2013, 'Ministers review renovation of film institute'
59. Business Standard, April 2013, 'UP amends film policy to attract producers'
60. The Hindu, Jan 2014, 'UP grants 1 crore aid to Dedh Ishqiya'
61. Rediff, Jan 2014, 'No tax for Dedh Ishqiya in Uttar Pradesh'

S. No.	State Name	Fiscal Benefits
7.	West Bengal	• The West Bengal government is planning to introduce a single clearance window which will process requests for films to be shot in the state[62] • The West Bengal government provides various subsidies for cinemas/multiplexes • New cinema halls – entertainment taxes subsidy up to 2 years • New multiplexes – entertainment taxes subsidy up to 4 years[63] • The state government has reduced entertainment tax on Bengali films from 10 per cent to 2 per cent to ease financial concerns of the regional film industry.[64]
8	Jammu & Kashmir	• The state government has decided to wave off taxes accrued on film makers during the days spent shooting in Kashmir[65] • The Kashmir Film Festival is held to support local Kashmiri films and to promote tourism in the state[66] • Films recently shot in Kashmir include 'Yeh Jawaani Hai Deewani' and 'Highway'.[67]
9	Rajasthan	• Films having been 75 per cent shot in Rajasthan and which have a 'U' certificate are 100 per cent exempted from entertainment tax for one year[68] • New cinema halls and drive in theatres are given breaks in entertainment tax for 3 years – 75 per cent in the 1st year, 50 per cent in the 2nd year and 25 per cent in the 3rd year • Rajasthani language films with a 'U' certificate are given an aid of INR 500,000 if they are shot extensively in Rajasthan[69] • International films shot in Rajasthan include 'Dark Knight Rises' and 'Darjeeling Limited'.
10	Goa	• The international film festival of India is held annually at Goa, with participation from various film makers across the world and India as well[70] • A single window clearance system for permission to shoot films anywhere in the state is already being followed in Goa. This system has been proposed to be adopted for the rest of the country by the Ministry of I&B[71] • Goa is one of the most popular locations for film shooting in India with over 100 films having been shot here over the past year including 'Chennai Express', 'Once upon a time in Mumbai dobaara' and 'Go Goa gone'[72] • The Goa state government is reviewing a proposal which allows film makers to claim up to 5 per cent of the shooting cost incurred in Goa.[73]
11	Punjab	• The state government is setting up a film city and film institute in the vicinity of Mohali to promote the Punjabi film industry and to also facilitate film makers who are shooting films within Punjab[74] • The Punjab state government plans to award quality film makers and actors with rewards in the range of INR 1 million to INR25 million. Additionally, the state government also plans to set up 1-2 screen cinemas in rural locations to facilitate film watching for the masses[75] • 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.[76]
12	Himachal Pradesh	• The Himachal Pradesh government provides 100 per cent exemption of entertainment taxes to film makers[77] • The state government is making a draft film tourism policy which includes incentives for the film industry such as single window clearance for shooting permissions, state government facilitating travel and accommodation during duration of stay, etc.[78]

62. NDTV, Aug 2013, 'West Bengal plans to make it easier for films to be shot'
63. www.westbengal.gov.in
64. Business Standard, April 2010, 'Entertainment tax benefit to boost Bengal film industry'
65. Daily Kashmir Images, Jan 2014, 'Govt goes all out to woo film makers'
66. DNA India, Dec 2013, '22 films to be screened at Kashmir International film festival'
67. Times of India, June 2013, 'Karan Johar has given Kashmir credit'
68. www.rajtourism.in
69. Times of India, July 2012, 'Rajasthan cinema on revival mode'
70. Times of India, Dec 2013, 'International film festival of India'
71. Times of India, Jan 2013, 'A single window clearance'
72. Hindustan Times, August 2013, 'Goa shines bright on Bollywood film shoot map'
73. Times of India, Sep 2010, 'Govt may provide tax rebate to filmmakers shooting in Goa'
74. Times of India, May 2013, 'Punjab govt sets up film institute to promote Punjabi film industry'
75. Times of India, Sep 2013, 'Punjab to have rural cinemas'
76. Times of India, Oct 2013, 'Debt ridden Punjab to end 10-yr waiver of entertainment tax'
77. Financial Express, Dec 2013, 'Bollywood's obsession with Krish 3, Chennai Express'
78. Times of India, July 2013, 'Himachal Pradesh to boost film tourism'

India has many locations which can cater to varying cinematic tastes – Indian or international. From snow clad mountains to exotic beaches and historical monuments, there are numerous locations which are ideal for film making. Multiple proposals are also being discussed at the national level such as creating a single window clearance for film shooting across the entire country to reduce producer grievances.[79]

Cinematograph Bill, 2013

The present Cinematograph Act was enacted in 1952. Since then, Indian cinema and society has gone through multiple and radical changes. The mediums of cinema, tools and technologies and the audiences have metamorphosed though time. The key objective of the Cinematograph Bill, 2013 is to make appropriate amendments to the Cinematograph Act, 1952 keeping in mind the changing perspectives of audiences and artists.[80] The expert committee (Justice Mukul Mudgal Committee) on this Bill includes persons from various fields such as law, film and public administration.

One of the key trigger points for this Bill was the handling of Kamal Hasan's film 'Vishwaroopam' which was facing state government bans despite being cleared by the Central Board of Film Certification. The ban triggered massive loss of revenues due to suspension of screening in multiple Indian states despite certification from the Central Board of Film Certification.[81] Key focus areas of the Cinematograph Bill, 2013 include advisory panel representation, portrayal of women, obscenity and piracy and film certification guidelines and regulations.

Justice Mukul Mudgal committee had submitted its report on 9th October, 2013 on issues concerning the Cinematograph Act to the Ministry and the Cinematograph Bill, 2013 has been put on the Ministry of Information and Broadcasting's website.[82] The draft Bill has been put up on the website to ensure public viewing of the proposed act and to foresee any future concerns which might need to be addressed. The Bill is expected to be passed in the near future unless further amendments are required.

It is high time that this archaic Cinematograph Act of 1952 is amended having incorporated the contemporary changes and addressing needs of the film industry. Though the Industry has welcomed recommendations made by Justice Mukul Mudgal committee on the proposed Cinematograph Bill 2013 which addresses many of the significant issues faced by the Film industry, however, introduction of the fresh Cinematograph guidelines would be equally imperative for smooth implementation of the proposed Bill.

- Kulmeet Makkar
Chief Executive Officer, The Film and Television Producers Guild of India Limited

Key industry considerations

Key positives of the Cinematograph Bill, 2013 are listed below:

- **Appropriate advisory panel representation** – The committee has proposed a qualifying criterion for appointing members of advisory panels. These criterion have been designed to address issues on selection procedure, applicant credibility, and quality of advisory panel members. The proposed guidelines includes panel selection parameters such as profession/experience in relevant fields (art, cinema, law, public administration, etc), representation of women, etc
- **Single board film certification** – Film certification, has always, solely remained with the central government and not with the state government. Yet, there have been multiple instances of films receiving approval from the central government but are faced with delays/suspensions on certification grounds due to bans issued by state authorities. In the proposed amendment, it has been clearly stated that films, once certified by the board, are allowed to be screened across all states. Films such as 'Vishwaroopam', 'Madras Café', 'Ram Leela', 'Sada Haq', etc have faced major issues due to regional authorities issuing bans over the past year.
- **Expanded classification of films** – The 2013 Bill has proposed film classification as per international standards. Accordingly, the committee has proposed 5 categories of film certification based on audience's age– Unrestricted exhibition (U), persons completed 12 years of age (12+), persons completed 15 years of age (15+), restricted to adults (A) and restricted to persons having regards to nature and content of film (S).
- **Improved litigation process** – To prevent overload of cases at various high courts across the country, the committee has proposed that all appeals relating to certification are to be filed with the Film Certification Appellate Tribunal (FCAT). This also has additional benefits of reducing applicant's costs and reducing frivolous litigation.
- **Stronger penalties for piracy** – Piracy is one of the major concerns of the film industry due to substantial loss of revenue (estimated to be around 55 per cent).[83] The committee has recommended fine extending from INR500,000 to INR2.5 million and an imprisonment which may extend to 3 years for unauthorised duplication of certified films and also to be made as sustentative non-bailable offenses.[84]

There are certain key concerns around the proposed Cinematograph Bill, 2013 which have been raised by various industry representatives:

- **Expedited film certification process** – There is a requirement to expedite the film certification process. A maximum turnaround time of 30 days has been suggested by various industry representatives to prevent issues of indefinite certification delays.

79. Live mint, Oct 2013, 'Single window clearance for film shoots in India soon'
80. Cinematograph Bill, 2013
81. DNA India, Jan 2013, 'Delayed release of Vishwaroopam'
82. Press Information Bureau, Oct 2013, 'Cinematograph Act Report'
83. Film Guild Letter to Ministry I&B, 2013
84. Cinematograph Bill, 2013

- **Stronger penalties for frivolous litigation** – There are a large number of cases, disputing films content certification, filed across various states just before the release of film causing significant financial losses to producers. In case of frivolous litigation, a penalty of assuming legal costs of the film makers could be imposed on the applicant.
- **Immunity from offenses** – There is a requirement for expanding the definition of film maker, distributor, exhibitor and others immunity from punishment of obscenity for a film which has already been certified. This needs to be expanded to immunity from obscenity, hurting religious sentiments, violence and gambling as well.

Overall, the Cinematograph Bill, 2013 is a step in the right direction for creating a version which has kept considerations of the current perspectives of the audience, artists, film makers and society as a whole. Further amendments might be required to ensure a smoot process in implementing the Cinematograph Act. The Information and Broadcasting Minister, Manish Tewari, has shown commitment towards bringing the Bill into force in the near future.[85] However, with elections looming, this task will now probably have to be performed by the next government.

Key challenges

Piracy

The growing internet user base in India is fuelling piracy like never before. With the advent of technology and the proliferation of internet in the tier II and tier III markets, physical piracy has transformed into online piracy which operates through the Peer-2-Peer (P2P) networks. P2P sharing does not leave a footprint and thus makes it difficult for the authorities to clamp down on the perpetrators.

According to Motion Pictures Distribution Association (MPDA), the local office of the Hollywood's Motion Picture Association (MPA), India is the fourth largest downloader of films after the US, Great Britain and Canada.[86] Recently, MPDA carried out a study on piracy by tracking downloading IP-addresses on P2P networks. The study revealed that between April to September 2013, India was among the top 10 countries in the world with the largest number of illegal P2P activities.[86] Most of the Hindi film downloads happen in Delhi, Bangalore and Mumbai whereas Tamil films are mostly downloaded in Chennai and Bangalore.[87]

Online content theft is the biggest threat to creative industries today. The growth of the Internet and evolution of technology makes Technological Protection Measures (TPMs) relevant. Stakeholders and the Government need to unite to create public awareness campaigns that help create respect for IP, while informing online content consumers about various legitimate content delivery platforms currently available in India.

- Uday Singh
Managing Director,
Motion Pictures Association

The Andhra Pradesh Film Chamber of Commerce (APFCC) conducted an analysis of the number of illegal links posted in such P2P networks and found that the movie 'Boss' had around 3,000 links up within 48 hours of its release. Such uploads have a multiplier effect as each link further allows multiple users to download movies and thereafter share that movie within their private network.

Internet Company Envisional found that online piracy mainly happens through the file-sharing networks like BitTorrent and Cyberlockers, or web based file hosts such as RapidShare or HotFile and is led by pirates with camcorders who are part of larger crime syndicates or 'release groups'.[88] Building awareness among all stakeholders like multiplex owners, police and judicial system and educating advertisers is necessary to crack down such crime syndicates.

With the advent of digitisation, penetration of movies into newer geographies, initiatives taken by industry bodies and the amendment of the Cinematograph Act of 1952 to form a new improvised act in 2013, the Indian film industry is addressing the issue of piracy by integrating all available resources. The various steps taken by the industry are listed below:

Cinematograph Act of 2013

The Cinematograph Act of 2013, constituted by the Ministry of Information & Broadcasting (MIB) has proposed to address issue of intellectual property theft by declaring piracy as a non-bailable offense. In 2011, MIB issued a notice to multiplex owners under Section 12(4) of the Cinematographic Act, stating that they shall have to screen anti-piracy clip to educate consumers about the ill effects of piracy. The Ministry has made it mandatory for the multiplex owners to screen such videos and violation of which will have implications on the license issued to multiplex owners.[89] The aim of this move is to a create culture of respecting intellectual property and discouraging piracy amongst the audience.

Reducing release window:

The Indian film Industry is fighting these challenges through various initiatives. With digitisation, the theatre-to-television window has further reduced from 3-4 months in 2012 to around 2-3 months in 2013.

85. Times of India, Oct 2013, 'New Cinematograph Act'
86. India major online film piracy, 12 February 2014, Deccan Herald
87. Industry Discussions conducted by KPMG in India
88. India major online piracy hub,30 January, 2014, Deccan Herald
89. Ministry of Information & Broadcasting Issued Notices to Combat piracy of Films & Music.pdf

Films such as 'Lootera', 'Chennai Express', 'Gori Tere Pyar Mein' and 'Madras Café' had their TV premiere within 3 months of their release date whereas 'Once Upon A Time In Mumbai Dobara' (OUATIM 2) and 'Boss' had their TV premiere in less than 2 months.[90]

Movie	Theatrical release date	TV premiere date
Chennai Express	09 Aug 2013	29 Oct 2013
Lootera	05 Jul 2013	22 Sep 2013
Gori Tere Pyaar Mein	22 Nov 2013	18 Jan 2013
Madras Café	23 Aug 2013	03 Nov 2013
OUATIM 2	15 Aug 2013	29 Sep 2013
Boss	16 Oct 2013	23 Nov 2013
Bhaag Milkha Bhaag	12 Jul 2013	13 Oct 2013

Source: Press releases

There are many filmmakers taking a strong stand on piracy with Yash Raj Studios releasing 'Dhoom 3' only on digital screens. Producers have taken steps to prevent piracy including reducing the release window between the official release of the films in cinemas and their subsequent release on DVDs and TV, wider release of films on digital screens, and day and date release of movies on Video on Demand platforms in countries where theatrical release is not possible. All these strategies are intended to reduce the opportunity for criminals to flood the market with pirated products, and reduce the consumer incentive to indulge in piracy.

Bollywood must re-look at and redefine the way it windows new releases across theatrical and other platforms. We live in a multi-screen and multi-platform world, where piracy is a reality. Why not shrink, or even collapse, if possible, distribution windows altogether? Why not release new films across multiple PAID platforms on day 1 and FREE ad-supported platforms a few weeks later, thereby allowing a viewer to watch a film the way he/she wants to? Our friends from the music industry release their music on paid and free platforms simultaneously, earning from both!

- Rajjat Barjatya
Managing Director & Chief Executive Officer,
Rajshri Entertainment Private Limited

In 2013, with 9 movies crossing the INR1 billion mark and two movies of these further crossing INR2 billion at box office collections, Bollywood has stopped complaining about piracy.

Initiatives to create consumer awareness across stakeholders

Filmmakers today are making a conscious effort to create awareness about the ill effects of piracy among their audience in the hope that if people realise the connection between pirated films and organised crime, they will stop purchasing fake DVDs or downloading films illegally. The Motion Picture Distributors' Association (MPDA) continues to work with local industry bodies to conduct training and sensitisation programs for law enforcement in addition to highlighting key threats, challenges of content theft and remedies to tackle the same. Till date, MPDA India has trained 1450 staff[91] in multiplexes across seven cities through the 'Make A Difference (MAD)' training program.

Another initiative has been undertaken by the Andhra Pradesh Film Chamber of Commerce (APFCC) in association with the MPDA with support from the U.S. Consulate General, Hyderabad. In 2013 they launched an interactive mobile application called 'iMovie Cop' (IMC), to facilitate seamless flow of information on piracy and content theft in films with support from the South Indian Film Chamber of Commerce (SIFCC), the Film and Television Producers Guild of India (FTPGI) and the Film Federation of India (FFI). 'iMovieCop' is the first ever anti-piracy app. It is a multi-platform and multi lingual (8 Indian languages including English, Hindi, Bengali, Gujarati, Telugu, Kannada, Malayalam and Tamil) mobile application. The application provides information on the existing laws and ways in which one can prevent content theft. The application is available on all iOS and android devices and provides users a platform to report incidents of piracy. Apart from that, it has the following features:

- Provides users an option to attach images of the incident/ culprit/ screen shot of an infringing website
- Provides information on applicable central and state laws
- Provides listings of theatres across India
- Provided reward points to all users who provide useful and actionable information
- Provides anti-piracy news as they take place from across the world
- Provides links to all enforcement agencies (across the world) dealing with anti-piracy issues
- Provides Anti-piracy campaign videos from across the world to spread and enhance awareness on piracy among the communities and general public
- Provides access to trailers of all new and upcoming movies in all the 8 languages as mentioned above to keep the users updated.

90. Bollywood Movies 2013, Indicine
91. Industry discussions conducted by KPMG in India

Industry body initiatives against piracy

MPA: Joint efforts by MPA's local representative office and alliance partner APFCC resulted in arrest of members of two major criminal camcording syndicates operating in Surat (Gujarat) and Indore (Madhya Pradesh) in the first half of the year. As a consequence of these successful enforcement operations, there has been a drop of 36 per cent in the camcording rates in India in 2013 over 2012.[92] These figures were identified through 'forensic matches', a process by which MPA analyzes pirated copies in order to figure out where they came from.

- The first operation targeted a major camcording syndicate nicknamed 'Yamraaj' located in Indore during the release of 'Iron Man 3'. The operation resulted in the seizure of a hi-tech desktop system, 8 core, 12 GB RAM, 500 GB hard disc, 1 GB graphic card, 3 HD recording devices, DVD copier, 200 empty DVDs, scanner, software converter and external DVD writer.
- The second operation, based on evidence linked to the first operation was against a major release group operating out of Surat (Gujarat) nicknamed 'NICkkkDon'. The operation resulted in the seizure of 7 hard discs, 2 remote desktop servers, 1 PC, 2 laptops, 1 high end mobile phone router for changing the IP address, 1 modem and 2 remote servers. The second camcording syndicate owned 33 websites and comprised of 6000 members. The above enforcement operations resulted in directly impacting the businesses of criminal camcording syndicates operating in these areas.[92]

APC of Kerala: The Anti-Piracy Cell (APC) of Kerala Police Crime Branch along with Centre for Development of Advanced Computing (C-DAC) is planning to develop a new software to check the pirated content on the web and do cyber-patrolling of search websites, torrent based file distribution sites and social media networks. This software will help to curb online piracy by preventing uploading of films. Though the audiences are moving to quality prints than the pirated camcorder prints, the industry has a long way to go before it is able to eradicate piracy.[93]

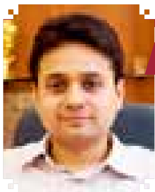
Case study

The 90 minute high quality leak in the footage of Pawan Kalyan-starrer 'Attarintiki Daredi' sent shock waves not only across the film's unit but also amongst the industry circles. The movie faced piracy problems when a large portion of the film got leaked on YouTube before its release date. The HD footage was later downloaded, made into a CD and sold in the market. The film's producer BVSN Prasad filed a complaint with the cybercrime cell who cracked the case within a day and arrested 5 criminals including one production assistant, constable and three others in connection with the footage leak. The piracy resulted in a pre-release of the movie from 09 October 2013 to 27 September 2013. To prevent similar episodes the AP Film Chambers of Commerce is preparing a check list for film producers.

Source: Attarintiki Daredi piracy culprits caught, www.gulte.com, september 2013

Rising cost of talent:

One of the unique characteristics of Indian film industry is the concentration of power in the hands of top few actors and now directors and technicians. The characteristic is prominent across all language markets and more strongly in case of Hindi (Bollywood) and the South Indian film industry (Tamil, Telugu, Malayalam and Kannada). With increasing reach of cinema, the 'star-power' has also increased many folds.



The Bollywood film industry will have to move from a star centric culture to making content the king of films; this will ensure a balance between risk and reward for producers. There is a significant increase in the cost of production of films on account of high talent costs, often as high as 50 per cent of total cost. These costs will need to be rationalized (through performance related back end structures) in the future, to enable all stake holders benefit from a film, irrespective of its genre or star cast.

- Apoorva Mehta
Chief Executive Officer,
Dharma Productions

Until a couple of decades ago, actors did not pay much attention to the business aspect of cinema. However, over the period of time we have observed actors developing a business sense and the ability to monetize their fan following. Many have increased their fees substantially while a few top A-lister actors also demand a share in intellectual property rights (IPR). The share could range anywhere between 0-50 per cent[92] depending on the actors success rate and revenue contribution at the box office. Many actors now have their own production houses and mostly enter into co-production deals with studios. Industry sources continue to emphasis that the current system is unsustainable from a long term perspective as the high talent acquisition costs leads to higher risks and in certain cases impact the return.

Internationally, many studios have built strong franchises such as 'James Bond', 'Star Trek', 'Avengers' or 'Batman' which are concept led movies and not heavily dependent on the star cast.

92. Industry discussions conducted by KPMG in India
93. Kerala teen creates website, uploads pirated movies, gets arrested, 16 January 2014, India Express

I am surprised as to how a revenue or top-line growth or scale of slate seems to dominate conversations around Studios or film businesses. The focus instead should be to build a profitable motion picture business that is rewarded adequately for the enormous risks that are underwritten. The current equation with fixed high talent costs and a share on the upside but none whatsoever on the downside is not healthy for the industry.

- Ajit Andhare
Chief Operating Officer,
Viacom 18 Motion Pictures

The industry is also promoting newer talent as they come at a much lower cost which reduces the box office risk and improves the producer's return on investment. During 2013 success of movies such as 'Aashique 2' and 'Student of the Year' collected INR700 million and INR600 million respectively reflects this growing trend. 2014 is expected to see a further increase in content driven slate with greater number of movies featuring younger talent.

Slowdown in real estate development impacting delivery of new multiplexes

A few years ago, the growth in construction of malls had fuelled the rise of multi-screen theatres across the country. Around 250-300 malls came up in the country in the last 2 years with 70-80 per cent vacant space. Mismanagement coupled with low footfalls and poor brand pull led to the shutdown of about 40 of these malls. Only 250 new malls are planned in the next few years whereas there is space for at least 2000 malls in the country, a clear indicator of the gap.[94] This gap is affecting the Bollywood industry with almost 150 multiplexes in India getting trapped in project delays because of the market slowdown. The average collection of multiplex screens in 2012 was INR0.5 million per screen for 'Rowdy Rathore' and INR0.65 million per screen for 'Barfi'.[95] With the addition of another 100 screens, the collections could have almost doubled for these movies.[96] Tier I cities have witnessed a huge decline in the supply of malls with Pune facing the sharpest decline of 87 per cent, followed by Mumbai and Delhi with a drop of 72 per cent and 70 per cent respectively. Exhibitors have started getting affected with theatres losing about 150 new screens in the last one year due to delay or the static nature of the development of these screens. New developers are shying away from retail or commercial space with development in tier I cities almost coming to a halt.

These challenges have come at a very wrong time when films are ready to release on wider platforms due to digitization but do not have quality cinemas to screen these films.[97]

PVR Cinemax	408 Screens
INOX + Fame	296 Screens
Big Cinemas	258 Screens
Cinepolis	84 Screens[98]
FUN Cinemas	78 Screens
Satyam Cineplex	40 Screens[99]

Source: Company websites

With a rental cost of INR 55-60 per square feet, rise in land cost due to low average occupancy at multiplexes, unexploited infrastructure, untapped opportunities and long gestation periods; many developers claim that construction of malls is no longer a viable option as it becomes a very costly proposition for exhibitors to strike a win-win deal with the developers. The ideal situation would be when the construction period is shortened to curb the high interest rates of 13-14 per cent while creating a chain of malls. Also with foreign direct investment in retail slowly opening up, many international brands are trying to capture market share in the emerging Indian market which will again boost the construction of malls across the country.[100]

Slow uptake of merchandising in India

Unlike other countries such as US, U.K. and China, India's merchandizing market is still very premature. Some of the reasons for low uptake of the category include:

Limited focus and reach: Unlike Hollywood, where a film's merchandise is promoted across the globe; most Indian filmmakers have a relatively limited reach. According to industry estimates, though outside associations in India are still a small business opportunity, films can recover almost 10-15 per cent of their costs through this non-traditional revenue model.[101]

Piracy: Film piracy, which has plagued the Indian film industry for several years now, has its spillover effects on film merchandising as well. Lookalikes and best copies of original film merchandise are sold in grey/open markets for a much lesser price.

94. Is India's love affair with shopping malls over?, 26th August, 2013, Business Standard
95. How real estate affects Bollywood, 4th March, 2013, Silicon India
96. Industry Discussions conducted by KPMG in India
97. Bollywood loses out on 150 new multiplex screens, 15th February, 2013, The Economic Times
98. Cinepolis to double the number of screens in india next year, 4th December, 2013, Business Standard
99. Satyam Cineplexes plans to raise Rs.100 crores, Livemint, April 2014
100. Why real estate slowdown is affecting Bollywood, 7th March, 2013, NDTV Profit
101. The Bollywood merchandise dream factory", 2011, Bollywood.com

Diverse audience to be reached with different propositions and price points: India is an extremely price sensitive market with a relatively diverse audience. Hence, a 'one size fits all' approach does not hold true for India. It is extremely difficult for filmmakers to customize market and infuse an element of price differentiation while marketing their film's merchandise across various Indian states.

Absence of iconic figures: Hollywood has, over the years created iconic figures such as Batman, Spiderman, Superman, and Iron Man amongst several others. With an exception to 'Chhota Bheem' and 'Krrish', India is yet to create iconic figures on a scale that will generate robust revenues for the producer.

Product quality and utility concerns: Film merchandise in India fetches lower demand owing to compromising product quality which does not appeal to the masses. Moreover, in several scenarios the utility value of these products refrain the consumer from initiating a purchase.

Limited popularity period: It is important to note that the popularity period and demand of a film's merchandise is highly dependent on the box office success of the film, and may last up to 8-9 months after the film's release. Successful franchises have longer popularity period which extends to over multiple years or even decades.

Lack of exhibition platforms for independent films

Unlike the west, India has a dearth of film festivals which can prove to be an excellent platform for showcasing low-budget Independent films. For example operating since 1993, U.K.'s Raindance Film Festival has proved to be an ideal platform for new filmmakers to hit the cinematic scene. Moreover during film premiers at such festivals, independent filmmakers will have an opportunity to interact with the industry talent, thus providing them an excellent networking opportunity.

With increasing representation of Indian film at various international film festivals the demand for Indian content by international audience is gradually expanding on back of two key drivers – (a) foreign audiences' receptiveness to watch films with subtitles and (b) international producers opening up their respective markets albeit for co-produced movies.

- Nina Lath Gupta
Managing Director,
NFDC

India struggles in terms of dedicated venues for showcasing Independent films. Although, Sundance's Film Forward program recently came to India, and PVR Director's Rare initiative are creating a positive outlook for the independent film industry, one key missing element in the entire ecosystem is the availability of dedicated screening venues. A dedicated venue for film screening venue will provide a much-valued theatrical release to independent films and also serve as an exclusive space where filmmakers can nurture their niche audience.

Fund raising for independent films

Funding is one of the key issues faced by independent filmmakers in India. Although few Indian independent films have been crowdfunded in the past, India lacks the presence of dedicated funding platforms such as Indiegogo – an international crowd funding platform raising millions of dollars by inviting investors worldwide to finance independent films and other innovative projects.[102] In addition to Indiegogo, the west also showcases presence of dedicated crowd funding platforms such as Film Interactor - the world's first crowd funding platform created specifically for the Independent Film community.[103] Independent filmmakers usually have constrainted budgets and hence are unable to market and promote their films in the most desired manner. Therefore, several independent films skip audience attention and are completely out of sight in less than a week of their release.

Indian audience is still inclined towards commercial films and the absorption rate of independent films in India is very low as compared to the west. Although films like 'Ship of Theseus' is a step forward in the right direction as far as independent films are concerned, however it will take a while for the audience and distributors to accept this changing trend.

Consumption of online media (video, music and seamless streaming) is growing exponentially, driven by the rapidly growing smartphone mobile user base. Content creators are leveraging on various innovative content delivery mechanisms to boost their digital revenue streams. The future does hold promise for financial institutions to participate in various funding options for content creators /aggregators where content can be exploited across various emerging distribution platforms provided the risks & concerns are adequately addressed.

- Karan Ahluwalia
President and Country Head – Media and Entertainment, Fine Arts, Luxury and Sports Banking Group, Yes Bank

102. Indiegogo company website
103. Film Interactor Crowd Funding Platform for Independent Films, Filmproposals.com

How these films raised funds?[104]

Movie	Produced / Directed by	Budget	Source of funds raised
Monsoon Shootout	Anurag Kashyap Films / Amit Kumar	INR123.7 million	• The British Film Institute: INR5 million • Arte France: INR15 million • Anurag Kashyap Films, Dar Motion Pictures and Pardesi Films: Balance as equity
Tasher Desh	Overdose Joint and Anurag Kashyap Films / Kaushik Mukherjee	INR50 million	• Investments by Overdose Joint, Anurag Kashyap Films and NFDC • Dream Digital: Music Producer (10% stake in profit) • Entre Chien Et Loup: Co-Producer
I Am	Anti-Clock Films / Onir	INR35 million	• Via Facebook and Twitter: INR15 million • Anti-Clock Films: INR10 million • Juhi Chawla: INR10 million
Chauranga	Anti-Clock Films / Bikas Mishra	INR35 million	• Anti-Clock Films: INR10 million • Pong (German Production House): INR10 million • Goteborg International Film Festival Fund: INR1 million
Shab	Anti-Clock Films / Onir	INR50 million	• Via Facebook and Twitter: INR15 million • Epicentre (French Production House): INR10 million • NFDC: INR25 million

Few international funds available to Indian producers include:

Source of Funds	What is it?	Who can apply?
World Cinema Support (Cinemas Du Monde)	A new fund of the French Ministry of Culture and Communication and Ministry of Foreign and European Affairs to support international co-productions. The fund is granted to foreign feature-length films seeking support from French co-producers.	• The film should be a co-production between India and France. • Only a French production company can apply for the fund. • Between 50%-75% of the grant should be spent by the French production company.
Hubert Bals Fund	The Hubert Bals Fund of the International Film Festival Rotterdam supports projects from Africa, Asia, Latin America, Middle East and parts of Eastern Europe. Shorts, documentaries and films made for television are not taken into consideration. Creative documentary applications are only accepted for post-production category.	• An Indian writer-director can apply for the Script and Project Development Fund with a work-in-progress script. • An Indian producer can apply for the post-production fund with a first cut of the film.
Asian Cinema Fund	The Asian Cinema Fund of the Busan International Film Festival offers grants in three categories: • Script Development Fund, • Post Production Fund and • Asian Network of Documentary Fund.	• Fiction films are eligible for script development and post production funds. A writer-director or a team of writer-director can apply for the script development fund with a work-in-progress script. • Adaptations are not eligible, only original scripts are accepted. • An Indian producer can apply for the post production fund with a rough or final cut of the film.

Source: 7 funds available for Indian film makers, 17 July 2013, dearcinema.com

104. Crowdsourcing in India, 01 March, 2012, crowdsourcingindia

Source of Funds	What is it?	Who can apply?
Global Film Initiative	• The Global Film Initiative's Granting Program in the USA awards fifteen to twenty grants per year, of up to USD10,000 each. • Funds received from grants are used to support completion of film production and to subsidize post-production costs. • Grants are not available for documentaries or short films.	• An Indian producer can apply with a project which has 50 per cent of financing in place. • The film should be more than 65 minutes.
Films From South	• Norwegian Film Fund to support production of films from developing countries. • Both fiction and documentaries are eligible. • Indian films which have received this fund are: Sourav Sarangi's 'Char…the no man's island' and Ritu Sarin's 'When Hari got Married.'	• An Indian producer can apply with a project. • The project must have a minority Norwegian co-producer attached. • 50 per cent of the financing needs to be in place. • The film should be minimum 50-minute in length.
South Visions	• A Swiss film fund initiated by Fribourg Film Festival that supports films from Asia, Africa, Latin America and Eastern Europe and guarantees their distribution in Switzerland. • Both fiction and documentaries are eligible.	• The application has to be submitted by the production company from the country of origin of the project. • A production company can submit upto 3 projects and can apply for projects under development or for the post-production
Doha Film Institute Grants	• Doha Film Institute offers production and post-production funding for feature-length narrative films (70 minutes or longer). • Documentary projects are eligible by invitation only. Short films are not eligible. • USD50,000 to 100,000 is available for production and USD30,000 to 75,000 for post-production.	• To be eligible for application, a producer and production company must be attached to the project. The project should be director's first or second feature-length film.

Future trends

Retailing in theatres

The theatrical business is extremely content sensitive leading to a constant need for exhibitors to increase average revenue per user. Alternate revenue streams are likely to become an important source for driving sustainable business value.

Multiplexes have brought standardization to the entire movie watching experience – from overall hygiene levels to variety offered at the food concession stalls, to the comfort of the seats, the advanced cinema viewing through use of the latest sound and display technology. Effectively these have set the standards for the Indian audiences across locations from metro cities to deep down in the tier II and III markets.

Today, theatres offer much more than a cinema viewing avenue - getting captive audiences and dedicated footfalls annually, which could be capitalized by retailers. There are many possibilities for retail exploration with multiplex chains with hybrid business models. BIG Cinemas has taken initial steps towards building a business model whereby it can leverage its existing multiplex network to bring about a change in the way Indians shop.[105]

In an era of multiple multiplex chains, differentiation becomes a crucial driving point for the business, as also the revenue recognition from alternate revenue streams. Multiplexes in India offer exclusivity and captivity like no other entertainment avenue and thereby have the potential to become the next apt retail touch point.

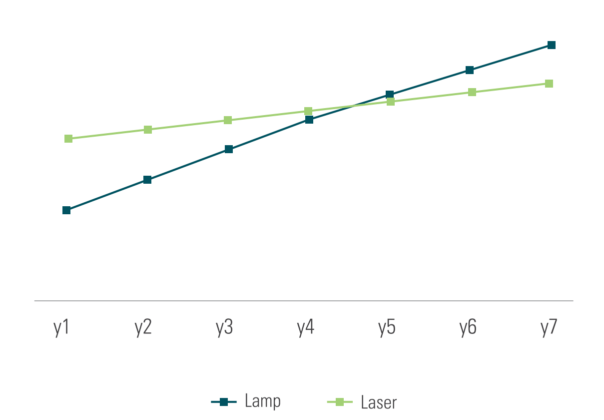
- Venkatesh Roddam
Chief Executive Officer,
Reliance MediaWorks

105. Crowdsourcing in India, 01 March, 2012, crowdsourcingindia

Laser phosphor projectors in theatres

Theatre audiences, across the world, have always demanded that viewing experiences of films is continuously improved through technological innovations. One of the key breakthroughs expected to be adopted in the future is the use of laser phosphor projectors in film theatres. To cover the entire colour spectrum, laser phosphor projectors use the relatively cheaper blue laser light and a phosphor when which produces red and green colours. While pure laser projector also exists, they are not economically viable to be used for business purposes. The key cost advantage that laser phosphor projectors have over current lamp based projectors is that the total cost of ownership (TCO) for laser phosphor is lower after a usage period of 4-5 years.[106]

Accumulated TCO



Source: xxxxxxxx

Key advantages of using laser phosphor projectors are:

- Longer service life – Laser phosphor projectors, including phosphor wheel and lasers, have a service life of 20,000 hours while lamps of current projectors need to be replaced within 1500-6000 hours.[107]
- Immediate dimming – Laser phosphor projectors can be dimmed from 100% to 0% within milliseconds so that brightness can be adjusted as per content requirements. This is in contrast with lamp based projectors which take a few seconds or even minutes to adjust brightness while watching the movie or to turn on/off the projector.[108]
- Lower operating costs – Due to high durability of laser phosphor as compared to lamp based projectors which need to be constantly maintained and replaced due to lower lamp service life. Additionally, power costs are also lower for laser phosphor projectors.

Key concerns for using laser phosphor projectors are:

- Higher one-time costs – Capital costs are higher when compared to conventional projectors, though, they are expected to reduce as the technology matures.
- Regulatory issues – Countries across the world (i.e. USA) have various laws prohibiting the use of lasers, above a certain power limit, based on outdated laws to protect audiences in light shows which took place 30 years ago. In India, regulations of laser use are ambiguous as laws have not been developed specifically for laser technology. There is a need to educate law-makers as well as audiences on the safety of lasers and the various precautions taken by the industry.
- Audience concerns – Audiences are still skeptical about the safety of laser use within cinema halls and at their homes.

Laser projectors are going to be installed at various theatres globally including United States, Australia and Japan.[109, 110] The famous Grauman's theatre in Hollywood, which was converted into a laser only projector hall in late 2013, has met with very positive reviews after projector up gradation.[111] Additionally, laser projectors can also be set up at museums, educational institute and personal homes.

Laser projectors are expected to be at the forefront of technology and already have multiple advantages over state-of-the-art lamp based projectors, despite low technology maturity, due to superior cost advantages and enhanced viewing experience for the audience.

The rally of sequels to continue

Industry discussions indicate towards a trend where most players would like to produce sequels. The idea is to leverage the historical success of certain movies and build strong franchisee around them. Dhoom and Krrish brands have been cited as case examples of how Bollywood is learning from Hollywood in building a franchise over long term and monetizing it across multiple platforms. Some of the sequels lined up in 2014 include 'Shaadi ke Side Effects', 'Hate Story 2', 'Welcome Back', 'Ragini MMS 2', 'Bhoothnath Returns' and 'Singham 2'. Expectations and budgets coupled with star power are exepcted to rise with each new sequel.[112]

> In India, the intellectual property driven franchise model such as the Marvel franchises is yet to arrive. While franchises and sequels are beginning to work in India, the concept is still that of a Star driven franchise. Some movies are starting to differentiate such as Dhoom 3 which was a villain driven franchise and ABCD which is a dance driven franchise.
>
> **- Abhishek Maheshwari**
> President and Head, Corporate Strategy & Business Development, Disney India

106. www.barco.com
107. www.business.pansonic.uk
108. www.optik-bb.de
109. 'IMAX demos new laser technology', www.variety.com, 19 November 2013
110. 'IMAX, Sasaki Kogyo ink deal', www.hollywoodreporter.com, 12 March 2013
111. 'IMAX is innovating with remote theatrical quality control', www.slashfilm.com, 11 Sept 2013
112. Weekend Entertainment: Sequel Mania continues as Bollywood buffs can't get enough of what they loved once, 17 January, 2014, Mail Online India

Conversion of TV shows to movies

Historically, Hollywood has successfully transitioned various popular television shows into movies. Some examples include 'Mission: Impossible', 'The A – Team', 'The Addams Family', 'Alvin and the Chipmunks', 'The Lion King', 'The Avengers', 'Batman', 'The Flintstones', 'Samurai Jack', 'The Smurfs' and 'The X Files'.[113] A similar trend may soon be witnessed by Indian film industry with some of the successful television shows now aiming at the box office. The makers of Big Boss, Endemol India along with Select Media Holdings Pvt. Ltd's film production arm, Moving Pictures have decided to adopt the celebrity reality show into a movie. The movie is set to go into production in mid – 2014 and will be based on the experiences of contestants from all its seasons. Big Boss is one of the most popular entertainment properties in India and its makers are confident of its cinematic potential.[114]

> In India, independent cinema is high on content and performances but the movies receive step-motherly treatment when it comes to box-office space unless they are backed by notable industry personalities or large production houses. The other point to be noted is that the audience suddenly show an incline to watch these movies when there is a high level of positive feedback/ awards from the International fraternity There will be a change in the treatment given to independent cinema when there is more faith put in such movies for their own merit.
>
> **- Ashvini Yardi**
> Co-founder, Grazing Goat Pictures

VoD to be the new DVD

Videos on demand platforms (VoD) are expected to soon replace DVDs as an online content delivery network portal for audio video streaming services. Telecom providers such as Airtel have already launched video on demand services at prices as low as INR1.[115] The company also plans to release movies on DTH platforms at the same day of its theatrical release.[116]

Apple Inc. is offering movie rentals and sales through its iTunes Store and Google has launched its movie rental and purchase service platform called Google Play Movies where one can rent movies starting at INR50. Google also plans to bring YouTube to television screens in India through DTH providers. 55 million of its 1 billion global monthly visits come from India where it has a library of 10,000 full-length Indian movies.[117] Also, with commerce payment collection providers like Suvidhaa Infoserve Pvt. Ltd., consumers now have a unique portal to recharge multiple mobile, data card or DTH connections in a single transaction without having to register on it. This has created convenience to the Indian online customer base of 214 million set to double to over 494 million by 2018, and given a boost to the video on demand range of services at the click of a button.[118]

Can the growth story hold

Amrita Pandey
Vice President and Head, Theatrical, Television & Digital Distribution, Studios-Disney India

We have seen an interesting and eventful year at the movies in 2013. Clear success of multi genres and high concept movies have contributed significantly to the growth story. As unlike some other industries where growth is limited to 'supply' and to 'installed capacity' the sense of creative output and the range of such output in becoming more disruptive, more genre specific, more demographic specific and with each such focus, is growing the market. New benchmarks were set in domestic and international box office records. What made last year special was that audiences were appreciative of specialty genres, first-time film-makers and even new talent. Movies cutting across genres and scale have all been break out hits like - The Lunchbox, Kai Po Che, Ship Of Theuseus, Chennai Express and ABCD. We do think the growth story will hold.

Of the 9000 screens in India, only close to 2000 screens are multiplex screens with the higher average ticket price. Our national multiplex chains have the highest admissions per screen ratio as compared to leading chains world over. Though real estate prices are lop sided in large metros but that is balancing off and in smaller cities the rents are much lower and not in proportion to lower ticket prices - which means if the rent prices are 50 per cent less in smaller cities, the ticket prices are not 50 per cent less but more like 30 per cent less and so that is promising. We see the growth in locations and screens coming from tier two cities. Also organized retail is going through tough times and over 30 new malls in the top cities are near closure but that brings it more into focus - that the organized retail is now one of All Encompassing and in that model a theatre plex is getting to be indispensable and malls and real estate will compromise in order to have plexes and this could be a national phenomemon. Ticket prices will see a rise but not more much more than inflation, in fact probably lesser and the average might also be pushed higher for the 5-6 tent poles movies in their opening week.

Also, as we know the growth story on movies is not all being written at the theatres only. Every month, we see one new revenue stream and/or one new market is opening up in the world for Indian movies. Not all of these are scalable, however once you aggregate that, it really all adds up you monetize your movie catalog that is great growth for these new markets or viewer base. Outside of movie theatres we are mainly a b2b business, we see that changing for Indian movies as our audience gets connected on high speeds and the habit of paying for content grows across devices, services, apps and platforms. When our home video business declined, we did see an immediate translation to EST and VOD revenues, as other matured markets have seen. We see this changing. This is one business where inventory becomes more valuable with each growing year.

113. List of Films based on TV Programmes, Wikipedia
114. 'Big Boss' on Silver Screen, 27th November, 2013, apunkachoice.com
115. Airtel Digital TV launches VOD service, 28th March, 2013, techcircle.in
116. Airtel releasing Telugu movie on DTH platform the same day as its theatrical release, 24 January, 2014, techcircle.in
117. Google to bring Youtube to TV screens in India via DTH providers, 8th October, 2013, techcircle.in
118. Suvidhaa unveils new mobile & DTH recharge and billpayment portals, 9 January, 2014, techcircle.in

The International market is the next cornerstone for Indian cinema - and it is not going to be an overnight wonder but it is moving in that direction. Over the past decade, international revenues on the right movies have grown by 100 per cent and we see this trend continuing.

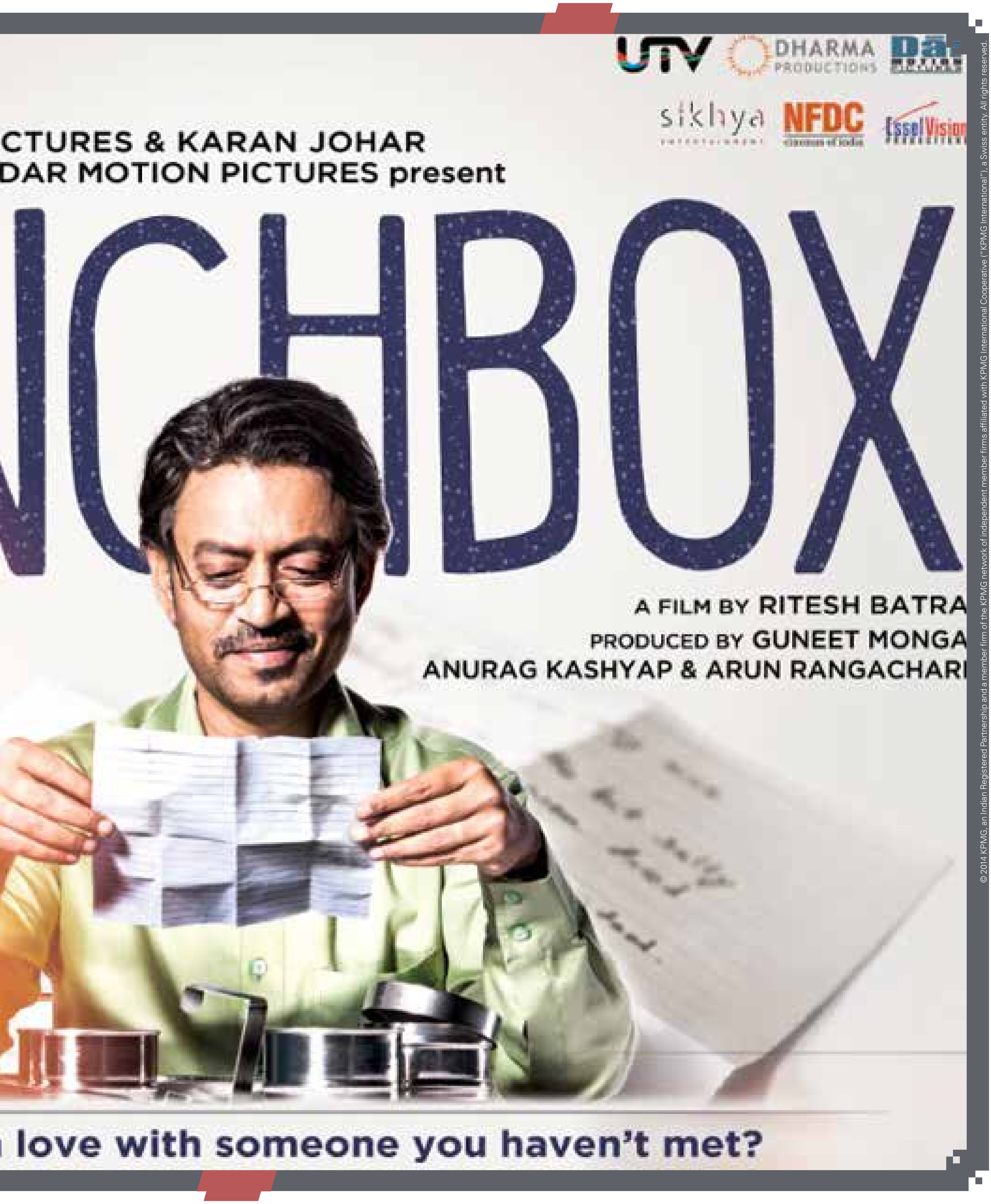
A lot has been discussed in media of the flip flopping by both sides on pay television rights and that does put stress on the system. Producers and broadcasters need to find their commercial balance in their movie buying/ selling strategy. In most matured markets, these deals are formula based and linked to box office performance output deals. This is a consistent, transparent approach. Once we can move to that maturing phase, there will be some balance there.

Amid these trends, what can slow down the growth is a) disproportionate spend on marketing which can skew the economics and put undue pressure on the recovery of cost and profit of each movie b) the present skew in costs for most of our movies is very talent skewed and globally it is limited to 25 per cent and in India it reaches 50 per cent and sometimes more - and that can hurt the overall eco system and not allow all players to withstand and in that maturing phase of the industry – and this may slow down growth. The success of high concept (not necessarily big star) movies and how they have riveting audiences last year has been an encouraging trend to counter this.

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

Conclusion

Cinema is one of the most important mediums of entertainment- especially in movie mad India- and is likely to continue to see growing audiences in the foreseeable future. Theatrical is one of the most important revenue streams for the industry and is expected to contribute 73 per cent (2018) to industry's revenues. With 90+ per cent digitisation complete, the industry has achieved its maximum growth potential via screen digitisation. The next wave of significant growth is expected be driven by rapid expansion of multiplex infrastructure which will be a function of performance of real estate industry and growth of organised retail in India. We believe that the future growth will be driven by greater footfalls which will be a function of delivery of great content while the ATP growth will remain moderate for a while. C&S as a revenue stream will continue to hold a strong position and is expected to contribute 11 per cent (2018). We expect digital technologies to play an increasingly important role across the value chain of the film industry and eventually start contributing albeit, a small proportion of the total revenues.


UTV
DHARMA PRODUCTIONS
sikhya
NFDC
CTURES & KARAN JOHAR
DAR MOTION PICTURES present
NCHBOX
A FILM BY RITESH BATRA
PRODUCED BY GUNEET MONGA
ANURAG KASHYAP & ARUN RANGACHARI
love with someone you haven't met?

05

New Media

Getting to critical mass

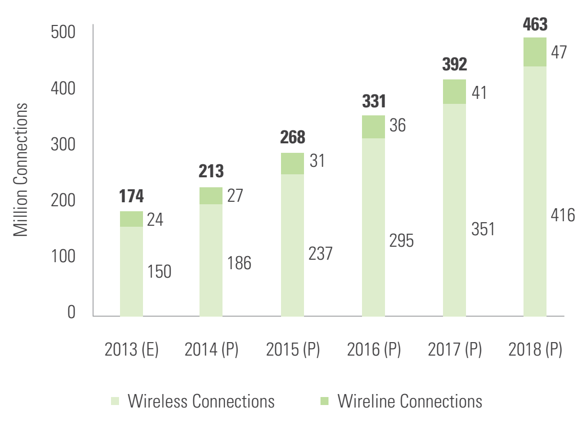
Keeping pace with the changing consumer behavior and increased access to digital devices, the new media ecosystem evolved to new levels during 2013. The internet usage increased with mobile phones providing an important medium for penetration to rural areas. Connectivity and access continued to provide the tailwind for growth of various components comprising new media in the year gone by. The total internet user base in India grew to approximately 214 million by end of the year, with almost 130 million going online using mobile devices.[1] Mobile Internet users dominated the total internet user base capturing an overall share of 61 per cent.[1]

Digital ad spends accounted for 8.3 per cent of the total ad spends of INR362.5 billion in India in 2013.[2] Digital media advertising in India grew by 38.7 per cent in 2013, faster than any other ad category.[2] Mobile, social and video emerged as star categories in advertising owing to the proliferation of smartphones, 3G and off-deck mobile apps. With the dramatic growth in mobile usage, content providers and advertisers are seeking opportunities to get their messages across on this preferred medium of the masses. 'Mobile-first' strategy is the new priority for marketers and publishers. Marketers who want to enhance value for their brands are faced with a new set of opportunities as well as challenges.

The Indian internet usage maintains its growth trajectory

By the end of 2013, India was home to approximately 174 million internet connections shared between wireless and wireline connections.[1] Wireless connections grossed about 86 per cent of the total internet connections in India and continue to grow at a faster pace, compared to the wireline connections.[1] Driven primarily by wireless access, the total number of internet connections is estimated to reach 463 million by the end of 2018.[1] The projected CAGR for wireline connections for the period 2013-18 is now expected to be 14 per cent.[1] The projected CAGR for wireline connections was 17 per cent[1] for 2012-17 and has come down since last year because the broadband connection base has been increasing at a lower rate than that was expected in the past.[3]

India internet connections, 2013(E) – 2018 (P)



Source: KPMG in India analysis

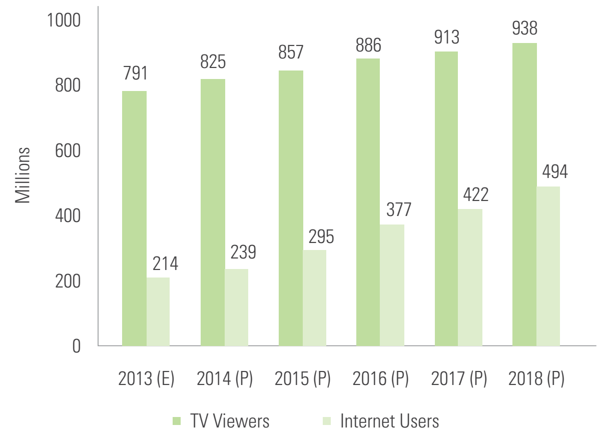
It should be noted that, as per our analysis, the ratio of number of wireless connections to number of internet users is generally one whereas each wireline connection may actually be used by multiple users. The number of internet users, in India are seen to have grown at 40 per cent in 2013 to reach 214 million users and is expected to reach 239 million by end of the year 2014.[3] Industry experts portend that India can surpass USA in terms of total number of internet users in 2014.

The growth in the number of internet users in 2014 was likely driven, primarily, by the penetration of internet enabled mobile devices, notably, smartphones and tablets and by the growing adoption of 3G in India. This presents a good opportunity for the mobile content providers, device manufacturers and businesses that are considering a multi-channel approach to engage customers.

It is estimated that the total internet user base will reach 494 million by the end of 2018 as against 938 million TV viewers in the same year.[3] This means that the Internet user population will be approximately 53 per cent of the total number of TV viewers in the country in 2018 compared to 27 per cent in 2013.[3] This shift towards the digital media is important for digital media strategists to consider, in order to balance their marketing budgets between online media and traditional TV strategy. The digital media presents an opportunity to engage specific target segments in a more cost effective way as opposed to the mass outreach afforded by traditional TV.

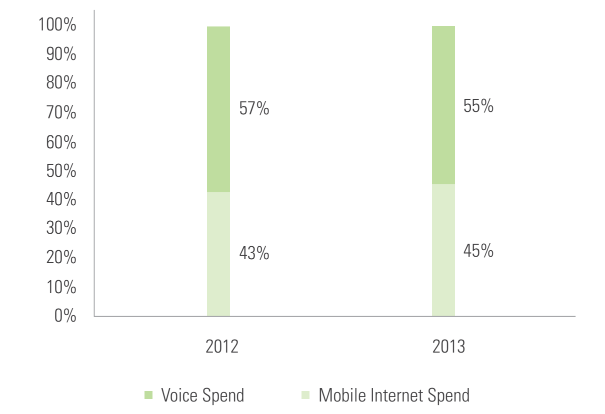
01. KPMG in India analysis, IAMAI-IMRB Mobile Internet in India report, 2013, TRAI performance indicator report 2013
02. Industry discussions conducted by KPMG in India
03. KPMG in India analysis

India internet vs.TV penetration, 2013(E) – 2018(P)



Source: KPMG in India analysis

Percentage spend on mobile internet, 2012-13

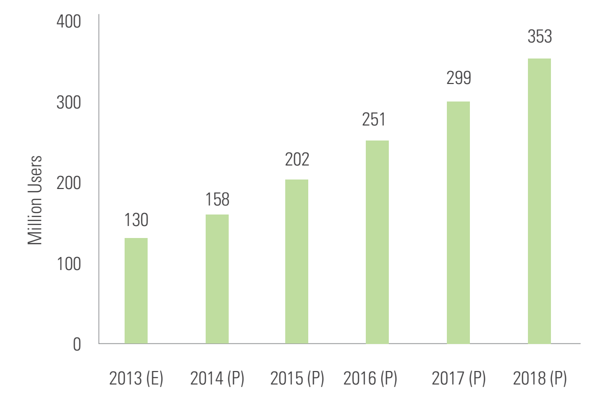


Source: IAMAI- IMRB Mobile Internet in India, 2013

Mobile continues to be the preferred choice of access

The number of mobile internet users have grown steadily and is estimated to have reached 130 million at the end of 2013.[04] The growth is expected to continue and the mobile internet user base is projected to reach to more than 350 million by the end of 2018.[04] While urban users are steering the growth, rural India is not left far behind. The mobile internet user base in rural areas has grown by 28 per cent since June 2013 and is estimated at 27 million, as against 103 million urban internet users, at the end of 2013. [05] The growth in urban market could taper in future; the tailwind for growth of internet user base and internet penetration may come from the rural areas.

Mobile internet users in India, 2013(E) – 2018(P)

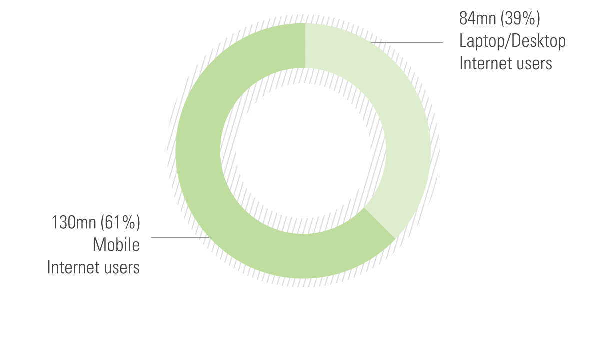


Source: KPMG in India analysis

Consumer preferences have also shifted towards the need to access information on the go, and mobile internet seems to address this need. This is supported by the fact that the amount spent on mobile internet as a percentage of the total amount spent on mobile grew from 43 per cent in 2012 to 45 per cent in 2013.[06] On an average, users spent INR 173 on mobile internet usage out of the total average mobile bill of INR 387 in 2013. [06]

It is estimated that, in 2013, 61 per cent of the total Internet devices in India were mobile devices and that the share is expected to increase to 71 per cent by 2018.[04] The personal computer (PC) may no longer be the primary or exclusive means to provide the first user experience of the internet. Broadband penetration is low in rural areas; hence, these areas are home to a high number of mobile-only internet users for whom mobile devices are the primary or the only medium for connecting to the internet.

Internet users in India by device split, 2013 (E)



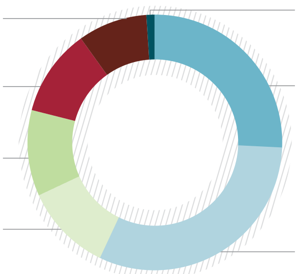
Source: KPMG in India analysis

04. KPMG in India analysis
05. IAMAI- IMRB Mobile Internet in India, 2013
06. IIAMAI- IMRB Mobile Internet in India, 2013

Internet users in India by device split, 2018 (P)

Source: KPMG in India analysis

Internet enabled mobile handset prices in India 2013 (percentage market share)



Source: IAMAI- IMRB Mobile Internet in India, 2013

Mobile internet revolution in India is being led largely by low cost models of internet enabled mobile devices available in the market that the budget conscious Indian buyer can afford. This is also evident from the estimates that almost 31 per cent of the mobile internet users are owners of budget phones costing less than INR10,000 but more than INR6,500.[07] This is also the price range in which potential consumers graduate from basic feature phones to low end smartphones. The median price of a handset has also fallen from INR8,250 in 2012 to about INR7,000 in 2013 making mobile phones more affordable in the market.[07] The handset manufacturers are also capitalising on this opportunity, presented by the 'value for money' segment, by offering more features at lower prices in line with the current preferences of the Indian consumers.

Absolute numbers seem to paint a rosy picture

It took a decade for the country to grow from 10 million to 100 million internet user base and only three years to double that number to 200 million.[08] India's high population brings with itself a good market in terms of absolute numbers but the growth in internet user base can be attributed to the evolution of the internet ecosystem comprising of telecom operators, content providers, handset manufacturers and to initiatives from the Government such as setting up of Community Service Centers (CSC) or Cyber cafes, which have now become major points of internet access in rural areas. The National Optical Fibre Network (NOFN) in India is expected to be completed this year with a plan to provide broadband connectivity to 250,000 Gram Panchayats.[09]

Although the absolute number of internet users looks impressive, it is important to recognise that India still struggles with low internet penetration of 17 per cent.[10] This is lower in comparison to many developed and developing countries. It is apparent that majority of the Indians still do not have access to Internet. Poor broadband availability in rural areas, patchy connectivity due to limited existing investments in the internet ecosystem (telecom towers, optical fiber network etc.), issues in last mile access and dominance of English as a medium for information dissemination are some of factors responsible for low internet penetration. The opportunities are immense if the bottom of the pyramid in the Indian population also gets to access internet.

07. IAMAI- IMRB Mobile Internet in India, 2013
08. http://gadgets.ndtv.com/internet/news/internet-users-in-india-set-to-reach-243-million-by-2014-report-446653 -(IAMAI Chairman)
09. Bharat broadband Network Limited http://www.bbnl.nic.in/content/
10. KPMG in India analysis

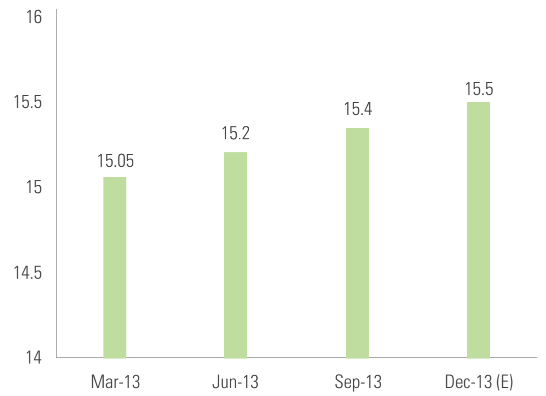
Internet penetration

Country	Internet Penetration (%)
India	17%
Brazil	49%
China	44%
Russia	60%
USA	86%
U.K.	87%
Japan	79%

Source: PEW research report 2013, eMarketer newletters, KPMG in India analysis

The subscriber base for fixed line broadband in India was estimated at 15.5 million by the end of 2013, growing by approximately 1 per cent QoQ.[11] The sluggishness in QoQ growth for fixed line broadband can be attributed to rapid mobile data adoption as more and more consumers access Internet on the go. Further, there has been a lack of new investments in fixed line by the incumbent telecom operators. Also, most of the existing infrastructure is concentrated in urban and semi-urban regions. Declining growth rate and low penetration of PCs can be another constraint.

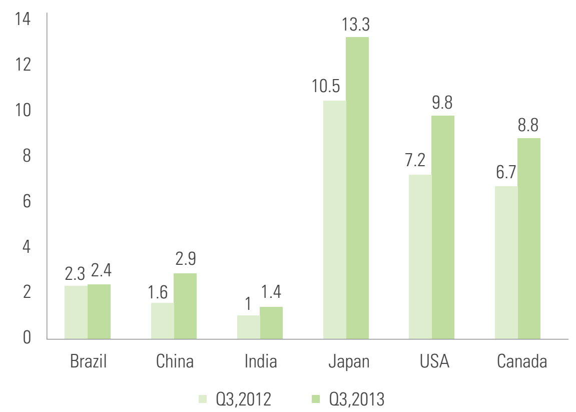
India wireline broadband subscribers, Mar - Dec 2013 (In millions)



Source: TRAI Performance indicator reports 2013, KPMG in India Analysis

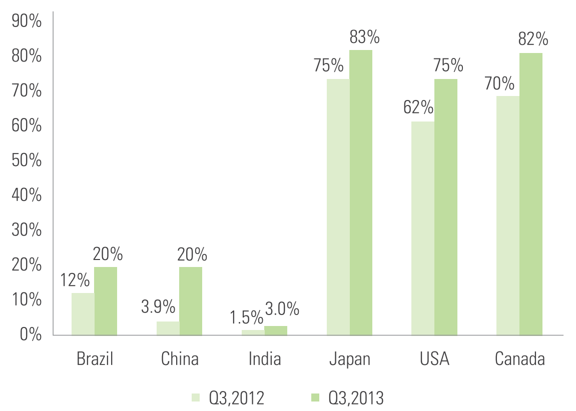
The speed, as well quality of internet connectivity, received a boost in 2013 and is expected to only get better in 2014. However, the improvement does not seem good enough when compared with our neighbor, China. Average connection speed in India increased from 1 mbps in 2012 to 1.4 mbps in 2013, registering a growth of 40 per cent YoY, while the average speed in China in 2013 was 2.9 mbps showcasing a growth rate of 81 per cent YoY from 2012.[11] High speed connectivity is a metro phenomenon in India; the internet connectivity at >4mbps speed reached 3 per cent penetration in 2013, registering 100 per cent growth YoY, and high broadband (>10 mbps) penetration grew at 200 per cent YoY to reach 0.3 per cent of India's overall internet connections in 2013.[12] In comparison, China is delivering higher speeds to more users and with a faster growth rate. China's broadband (>4mbps) penetration reached 20 per cent in 2013, growing at 413 per cent YoY, whereas high broadband (<10mbps) penetration grew to 1.1 per cent registering 450 per cent YoY.[12] While broadband over cable is exploding as a market, though over a small base, India could have a lot of catching up to do in terms of connection speeds and respective penetration when compared to other major developed and emerging countries.

Average connection speeds (mbps)



Source: AKAMAI – State of the Internet Reports Q3-2012 and Q3-2013, KPMG in India analysis

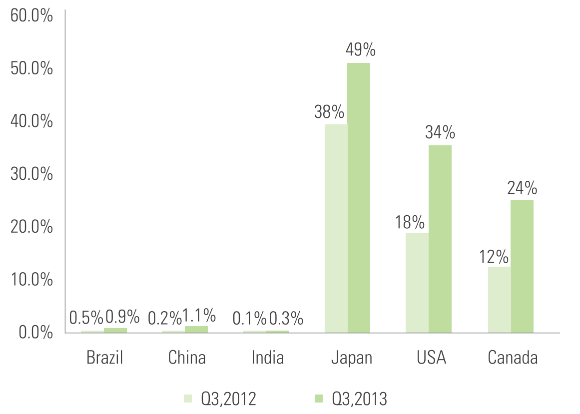
Broadband (>4 mbps) connectivity (percentage above 4 mbps)



Source: AKAMAI – State of the Internet Reports Q3-2012 and Q3-2013, KPMG in India analysis

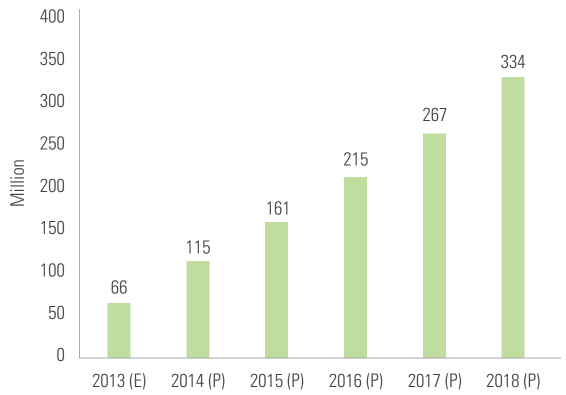
11. TRAI performance Indicator reports 2013
12. AKAMAI – State of the Internet Reports Q3-2012 and Q3-2013

Broadband (>10 mbps) connectivity (percentage above 10 mbps)



Source: AKAMAI – State of the Internet Reports Q3-2012 and Q3-2013, KPMG in India analysis

Internet enabled smartphones in India, 2013(E) - 2018(P)



Source: IDC shipment estimates 2013, KPMG in India analysis

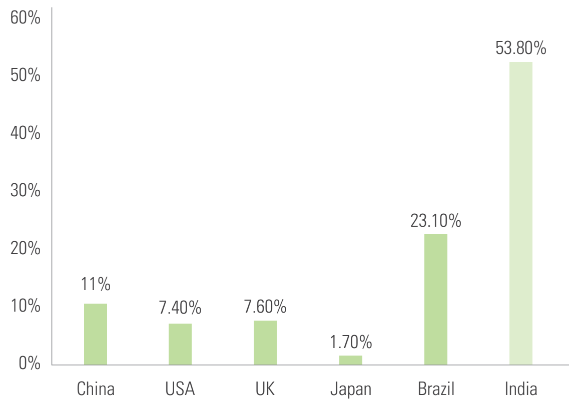
India standing tall as the second largest mobile phone user base and third largest smartphone market in the world.

Globally, the number of mobile phone users is expected to reach 4.55 billion and mobile phone internet user base would be 2.23 billion by the end of 2014.[13] Smartphone adoption will also continue its fast paced trajectory with the total smartphone user base expected to reach 1.75 billion by the end of 2014.[13] The growth is being led primarily by the developing regions of Asia Pacific, notably India and China. The overall Indian mobile handset market grew at 21 per cent YoY.[14] By the end of 2013, India is estimated to have gained a mobile phone user base of more than 900 million.[15] While the worldwide smartphone shipments have surpassed 1 billion units in 2013,[16] India became the third largest smartphone market in the world in terms of shipments of 44 million units.[14]

Smartphone shipments in India are expected to grow steadily over the next 5 years. While Samsung maintains the lead in the smartphone market in India, other major players are Nokia, Micromax and Karbonn. The Android smartphone market continues to be dominated by low cost smartphones.[17] By the end of 2013, India had approximately 66 million internet enabled smartphones and the number is expected to reach 334 million by the year 2018.[18] This growth presents a good market base for digital advertisers, mobile gaming developers, VoD and digital music companies.

The CAGR (2013–2017) for smartphone shipments in India as compared to the corresponding growth rate in developed countries such as USA, UK and Japan is much higher and at 53.8 per cent beats the growth rates in developing nations such as China and Brazil.[19] This could have a spillover effect on the growth of mcommerce, mobile advertising and mobile gaming.

CAGR - Smartphone shipments (2013-2017)



Source: IDC worldwide mobile phone tracker, 4 Mar 2013

13. eMarketer newsletter, 16 Jan 2014
14. IDC press release, 29 Aug 2013
15. TRAI performance indicator report, Sep 2013, KPMG in India analysis
16. IDC press release, 26 Nov 2013
17. IDC press release, 2 Dec 2013, Industry discussions conducted by KPMG in India
18. KPMG in India analysis
19. IDC worldwide mobile phone tracker, 4 Mar 2013

As the average selling prices for smartphones continue to decline, smartphone shipments are expected to surpass feature phone shipments by the year 2016.[20] At present, feature phones continue to account for a sizable share of approximately 85 per cent of the total handset shipments in India.[21] However, feature phones may have already started losing the market share to smartphones starting this year.

In 2014, more and more mobile phone users in India will likely switch over to smartphones and tablets as these devices become more affordable and as 3G/4G networks connectivity improves. Young urban population and cultural openness to mobile devices are other factors that are likely contributing to the growing adoption of smartphones in India.

Kids are early adopters of technology and to cater to the 'Screenagers', kids' entertainers are ensuring that they are served their daily dose of entertainment at a time, place and screen convenient to them. To keep this wired generation engaged across screens, entertainers are customising content across platforms, be it - video games, VOD, streaming content on the mobile and tablets, etc.

- Nina Elavia Jaipuria
Executive Vice President and Business Head
Kids Cluster, Viacom18 Media Pvt. Ltd

Market share of smartphone OS in India, 2013

By share of online traffic, Android-based smartphones dominate the Indian market with 90 per cent traffic generating from Android-based smartphones, followed by 5 per cent traffic driven by Windows operating system. Apple's iOS stands third in line with only 4 per cent smartphone web traffic generated by iOS in the Indian market.[22]

Smartphone OS market share split by traffic

Ssmartphone OS	Share of Web Traffic (%)
Android	90%
Windows Phone	5%
iOS	4%
BlackBerry	1%

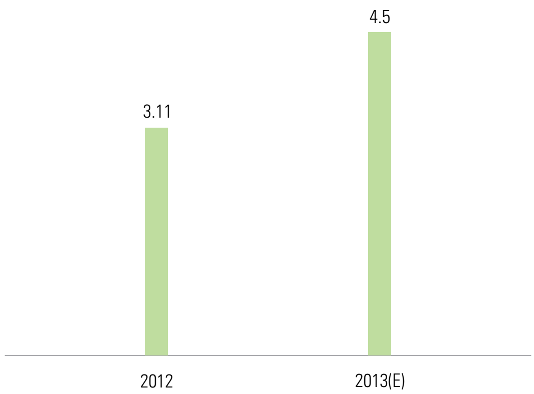
Source: StatCounter

Tablet sales show modest growth

Tablet adoption in India is growing thanks to the availability of these products at a wide range of prices- high-end Apple and Samsung devices that sell for upwards of INR30,000 (USD500) to entry-level devices from players such as Micromax, Karbonn and Lava that are available at prices below INR10,000 (USD165).[23] In 2013, the total shipments of Tablet PCs in India were 4.5 million compared to 3.11 million shipments in 2012,[24] a growth of 45 per cent in one year.

Key drivers for growth are increase in the number of new models launched by companies eyeing the Indian consumer market, as well as the demand expected to be generated via enterprise adoption of Tablets. The visibility of Tablets in the Indian market is additionally being pushed by an increasing demand for Tablet PCs in the education sector in India in order to provide affordable tablets to students at a low price.

Tablets shipments in India, 2012 – 2013(E) (in millions)



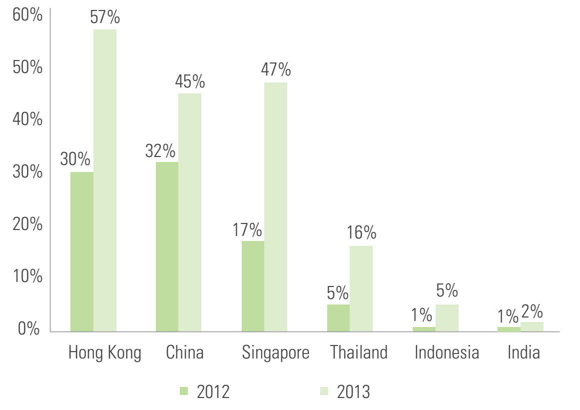
Source: CMR India Quarterly Tablet PC market review 2013, KPMG in India analysis

Android OS based tablets dominate the Indian market followed by iOS and Windows based tablets. The tablets market may continue to grow and Android could remain the dominant OS, though it is expected to lose some share to Windows and iOS platforms as the latter launch more models at affordable prices for the budget conscious Indian.

Although penetration of Tablets in India is growing, there is still a lot of ground to be covered when compared to other countries in Asia. The Tablet penetration in India is 2 per cent and is not as impressive as the penetration seen in other developing countries such as China where it stands at 45 per cent.[25] Further, the growth from 2012 has not been as impressive as has been experienced in other countries.

20. IDC press release, 26 Nov 2013
21. KPMG in India analysis
22. StatsCcounter 2013 data
23. KPMG in India analysis
24. CMR India Quarterly Tablet PC market review 2013, KPMG in India analysis
25. Nielsen Asia Mobile Report, 2013

Tablet Penetration by Country, 2012 - 2013



Source: Nielsen Asia Mobile Report 2013

3G in India could be at an inflexion point

The Indian market is still awaiting the technology leap which was promised when 3G services were launched in late 2010, and 2013 was expected to be 'The Year'. Also, 3G adoption has been slow compared to the growth rates expected at its launch. 3G adoption requires supporting factors such as higher smartphone penetration, availability of relevant content and applications and improved network coverage by operators. So far, inadequate network coverage, lack of sufficient spectrum, high price of 3G services, and the absence of mass market affordable 3G handsets have prevented these services from becoming a success in the country.

Challenges

1.	Inadequate network coverage because of limited 3G towers
2.	Limited spectrum availability
3.	High price of 3G data services as compared to GPRS/ EDGE
4.	Lack of affordable 3G enabled handsets
5.	Patchy connectivity and inconsistent experience on 3G network

Source: KPMG in India analysis

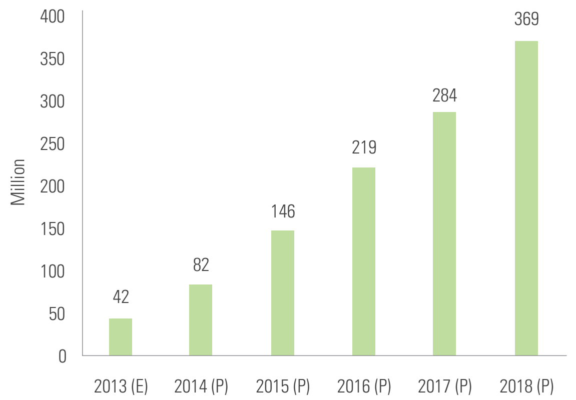
Growth Drivers

1.	Investments by Telecom operators to expand and improve 3G infrastructure to tier2 cities and rural India
2.	Affordable prices for 3G data services
3.	India's growing Internet population
4.	Affordable smartphones and tablets
5.	Growth of social media, gaming, VOD and the need for youth to stay connected by sharing pictures and videos

Source: KPMG in India analysis

While there are several roadblocks that have prevented 3G services from achieving the expected uptake in India, most of them are short-term hiccups rather than long-term challenges. Slowly, yet steadily, after 3 years of launch, 3G has finally started to pick up in India. Investments from telecom operators in improving the infrastructure, improved affordability of handsets, decline in 3G rates with the launch of 4G and aggressive marketing by telecom companies will likely act as drivers for growth of 3G services. India, currently, has about 42 million 3G connections which are expected to shoot to approximately 369 million by the end of 2018.[26] Major telecom players in the country are considering focussing their energies and resources to expand their networks and to increase their 3G user base. In November 2013, Vodafone announced investments close to 700 million pounds (about INR71 billion) in India during the next 2-3 years to expand their 2G and 3G network.[27]

3G subscribers in India, 2013 to 2018(P)



Source: KPMG in India analysis

Apps have gone mainstream globally

Apps are to mobile what websites were to desktops and are key to defining the overall mobile ecosystem. Apple's App store and Google's Play have been at the forefront of bringing off-deck content at the fingertips of the consumer, and these continue to be the largest active off-deck stores by virtue of their rich supporting ecosystem and growing developer communities. The total number of app downloads, globally, stood at 102 billion approximately in 2013, and is estimated to reach almost 269 billion by the end of 2017.[28] The app economy is expected to continue to expand and growing markets such as India and China would likely provide the firepower for this growth.

Factors such as growing mobile Internet penetration, affordable smartphones, and mobile-ready regional content have mostly led to the growth of the app ecosystem. Mobile valued added services (MVAS) which is a paid content on-deck model controlled by telecom operators could be under serious threat.

26. KPMG in India analysis
27. Vodafone press release, 13 Nov 2013
28. Gartner press release, Sep 2013

Share of free app downloads globally, is also anticipated to increase, largely led by growth in countries such as India where users are still not open to pay for apps. Free apps currently account for about 60 per cent and 80 per cent of the total available apps in global Apple App Store and Google Play, respectively. Free app downloads at 93 billion constituted roughly 91 per cent of the total global downloads in 2013.[29] It is estimated that free app downloads would account for 92 per cent with 128 billion downloads by the end of 2014.[30]

Mobile app store downloads, worldwide, 2012-2017 (in billions)

	2012	2013E	2014P
Free downloads	57	93	128
Paid-for downloads	7	9	11
Total downloads	64	102	139
Free downloads (%)	90%	91%	92%

Source: Gartner Press release, Sep 2013

2014 - India emerges as an App-tastic Economy!

Dippak Khurana
CEO and Co-Founder,
Vserv.mobi

The recent WhatsApp acquisition by Facebook is a thumping validation of today's mobile frenzy among consumers and investors alike. With its inherent capabilities to bridge physical transactions and drive content and services to consumers, it is safe to say that the world has been engulfed by mobile domination.

Interestingly, there are rafts of statistics to show how India is galloping into the thick of the mobile action. Multiple reports state that in 2013 alone, between 247-257 million handsets were sold in India in 2013, registering a year-on-year growth of 181%. Another report estimates that from the 169 million active Internet users in India, nearly 130 million use their mobiles to get onto the Internet, out of which 49 million are active users in rural India. On the other hand, India's app developer base is estimated at 250,000 and expected app downloads are slated to cross 8.4 billion by 2016.

For users, mobile apps are enabling a rich 'first Internet experience' with immersive engaging experiences despite India's undulating internet bandwidth footprint. For developers, mobile represents the power to productise innovation and lower the barriers to entrepreneurship; which is a perfect fit for creative, tech-savvy, but resource-constrained Indians. Today, India's young App Entrepreneurs have an unprecedented opportunity to create products through apps that will touch the lives of millions of mobile users across the world. Global ambitions now also define a growing swathe of budding student developers and start-ups from India's non-metro towns who are carving a niche in the global mobile app scene.

To make a lucrative venture and build scale, mobile developers are resorting to a mix of advertising-enabled free apps strategy along with in-app purchasing to trigger app downloads. On the other hand, brands have started seeing the shift in consumption habits from desktop to mobile and are increasingly opening their purse strings towards mobile advertising. This industry is also being catalysed by the next billion users of the country, who will demand apps in regional languages that will blur the language divide in content consumption. In a nutshell, 'mobile' is sculpting a high growth ecosystem in India with beneficiaries in the form of rural and urban consumers, telecom operators, developers and advertisers.

With mobile becoming the primary screen for Indians, the app ecosystem too will continue to evolve fuelling India's mobile growth trajectory. On the other hand, with precedents of mobile businesses like WhatsApp fetching heady valuations, it won't come as a surprise if 2014 is dubbed as the year of Indian mobile developers contributing to the global 'app-onomy'.

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.

29. Gartner press release, Sep 2013
30. Gartner press release, Sep 2013

India offers third largest download user base for Google Play – free apps favourite

India ranks third in terms of number of app downloads from Google Play in 2013. However, it does not figure in the list of top-5 countries contributing to overall revenues of Google Play.[31] It may point towards the fact that Android users in India, as has been the trend globally, are still more fascinated with free apps and could take some time before maturing to paying for content. App platforms and content developers may need to consider pricing the content within the affordable range for Indians, for upfront paid downloads and in-app purchases, to grow at the impressive triple digit growth rates as seen for countries such as China, Russia and South Korea.[32] The Indian market is yet to crack the freemium model as the model works efficiently only with higher volumes. This market, at present, is largely characterised by either up-front download purchases or by ad-driven models. While most Indian apps are available free of cost, the content developers hope to earn from in-app purchases and paid upgrades.

Google Play downloads - top countries 2013

Rank	Country
1	USA
2	South Korea
3	India
4	Russia
5	Brazil

Source: App Annie Index 2013

Google Play revenues - top countries 2013

Rank	Country
1	Japan
2	South Korea
3	USA
4	Germany
5	UK

Source: App Annie Index 2013

It is important to understand the consumers of the mobile app market in order to capitalize on the changing dynamics in the Indian app economy. The following table presents the demographic details of the Indian app audience.

India mobile app audience

Gender	
Male	89%
Female	11%
Age group	
<18 yrs	11%
18-24 yrs	52%
25-35 yrs	29%
35+ yrs	8%
Education	
Illiterate	3%
Primary-Middle School (upto 9yrs)	3%
High School (10-12 yrs)	24%
Under Graduate	24%
Graduate	32%
Post Graduate	14%
Occupation	
Business	12%
Self Employed Professional	8%
Full time job	34%
Part-time job	12%
Student	29%
House Wife	2%
Currently not working	3%
Occupation	
>INR 1,00,000	3%
INR 50,000 - INR 1,00,000	3%
INR 20,000 - INR 50,000	17%
INR 5,000 - INR 20,000	41%
<INR 5000	36%
Location	
Top 4 metros	45%
5-9 Top cities	19%
Other 1 million+ Towns	24%
Other town class	12%

Source: Vserv.mobi

31. App Annie Index 2013
32. Distimo '2013 Year in review publication', 17 Dec 2013

Digital stores offer a scalable platform for content owners to monetise digital content

Digital store platforms such as App Store and Google Play offer access to an existing customer base and an established distribution channel for developers and content owners. A 70/30 revenue split has become fairly standard; however, players such as Microsoft with their Windows app store are challenging the established standard. Windows platform offers the standard 70 per cent list price share to developers initially. However, once the application makes USD25,000, the share increases to 80 per cent.

Windows has a competitive offering in terms of revenue sharing for in-app purchases as well. All other stores charge the standard transaction fee of 30 per cent on the in-app sale. However, on the Windows Store, the transaction fee is applicable only if the in-app purchase goes through the Windows Store purchasing infrastructure (content owner gets 100 per cent of the sales if payments are handled on content owner's own server)

Comparison of digital store platforms' revenue sharing agreements

Type of sale	Platform	Developer revenue share	Store revenue share
Paid app downloads	Apple app store	70%	30%
	Google Play	70%	30%
	Amazon app store	70%	30%
	Windows app store	70% for the first USD25,000; then 80%	30% for the first USD25,000; then 20%
In-app purchases	Apple app store	70%	30%
	Google Play	70%	30%
	Amazon app store	70%	30%
	Windows app store	70% if transaction happens through windows API, otherwise 100%	30% if transaction happens through windows API, otherwise 0%

Source: Developer support Google, Apple, Amazon and Windows

The large content libraries on the app stores usually keep users coming back for more, globally, as well as in India. Globally, the two largest app stores from Apple and Google together host more than 2.1 million apps and have delivered more than 110 billion downloads worldwide till date.[33] The large and diverse ranges of apps keep users engaged and loyal.

Global downloads for Google play and Apple app store

Year	Jan 2013		Jan 2014	
Platform	Google Play	Apple app store	Google Play	Apple app store
Number of apps available for download	~800,000	~775,000	>1.1 million	>1 million
Total global downloads	~25 billion	~40 billion	>50 billion	>60 billion

Source: Pure Oxygen estimates, Apple WWDC – Oct 2013

In line with the global trend, usage of Indian app stores and downloads are expected to continue its growth in 2014.

33. Pure Oxygen estimates, Apple WWDC – Oct 2013

The vernacular wave in the Indian App Economy

India's geographical diversity creates a need for innovative regional language apps. This presents an opportunity for the Indian businesses to tap into the potential afforded by the growing demand for apps in local and regional languages.

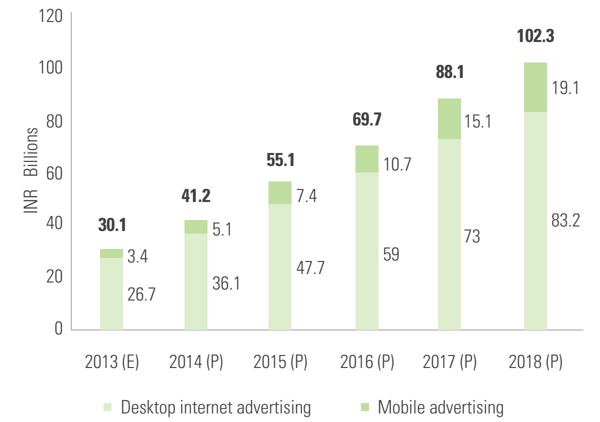
Google launched a Hindi handwriting tool for search and Mozilla Firefox rolled out a fully localised Tamil version of its free open source Internet browser in 2013. In August 2013, Samsung announced the launch of regional language user interface and applications for its Indian customers which would enable Samsung smartphone users to choose from any of the nine Indian languages including Hindi, Punjabi, Bengali, Tamil, Telugu, Kannada, Malayalam, Marathi and Gujarati.[34]

The sizable mobile user base residing in tier 2 and tier 3 cities, who limit their mobile usage to only voice calls, given the limited number of mobile apps catering to content in local languages present an opportunity for content providers. Multiple companies such as Plustxt, Hazel Media, Mad Rat Games and Newshunt, are vying for a share of this growing market. In 2014, it is expected that there will be an increased number of regional and localised content and apps developed as content consumption on mobile devices outpaces other mediums.

Digital ad spend and the landscape in India

Digital advertising in India grew by approximately 38.7 per cent and touched INR30.1 billion, in 2013.[35] Indian mobile advertising is expected to grow at 50 per cent and reach INR5.1 billion in revenue by end of 2014.[35] Digital marketers are recognising this trend and are now considering to or are already on their way to execute 'Mobile-first' branding and customer engagement strategies. The ad spend in digital media is set to grow at 37 per cent to reach INR41.2 billion in 2014.[35] Google and Facebook account for close to half of the advertising revenue[36] spent online in Asia, and the dominance can be attributed to their massive user base. 50% of the online advertising revenues are garnered by Google in India and Facebook has now become a force to reckon with.[36]

Digital advertising market in India, 2013(E) – 2018(P)



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

Digital ad spend mix in India

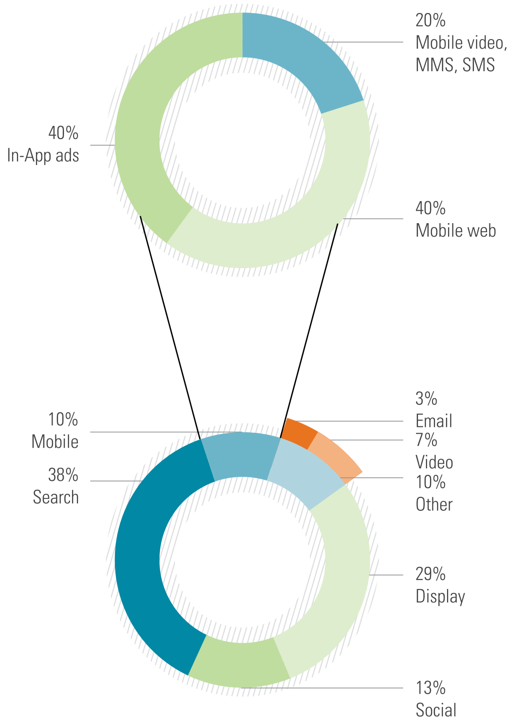
Search and display are some of the most accepted digital advertising mediums for advertisers mainly because of their reach, interactivity and measurement models. Mobile and social advertising are growing but are still small in the overall digital ad spend. Video advertising is also gaining prominence; advertisers are looking at ways to reinforce their marketing messages on multiple screens to maximize impact by integrating video-related advertising into their overall digital advertising mix. Some of the top digital spenders (sectors) during FY 2012-13 were Auto (13 per cent), BFSI (12 per cent), Travel (12 per cent) and Telecom (14 per cent).[37]

The revenues in the Indian market are largely driven by 'off-deck' content monetization through operator billing as against International app stores (Play store /Windows/ IOS). This comes from the fact that there are much higher number of feature phone users in the country who only have access to operators' 'on-deck/off-deck' content, in comparison to the relatively smaller number of smartphone users. For many players in the market, bulk of the traffic and revenue is coming from the rural belts where users connect largely via Internet enabled feature phones. With TVs left inaccessible during power cuts, rural users many a times are left with mobile as the only source of entertainment and this is driving the heavy usage in these areas. The Indian market as a result is also home to an increasing consumption of vernacular content majorly coming from tier-II, III cities and rural areas of the country.

- Sameer Ganapathy
VP & Head
Interactive, Disney India

34. Samsung Press release in Times of India, 13 Aug 2013
35. Industry discussions conducted by KPMG in India, KPMG in India analysis
36. Economist Intelligence Unit's (EIU) 'Good to Grow?' report 2013
37. IAMAI-IMRB Digital Advertising in India, 2013

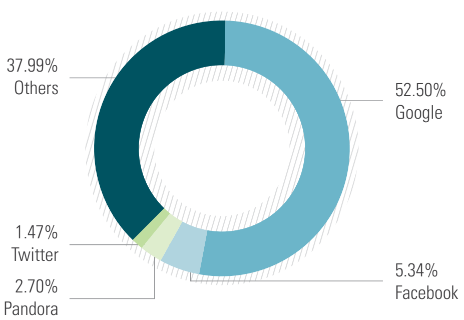
Digital ad spend split by category, India 2013



Source: IAMAI-IMRB Digital Advertising in India, 2013

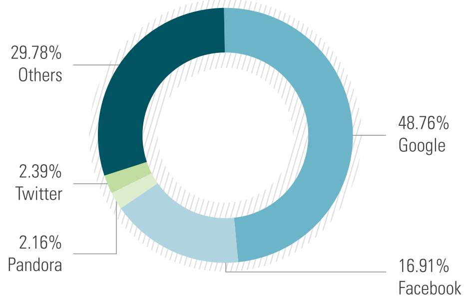
Google and Facebook together account for 66 per cent of global mobile ad revenues.[38] Google dominates the mobile ad landscape, with a 48.76 per cent market share while Facebook is still a distant second even though it increased its share from 5.34 per cent in 2012 to 16.91 per cent in 2013.[38]

Net Mobile Internet Ad Revenue Share Worldwide by Company - 2012



Source: eMarketer newsletter, 13 Jun 2013

Net Mobile Internet Ad Revenue Share Worldwide by Company - 2013



Source: eMarketer newsletter, 13 Jun 2013

There is still a large gap between the budget allocated by advertisers for TV or Print media vis-a-vis the amount spent online. However, the traditional mindset is changing which is evident in the increase in marketing spend in the mobile, social and video advertising space.

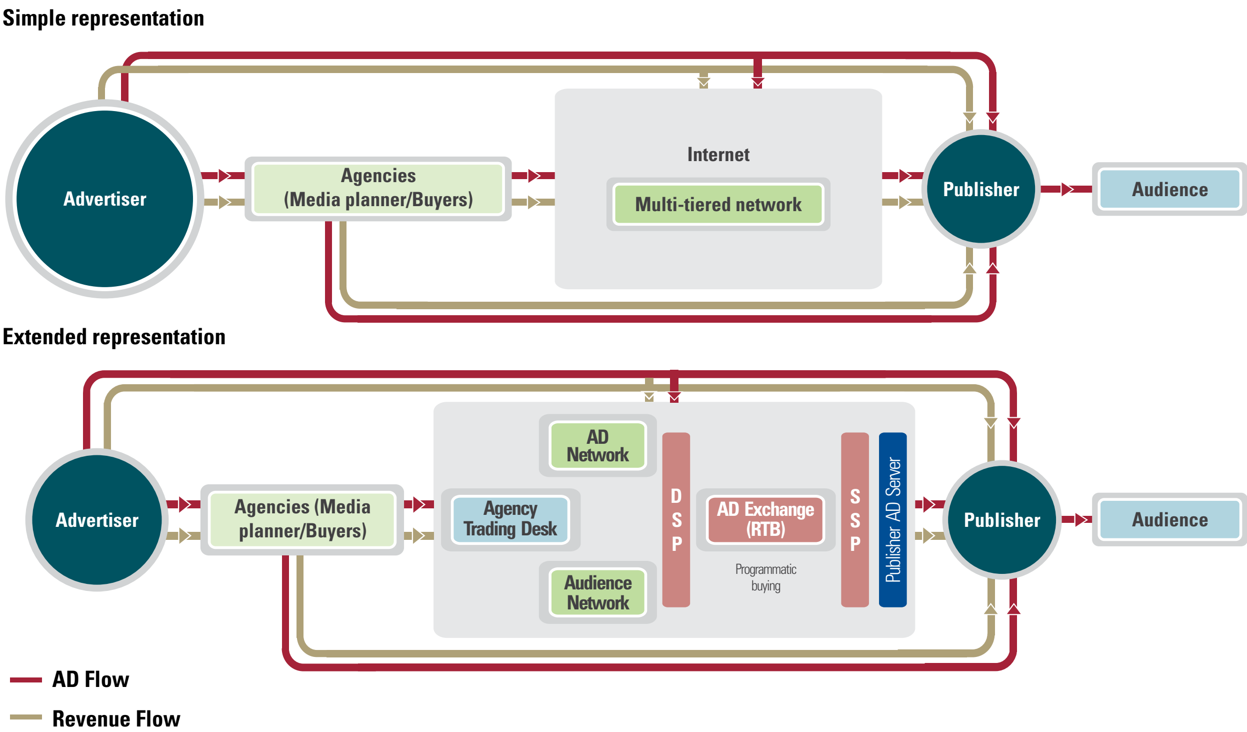
Mobile advertising in India

When the customer data usage saw a shift from telco-owned 'on deck' WAP portals to mobile sites and off-deck apps, leading telcos forayed into mobile advertising through in-house services or strategic alliances with mobile ad exchanges. This enables better control and provides better mobile advertising opportunities to reach the right audience based on demographics, spending power, network usage, location, content relevance and device specific data. Airtel's partnership with Vserv.mobi's AudiencePro platform is a case in point.

Mobile advertising formats have evolved from basic banner ads to rich media such as HTML5 ads, video advertising etc. Native mobile advertising and location based services are also gaining traction with right content and context that is designed to merge seamlessly with the app without interrupting the user experience. While telcos and internet-first companies were the early adopters of mobile advertising in India, 2013 saw newbies such as FMCG, retail, apparel experiment with the platform. With larger number of launches lined-up, auto industry may also actively utilise this platform and increase their mobile media spends in 2014.

38. eMarketer newsletter, 13 Jun 2013

The Digital advertising ecosystem



Source: KPMG in India Analysis

	Definition	Examples
Advertiser	Seeks to promote goods or services via online/mobile properties	Flipkart, HUL, Axis Bank
Agencies	Develop media plans and buys publishing media for the advertiser	Group M, Carat Media, Allied Media
Agency Trading Desks	Support agency's internal teams who wish to tap into this new digital ad buying model on behalf of their clients	Publicis – Audience on Demand, WPP – Xaxis, Accordant Media
Ad Networks	Ad network companies buy ad spaces from different publishers and sell the ad inventory to advertisers or agencies	Google AdWords, AOL Ad Desk, AdRoll
Audience Networks	Audience networks sell ad spaces to advertisers or agencies, targeting their ads based on audience online behaviors, context, demographic, search and other surfing patterns irrespective of publishing websites	Google Display Network, LinkedIn Audience Network, AT&T AdWorks
DSP	Demand Side Platform (DSP) is a technology platform that allows advertisers or agencies to manage multiple ad exchange accounts through one interface	Google Invite Media, MediaMath, DataXu

	Definition	Examples
Ad Exchange - RTB	Ad exchanges are technology platforms that facilitate real-time bidding of ad inventory- buying and selling of online media advertising inventory from multiple ad networks	Google/DoubleClick Ad Exchange, Right Media, AD ECN
SSP	Supply side platforms (SSP) are technology platforms that help publishing websites to get best prices for their ad inventory and enable them to manage the demand and supply to targeted ads effectively on their sites	Google Admeld, OpenX Lift, PubMatic
Publisher	Owns the online/mobile properties where the ads are displayed	Times of India, Rediff, Yahoo!

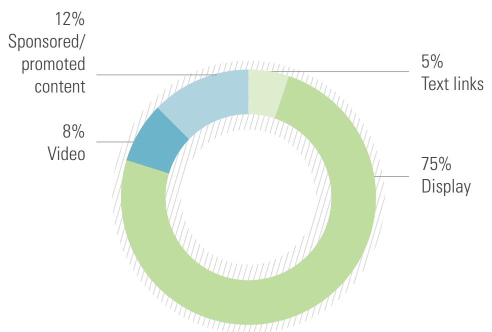
Source: KPMG in India analysis

Social media ad spend rising

The lure of social media advertising often draws brands who find a fractured media landscape ahead of them. It affords targeted reach and immense opportunities for engagement with the intended customers. Recognizing this, Indian corporates have increased the social media spend to 13 per cent of their digital advertising budget in 2013, from 10 per cent in 2012.[39]

advertisers have more control on ad buying (search and display) and the return on investment is mostly easy to calculate with standardised measurement metrics (CPC, CPM, CPA etc.). Search and display ads are measurable advertising forms, effective medium for remarketing and help engage with consumers in real-time. Enhancing the ROI from search and display ad spend requires content and context to play an important role.

Social media ad spend mix in India



Source: IAMAI-IMRB digital advertising in India, Mar 2013

Display ad spend mix

Source: IAMAI-IMRB digital advertising in India, Mar 2013

Search and Display advertising

With a growing number of consumers turning to their phones to search for products, information and local businesses like never before, search is turning local and mobile. Display and search advertising are dominating the online advertising market with a combined share of 67 per cent in India[39]. With the adoption of Ad Exchanges,

39. IAMAI-IMRB digital advertising in India, Mar 2013

Search ad spend mix

Source: IAMAI-IMRB digital advertising in India, Mar 2013

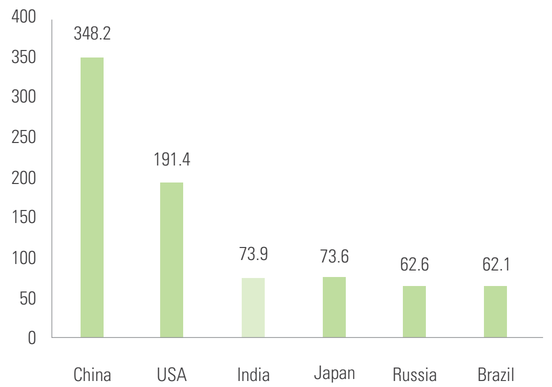
2013 highlights: The year gone by

India became the world's third largest internet user base in 2013, overtaking Japan

Following USA and China, India became the third largest internet user base in the world by unique visitors. It overtook Japan in March 2013 and registered a YoY increase of 31 per cent.[40] This is a harbinger of great potential that the internet medium brings with it.

In July 2013, TRAI announced the decision to redefine the minimum speed for broadband to 512 kbps and above from the earlier norm of 256 kbps. The redefinition makes it mandatory for telecom operators to offer at least 512 kbps speed when selling 'broadband' services to their customers. The move is intended towards increasing reach of higher speed connections in the country. In order to comply with TRAI's new definition of broadband and retain customers, telecom operators may now need to ramp up their network along with making other upgrades.[41]

Total unique visitors 2013 (in millions)



Source: Comscore India Digital Future in Focus, 2013

Focus to create 'made/customise for mobile' services

Over the past couple of years, global internet giants such as Facebook, Yahoo! and Google have increased their focus on mobile considerably. However, these companies aren't the only ones feeling the pull to go mobile. Brands across India are recognizing that the number of smartphones and tablets are growing faster against the declining numbers of the classic desktops, and hence investment in mobile strategies could become imperative. Overall smartphone shipments for Q3'2013 to India stood at 12.8 million (229 per cent YoY growth) against only 3.24 million PCs shipped (8.4 per cent YoY growth).[42]

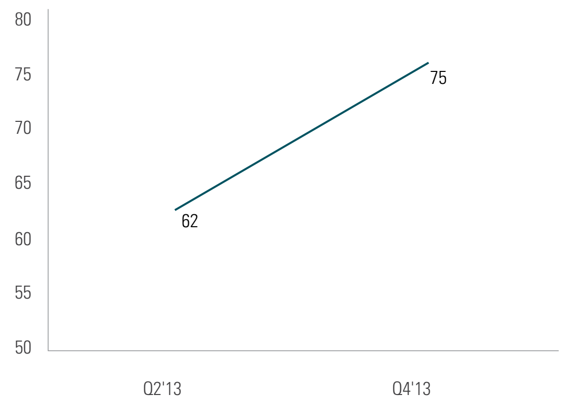
Google - Google's increased focus on mobile is reflected in the launch of multiple mobile products, globally and recently in India. Google has also admitted to its focus on voice search which is most applicable to mobile, users who are on the go and have a harder time typing. The most recent Search algorithm update released in Sep 2013 from Google-'Hummingbird' is believed to provide better user experience as more and more users speak their searches into their smartphones. It will help to address the increasing mobile search queries via voice search while understanding real speech and conversational patterns. From multiple updates to the Chrome mobile app to offering search and Google+ in vernacular languages and to introducing new metrics to measure mobile conversions for advertisers on Ad words and investments in upcoming wearable devices such as 'Google Glass', all reflect Google's enhanced focus on mobile.

Facebook – Facebook, in 2013, evidently shifted its priorities to focus on mobile and on native apps for all the major mobile operating systems. With almost 81 per cent of its monthly active users in India coming from mobile, it is a move in the right direction.[43] The company put in efforts to make the product accessible irrespective of the platform - iOS, Android, BlackBerry, Windows, and even on classic feature phones. In 2013, Facebook worked with telephone provider Nokia in the Indian market to introduce handsets with Facebook pre-installed on the devices. These mobile devices are called Nokia Asha series phones and have been designed to deliver a smartphone-like experience even on low cost handsets.

The shift in focus has delivered results for the company in India with Facebook's mobile usage in India growing from 62 million monthly active users in Q2'2013 to 75 million in Q4'2013.[43]

40. Comscore, India Digital Future in Focus, 2013
41. TRAI press release, July 2013
42. IDC press release, 2 Dec 2013
43. Facebook quarterly press releases

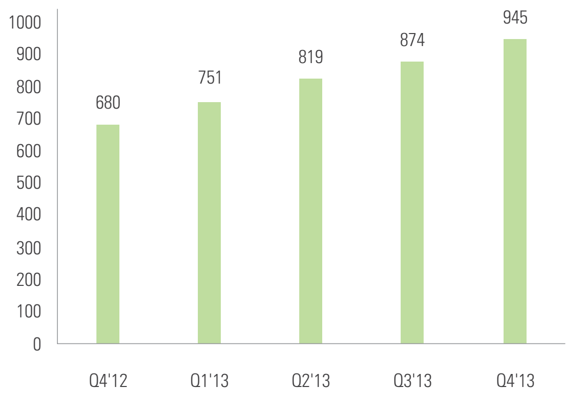
Mobile monthly active users (MAUs), Facebook India (in millions)



Source: Facebook quarterly press releases

A similar trend has been observed globally too. Facebook's global mobile usage grew by 39 per cent from 680 million monthly active users (MAUs) in Q4'2012 to 945 million MAUs in Q4'2013.[44]

Mobile monthly active users (MAUs), Facebook Global(in millions)



Source: Facebook quarterly press releases

Yahoo! –Yahoo! has been increasing its focus on its offerings for the mobile medium. In order to strengthen it mobile value proposition, it acquired multiple companies in 2013 such as GoPollGo, Stamped, Loki Studios, Tumblr, Playerscale, Ghostbird software, Jybe, Summly, Qwiki, Astrid[45] to expand its product portfolio. Most of these acquisitions have been in the mobile application space and have added to Yahoo Mobile Properties and Apps portfolio. Yahoo!, as part of its mobile-first strategy has also introduced a set of mobile apps such as Yahoo! Mail, Yahoo! Cricket, Weather and News that claim to have earned the company most of its mobile user base in India[38]. Yahoo! also organized a Hackathon which was a 24-hour contest for mobile app developers based on the theme 'Mobile and Personalisation', in Hyderabad in July 2013.

The global internet giant is already reaping benefits from these investments with increase in mobile user base.[46] It is estimated that Yahoo! Cricket already has a larger mobile user base as compared to the user base for PC/ desktops.[46]

India, now more comfortable with online and mobile payments

A few years back, for many Indians, booking railway tickets online was their introduction to internet shopping. The government railway ticket booking portal IRCTC and few travel sites revolutionised the eCommerce industry in India and consequently the concept of online payments.

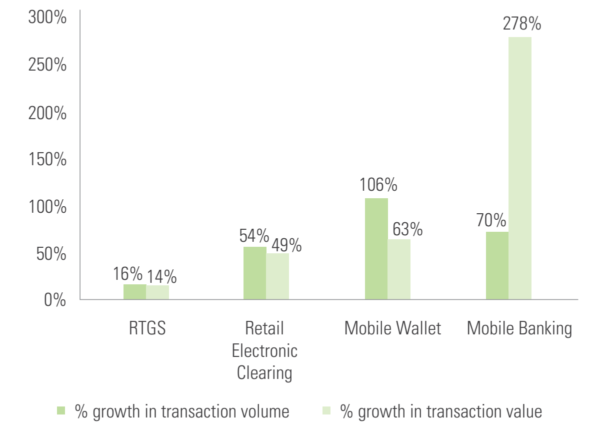
Indians are now becoming comfortable with electronic as well as mobile payments. More and more consumers are opting for online and mobile platform payments that provide extra convenience.

The highest growth rate by volume amongst online and mobile payments systems was observed in mobile wallet transactions that grew by 106 per cent in Dec 2013, over Dec 2012, followed by mobile banking which grew by 70 per cent.[47] Retail Electronic clearing transaction volume (including ECS, EFT/NEFT and IMPS) grew by 54 per cent, and majority of the growth was contributed by Immediate Payment Service (IMPS) transactions as their volume observed a 1655 per cent growth rate.[47] In absolute terms, the number of IMPS transactions is still low when compared to other systems, and due to a low base effect the per centage growth rate for IMPS may seem high. Nevertheless, the growth has been noteworthy. The data signals a sharp rise in mobile fund transfers in the country. Indians are now transacting more frequently using mobile devices as compared to previous year, and the trend is expected to continue through 2014.

Growth in payments by the value of transactions was also led by mobile payments. The highest rate of growth was observed for mobile banking that grew 278 per cent followed by mobile wallet at 63 per cent[39]. Retail electronic clearing transactions value witnessed a growth rate of 49 per cent in Dec 2013 against Dec 2012.[47] Majority of growth in value for this category again was led by IMPS transactions that grew by 2900 per cent.[47] It is obvious that consumers in India are not just becoming more comfortable with online and mobile payments but are also warming up to transact higher values through these new payment channels.

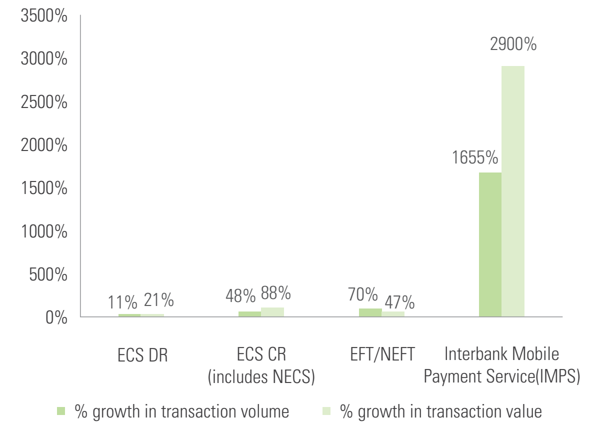
44. Facebook quarterly press releases
45. http://mashable.com/2013/07/31/yahoo-marissa-mayer-20-startups/
46. Industry discussions conducted by KPMG in India
47. RBI Payment Systems Indicators Reports 2013, KPMG India Analysis

Payment systems in India, Dec 2012-Dec 2013



Source: RBI Payment Systems Indicators Reports 2013, KPMG India Analysis

Retail Electronic Clearing, Dec 2012 - Dec 2013



Source: RBI Payment Systems Indicators Reports 2012 and 2013, KPMG India Analysis

Consumers' trust in online transactions is positively impacted by launch of innovative online/mobile payment systems (Google Wallet, Airtel Money etc.), as well as by various efforts from the state governments and RBI, such as the implementation of the 3D secure authentication system online and the introduction of IMPS. IMPS, promoted by the National Payments Corporation of India (NPCI), enables customers to make payments to merchant portals without any internet connection. The Government has also launched Government e-Payment Gateway for handling government related payment transactions. Additionally, the push from some public organisations to shift utility payments such as electricity, telephone, water bills and insurance to online platforms is also increasing online payments familiarity with Indian consumers.

Online card payments in India are also growing at a fast rate of about 50 per cent YoY and are estimated to surpass physical card transactions soon which are growing at a rate of approximately 35 per cent YoY. [48] Approximately, one in four card transactions in India, currently, are already taking place online. The number of card transactions per month grew by 19 per cent in volume to 659.5 million and 17 per cent in value to INR 1,928 billion in Dec 2013.[49]

RBI is doing its bit by empowering payment companies to facilitate more digital transactions in order to create competitive tension between existing players and the country's biggest banks and telcos which have failed to unleash the full potential of new technologies so far. In 2013, RBI granted new mobile wallet licenses to Reliance's Jio Money, MobikWik Wallet, Idea cellular's Mobile Wallet, TATA Tele-services' mRupee, One97 Communications' Paytm, and Tech Mahindra's Mobo Money.[50] The existing players in the mobile payments space such as Google Wallet, Airtel Money, Zipcash, SBI's Mobicash Easy, Tata's mRupee, Vodafone's mPaisa and Zee's Itzcash etc. are already working towards making payments more convenient for the end user. Lack of awareness and lack of trust in such initiatives has been halting the expected rise in adoption of Mobile Wallets system in India. However, the mindset is changing for good and offers a ray of hope to the stakeholder companies. The overall Asia-Pacific mobile wallet market is estimated to be worth USD 74 billion in transaction value currently, and is set to reach USD 165 billion by 2016.[51]

The leading players in the mobile payments space are achieving success already,

Airtel Money

- Launched by Airtel in Feb 2012.
- Available in 27 states
- Active user base of 1.3 million by Dec 2013
- Estimated to have gathered business worth INR12.4 million with 30 million transactions for the quarter ended December 31st 2013.
- Average value per transaction at INR406.

mPesa

- Launched by Vodafone in alliance with ICICI bank in Dec 2012.
- Currently available across 11 states
- More than 300,000 registered users
- Focused on a national roll out in 2014.
- Has been a huge success story in Kenya in partnership with Safaricom

48. http://timesofindia.indiatimes.com/business/india-business/25-card-payments-take-place-online/articleshow/22530589.cms
49. Source: RBI Payment Systems Indicators Reports 2013, KPMG India Analysis
50. Source: RBI
51. Gartner Press release, June 4, 2013

mRupee

- Launched by Tata Teleservices in Jan 2013
- Available across 15 cities
- More than 130,000 users
- Over 250,000 transactions per month
- Average transaction value of INR3,800
- Roll out to 26 cities and 4000 retail outlets planned by March 2014.

Money on Mobile

- Launched in 2010
- More than 75 million unique users
- Approximately INR 824.5 million worth transactions per month
- About 400,000 transactions per day.

Source: http://www.informationweek.in/informationweek/press-releases/286788/tata-docomo-expand-flagship-money-remittance-service-mrupee-26-cities-fy14, http://beforeitsnews.com/science-and-technology/2013/12/vodafone-introduces-mpesa-service-in-gujarat-plans-pan-india-by-2014-2661992.html, http://www.watblog.com/2013/11/08/mobile-money-ids-grow-gradually-but-transactions-appear-healthy-npci-report/, http://www.businesswire.com/news/home/20131114005063/en/Calpian-Inc.s-Indian-Subsidiary-Money-on-Mobile-Announces-October#.Uv3ebGKSyJQ

TRAI's regulations and HD channels with shorter breaks on TV are driving advertisers to online medium

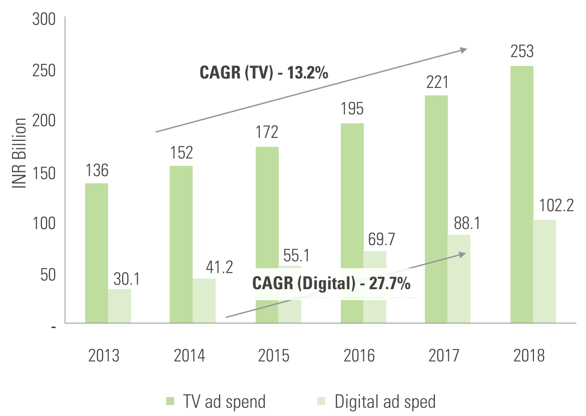
TRAI introduced multiple advertising related regulations on TV channels in 2013, such as:

- Only 12 mins of advertising on a broadcast channel TV in an hour, including house ads
- Time gap between ad breaks and programming should be at least 15 minutes, except if it is a live sporting event
- Only full screen advertising allowed. No popup, part screen ads or drop down advertisements.

New regulations from TRAI, combined with the increasing adoption of HD channels that feature shorter breaks, are forcing a decrease in supply of advertising time on TV and an obvious increase in rates by channels. All leading TV channels, in order to compensate for the lost revenues, increased ad rates by 30-35 per cent in 2013.[52]

Rising costs on TV and marketers' budgets not increasing in proportion to the increase in advertising rates are driving advertisers to increase their investments in digital platforms at a rate higher than that observed for TV. Digital ad spend is estimated to grow at a CAGR of 27.7 per cent from the year 2013 to 2018 against an estimated 13.2 per cent CAGR for TV ad spend.[53] There are likely to be more ads on TV that will mention 'Watch the rest on YouTube' and growth of 'second screen apps' to shift users to digital platforms.

Digital ad spend vs TV ad spend in India, 2013(E) – 2018(P)



Source: KPMG in India analysis

52. Press articles(http://www.livemint.com/Consumer/R6RHQh9RwLbdIGdoEgeIBN/Channels-hike-ad-rates-to-offset-time-limit.html , http://www.medianama.com/2013/03/223-impact-of-indias-tv-advertising-limits-on-digital-digital-first/)

53. KPMG in India analysis

Digital Video takes on TV – An imminent reality

Gautam A. Patel
Managing Director,
Zodius Advisors

As the world embraces the 'Internet of Things', India is beginning to embrace the "Digital of Things" with 900 million mobile subscribers, a USD6 billion e-commerce industry, online payment transactions growing at 10-15 per cent month-on-month, 146 million cable homes rapidly getting digitised, and Google Hangouts, Twitter, Facebook/WhatsApp and YouTube evolving as "the" communication mediums of choice for our people, government, and businesses.

The Indian population at large (locals and NRIs) are adopting digital habits for the following reasons. First, we are a nation of young people with 500 million people below the age of 25 years; a perfect fit into the most active global digital demographic of 14-45 years. Second, we have leap-frogged mass computer adoption with our 900 million mobile connections of which 130 million subscribers use low-cost smartphones. Third, Indians are used to paying for entertainment; 146 million cable homes pay INR 200-300 per month. Which is why young Indians are reaching out to their mobile phones for sports, music, movies, social networking etc. And lastly, with good telecom infrastructure and healthy competition between telecom providers we have the lowest voice and data charges in the world.

India is a rapidly developing economy whose consumers are hungry for content. We are the #2 market globally for Facebook and YouTube (55 million and 30 million users respectively), #1 globally for film box office tickets (USD2 billion), and #2 globally in Pay TV households (146 million). With incremental adoption of 3G wireless broadband services and plans for 4G services next year. Moreover, there are no current foreign ownership restrictions in India relative to online content initiatives.

Currently, TV viewing in India is at 119 min/day while web and mobile video viewing is at 28 min/day resulting in 5 billion video views per month of which 40 per cent are viewed on the mobile. YouTube is the largest video viewing platform. However, the thing to note is that the mobile data addressable subscriber base is 50 million with paying capacity of INR 250-300 per month for 1GB of entertainment content across video, music, and CBRT (Call Back Ring Tones). With the web and mobile Advertising market growing from USD400 million to approx. USD2.8 billion (internet USD1.5b+ & mobile USD1.3b) and the Subscription market pegged to be close to USD7 billion in the next 4-5 years it will prove a win-win for the combined nexus of consumer-telecom carrier-video content provider. In addition, telecom carriers in India are under tremendous cost pressures (price competition and high licensing costs) that they are aggressively promoting data services plans as low as INR 250-300 per month for 1 GB (one of the lowest in the world) and revenue shares with MVAS/Content providers at 40/60 to 50/50 compared to past rev-shares of 20/80 (majority to the carrier). As a result telecom carriers will make bandwidth quality a priority driving more data usage and revenues.

In the long-term the opportunity is on the mobile. India has 900 million mobile subscribers of which only 7 per cent use mobile data services. However, 10-15 per cent or 120 million of the subscribers are literate enough to use mobile data services. India mobile data plans are some of the cheapest in the world at INR 250 per month for 1GB. The high value (average monthly consumption INR600) pre-paid and post-paid subscribers in India amount to 240 million. Of these 240 million subscribers 20 per cent continue to use data services after the first month and can afford a 1GB monthly plan resulting in viewing 28 mins of online video per day. Mobile data charges are expected to go down until saturation after which charges will start to increase similar to what happened to voice/sms charges in India.

The availability of low cost smartphones in India has resulted in putting 130 million smartphones in the hands of young Indians. As a result the Over-the-Top (OTT) market for Content and Mobile Apps has exploded. Smartphone users are going directly to the internet-on-mobile to access content; converting the Telecom provider into a bandwidth pipe only. However, there is a dearth of good quality palatable content available which is promoting entrepreneurial opportunities in building businesses around content, media technology, mobile data analytics, and online payments. In addition, the advertising community has been completely reliant on TV to provide them with reach. Advertisers and Brands are starting to experiment with digital advertising (currently digital ad spend are very low at 3-4 per cent compared to 20 per cent of total ad spend in the US). Digital advertising has better efficacy and direct targeting with the ability to track, measure, analyse and monetize real-time.

The opportunity for digital video is huge and exciting. However, let's highlight some challenges and critical enablers. First, 3G Telecom infrastructure build out is only at less than 50 per cent across the nation. The remaining infrastructure build out should happen and in a timely manner leading to 4G services. Second, Telecom Carriers should continue to encourage the expansion of the mobile ecosystem (mobile apps, mobile media technology, data analytics, content production, etc.). Third, infuse private and government capital to foster entrepreneurship in the digital sector. Lastly, the sector has to get more efficient by providing the best infrastructure, high quality user experience, good content, at a fair price.

India has a similar opportunity in Digital that China had five years ago. Our time has come to build the next wave of technology in digital to service this burgeoning consumer demand for digital video!

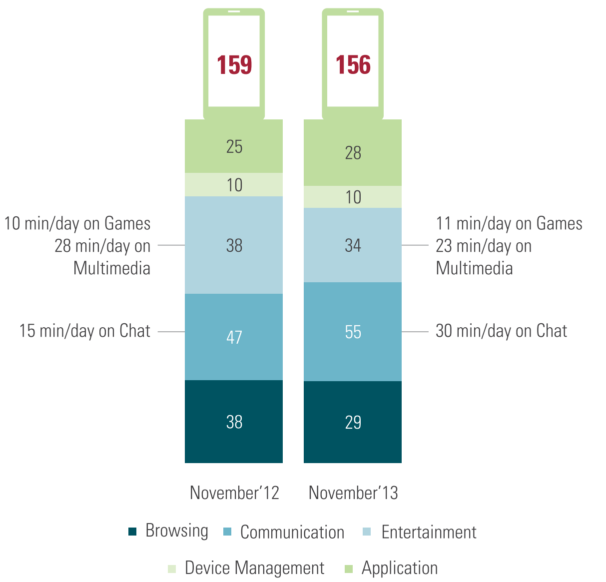
Unless otherwise noted, all information included in this column/ article was provided by Gautam A. Patel. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Smartphone usage 2013: apart from chat and social networking, most genres have seen a decline in engagement

Average time spent per day on the smartphone reduced from 2 hours and 39 minutes in Nov'2012 to 2 hours and 36 minutes in Nov'2013.[54] Chat and multimedia content took the center stage in smartphone usage in 2013 and the trend is expected to be maintained in 2014. Both categories, put together, constituted about 1/3rd of the overall usage time totaling to 53 minutes per day. Chatting applications garnered a time share of 30 mins per day in Nov'2013, which was a 2X increase compared to Nov'2012. Gaming is found to be another popular activity on smartphones; an average user spent around 11 minutes per day on games in Nov'2013.[54] Most gamers are light gamers and the time spent on games is just over 2 minutes. On the other hand, heavy gamers spent more than an hour on gaming each day. Nearly, half of all heavy gamers fall under the age bracket of 25 to 35 years.

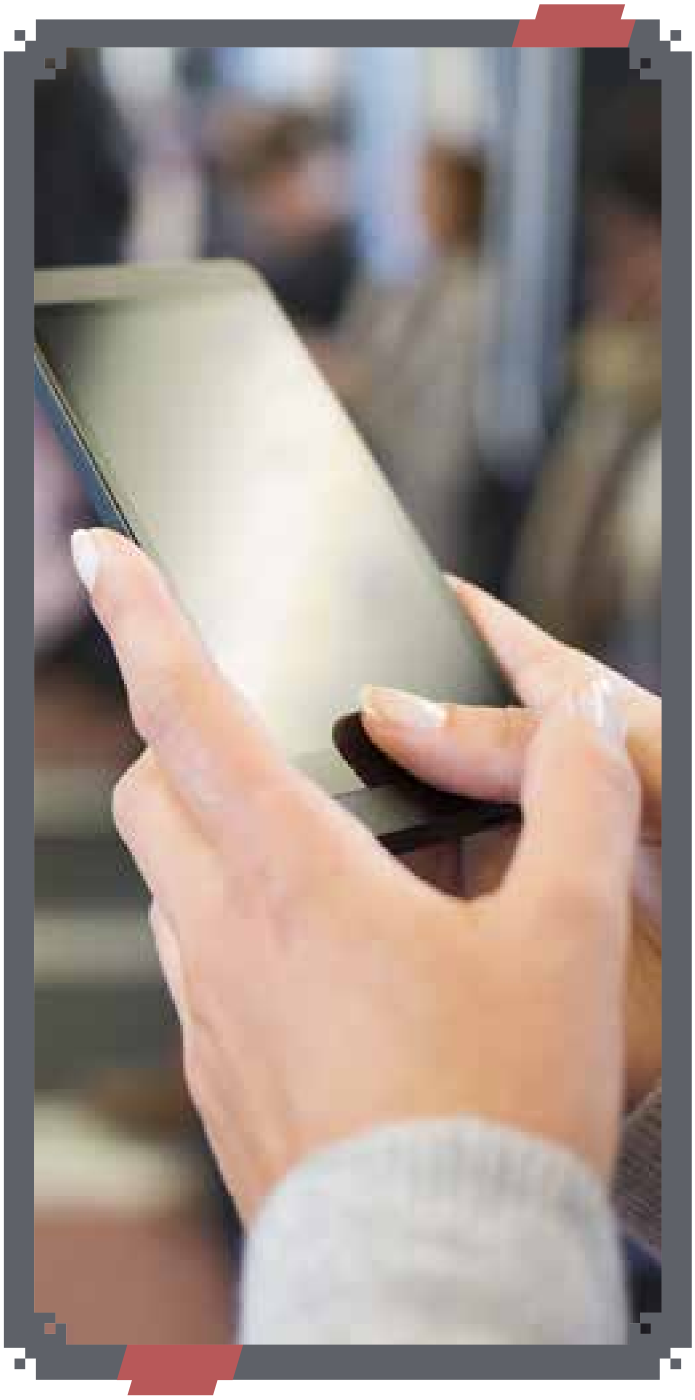
Engagement on browsing declined on smartphones by 24 per cent in Nov'2013, coming down to 29 minutes from 38 minutes in Nov'2012.[54] This could have resulted from limited available user time with more time being spent on chat, multimedia content and gaming applications.

Overall smartphone usage -Time spent (mins/day)



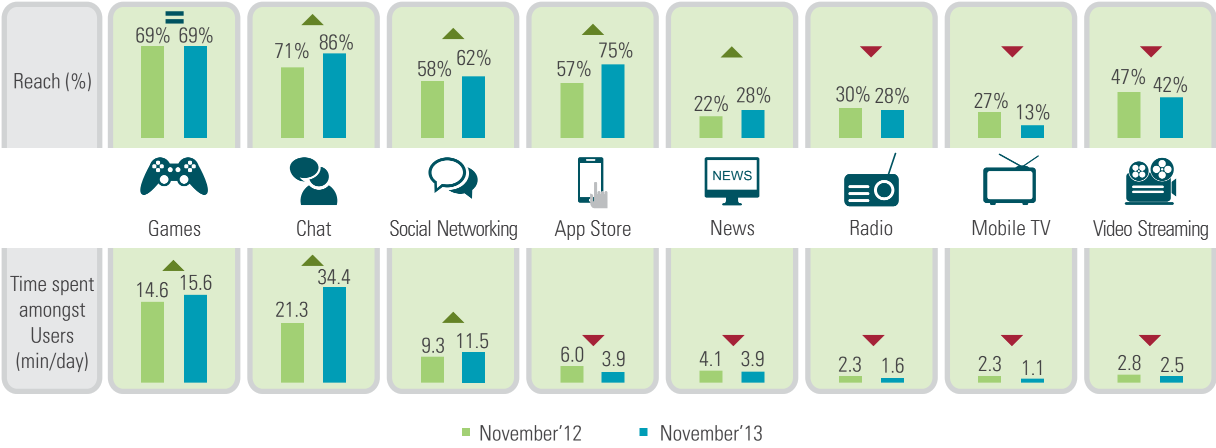
Source: Nielsen Informate mobile insights 2013

According to the above data, radio, mobileTV and video streaming witnessed a drop in daily engagement, with Mobile TV observing the highest fall followed by video streaming, all contributing to the reduction in overall time spent on smartphones. Watching videos accounted for a small portion of the overall pie. Users seem to be diverting their attention away from activities that require faster and better connections to activities such as chat and social media apps that require lower bandwidths and work well even with patchy 3G and 2G connections. Issues with data network connections tend to lower the quality of user experience while streaming videos on mobile. These trends are important from the perspective of content providers and app developers to tweak their strategies according to shifting consumer behaviors.



54. Nielsen Informate mobile insights 2013

Genre usage



Source: Nielsen Informate mobile insights 2013

Portable devices, such as smartphones, tablets and laptops are seeing a distinct surge in consumption owing to the increasing affordability. Buoyed by effective data plans, consumers are interacting through social networking sites, and are participating in more conversations using chat messengers across devices. For brands a robust digital strategy to directly engage with consumers is now a priority, as is reacting and responding to grievances that consumer's air on these same public platforms.

With the choice of content multiplying at dizzying speeds, the consumer is also getting distracted very easily. This presents a scenario where marketers, media watchers, manufacturers and advertisers now have a far more fluid consumer base, and keeping them engaged, and loyal while tapping into new groups will be an ongoing process.

- Prashant Singh
Managing Director,
Nielsen India- A global information and insights provider

Digital music: big exits mark 2013

2013 was marked by a few disappointments for the digital music industry. Although, the overall industry has shown growth, services poised to succeed in 2013 have faced trouble. Flipkart's music download store Flyte was forced to shut down operations in 2013. As per official statements from Flipkart, it is difficult for music downloads business to reach a desired scale in India due to problems related to music piracy and difficulty in facilitating micro payments.[55] Low credit card penetration in India could be another reason dampening the growth of online music sales. Dhingana, a music streaming service, also closed down in 2013.

YouTube offers a compelling proposition

2013 saw YouTube follow the parent Google in rolling out its movie rental and purchase program in India. Users can now browse through both paid and free movies across various genres and languages. YouTube offers movie rentals starting as low as INR 25.[56] Upon purchase, users have 30 days to start watching the content and once started, 48 hours of viewing time. Pricing is dependent on resolution, popularity and recency of release. Regional content forms a significant part of the inventory.

55. The Economic Times press release, 29 May 2013

56. YouTube

Sony LIV and Star Sports enter the VoD market in India

Multi Screen Media (MSM) launched their Video-on-Demand (VoD) service, Sony LIV in India in Jan 2013 with an ad-supported revenue model. This move will heat up the competition in the VoD market with existing players such as BigFlix, Box TV and Ditto TV. The service is focused on offering current and past TV content from SONY, SAB and MAX online, on mobile handsets and tablets. By the end of 2013, Sony LIV had gained ~ 3 mn (per month) unique users who, on an average, spend 10-11 mins each per visit.[57] Comedy is the most-viewed genre followed by drama and thriller. In line with the industry trend, 50 per cent of content on Sony LIV is viewed on mobile, 30 per cent on desktops/laptops and 20 per cent on tablets.[57] Their mobile app has been downloaded 7 million times.[57]

The launch of starsports.com was another prominent entry in the VOD market in 2013. The revenue model of starsports.com, unlike Sony LIV, is not advertising but subscription based. The service offers live streaming of matches, live commentary in Hindi and English, match fixtures and results. It currently offers content across Cricket, Football, Hockey and Pepsi IPL. The service, at present, attracts over 28 million unique visitors every day with users spending, on an average, 45 minutes per match.[58] The service engages users with innovative campaigns such as 'The Sachin memory project' launched in Nov 2013 which was a huge success. Sports coverage has evolved from print to radio to television and now the digital medium. Starsports.com aims to become the go-to-destination for sports content online.

The Internet is a web of networks. The more the users, more content, the larger the network, the more complex the web! The more complex the web, the easier it is for pirates to set up content piracy and monetization. At Sony, we have been proactive at monitoring both online and application-based content piracy. We do regular sweeps and target IP infringement. As a broadcaster and a content company, it adversely affects profits, jobs, creativity and brand equity. While these sweeps help, with rapidly technology and code enhancements, we are always playing catch-up. We need an active forum with cooperation from the entire eco-system between tech/web players, content owners, advertisers and the government.

- Nitesh Kripalani
Executive Vice-President,
New Media, Business Development & Digital/
Syndication, Multi Screen Media Private Limited

The only thing holding back Digital media is the data speeds and coverage, in spite of which online and mobile viewership has shown impressive growth. On digital media, unique and exclusive content will always get value, while me-too content will not. There is tremendous scope for sports viewership online, given its exclusive nature. However, for monetisation beyond advertising on digital media to pick up, payment mechanisms and piracy issues needs to be resolved.

- Uday Shankar
Chief Executive Officer,
Star India Private Limited

Kobo launches in India

Kobo launched their e-reader devices and e-books service in India in 2013. The International e-reader manufacturer Kobo has a global market share of 20 per cent,[59] 2nd after Amazon and has debuted 3 e-readers in India – Kobo Touch (INR 6,999), Kobo Glo (INR 10,999) and Kobo Aura HD (INR 13,999).

Unlike the Kindle, Kobo's distribution for its devices is solely available offline at over 100 retail points in leading bookstores across the country such as Crossword and WHSmith as well as electronics retail store Croma.

Segment review

Search

India is the fourth largest audience of online searchers in the world.[60] After years of stability, online search has entered an era which is characterised by rapid change. A few years ago, searches were likely to return similar results for any number of unique users. Today, a search produces personalised results and includes various elements other than traditional text results, such as, images, videos, maps and local content as well. For the user, relevant and valuable information is the obvious advantage; however, marketers are delving deep into the art and science of search engine optimization and marketing.

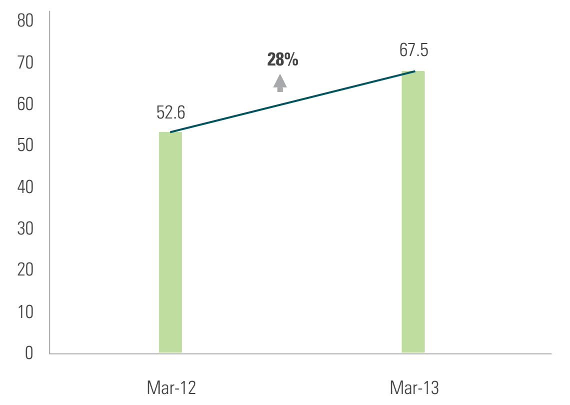
57. Industry discussions conducted by KPMG in India
58. http://www.indiantelevision.com/iworld/enews/starsportscom-youtube-of-sports-in-india-140207
59. http://www.digitaltrends.com/mobile/kobo-touts-millions-of-sales-in-2012-despite-lack-of-us-exposure/
60. Comscore: India Digital Future in Focus, 2013

Unique searchers in India grew by 28 per cent against 6 per cent worldwide

Key search statistics: India
67.5 million unique searchers
6.4 billion searchers
7.6 billion search result pages
1.6 billion search visits

Source: Comscore: India Digital Future in Focus, 2013

Growth in unique searches in India,Mar'12 - Mar'13

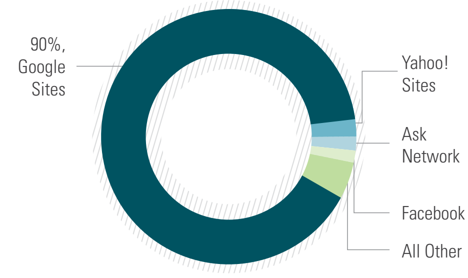


Source: Comscore: India Digital Future in Focus, 2013

Google's revenues in India were reported at INR20.77 billion in 2013, a considerable growth of 78.7 per cent from FY 2012.[61] Although these figures do not reflect the strategic importance of the Indian market, especially when compared to its annual global revenue of INR3,000 billion (2012), India remains one of Google's fastest growing major markets.[62] Google's advertising revenue from the SMB sector in India is growing by triple digits in the last two years with higher adoption rate.[63]

Google is the largest, most popularly used search engine in India

Composition of internet searches in India



Source: Comscore: India Digital Future in Focus, 2013

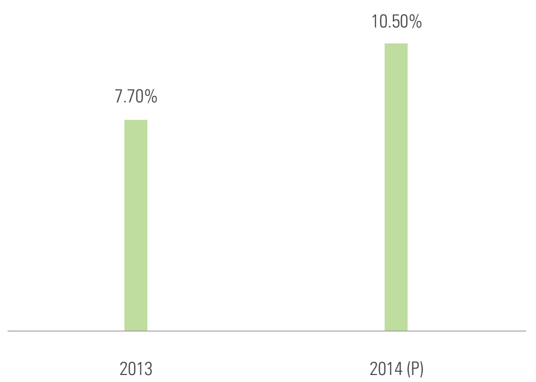
In 2013, Indian netizens spent around 33.5 minutes per month on internet searches, out of which 90 per cent searches were on Google sites.[64] Google has taken a stronger position on mobile Search Engine Optimisation (SEO) and even threatens to demote sites which are not mobile friendly on mobile search results.

Social Media

The Indian social media landscape has turned into an influential medium for information exchange and engagement. India is amongst the fastest growing markets for Social Media usage, with an estimated increase of 37.4 per cent in user base in 2013.[65] It is estimated that, in 2013, 86 per cent Indian web users visited a social networking site.[64]

Social network user penetration in India increased from 7.7 per cent in 2012 to 10.5 per cent in 2013.[65] This penetration is estimated to reach 17.2 per cent by the end of year 2017 against global social network penetration projected at 31.5 per cent.[65]

Social network user penetration in India (per cent of the population)



Source: eMarketer newsletter, 19 Nov 2013

61. India's Registrar of Companies, Medianama
62. Forbes India feature-Is Google gobbling up the Indian internet space, 22 Jul 2013
63. ZDnet press article, 28 March 2013 - India fastest growing SMB market for Google AdWords
64. Comscore: India Digital Future in Focus 2013
65. eMarketer newsletter, 19 Nov 2013

For a country that accounts for 1/6th of the world's professionals and a growing young population, it comes as no surprise that LinkedIn's user base in India has grown almost 500 per cent since inception in late 2009. With prolific growth in internet users, a huge mobile user base and a growing number of users accessing social media through mobile phones, it clearly seems that the social media revolution is set to expand even faster in India. The future looks promising primarily because social has evolved to the point where we can have scale (reach) and personalisation (relevance), thereby making it much more effective than traditional media in India, where one inherently has to tradeoff between the two.

- Nishant Rao
Country Manager,
LinkedIn, India

Facebook is leading the charge with 44 per cent growth in 2013 where an average user spent 217 minutes every month on Facebook.[66] LinkedIn emerged as the second most visited social network with a typical user spending an average time of 18.7 minutes.[66] Social media has a major impact on business as customers are increasingly using social media channels for product comparisons, price discovery, information and shopping. Organisations continue to explore the possibilities that social media has to offer to reach new customers and enhance customer experience.

The table below shows the growth of social media sites in 2013 in terms of unique visitors from PCs. Facebook lead the charge with close to 60 million unique visitors visiting the site followed by LinkedIn with 11.12 million unique visitors.[66] Pinterest and Tumblr registered a growth of 589 per cent and 130 per cent respectively and emerged as the fastest growing networks in 2013[66] though the unique visitor base is low. While all other social media sites saw a positive growth rate in terms of unique visitors in 2013, Twitter saw a decline of 15 per cent compared to last year.

Though all social media sites are competing for gaining traffic, engagement and eyeballs in the market, they have developed a unique appeal among different demographic user groups. While Facebook is widely accepted across user groups in India, LinkedIn is popular among working professionals, students and high income households. Pinterest is highly popular among female users whereas Twitter is favoured among young urban adults.

PC traffic and network growth on social media sites, 2013

Social Media Channel	Unique visitors (000)	Minutes per visitor	YoY increase in unique visitors
Facebook	59,642	217	44%
LinkedIn	11,127	18.7	58%
Twitter	3884	9.1	-15%
Pinterest	1514	9.2	589%
Tumblr	1855	7.9	130%

Source: Comscore: India Digital Future in Focus, 2013

Gujarat emerged as the state with highest number of users accessing social networks through smartphones compared to the corresponding numbers in any other state in India. Ahmedabad had 60 per cent users logging into the networking sites using their smartphones whereas 51.6 per cent of users accessed social networks through smartphones in Delhi and 55.2 per cent in Mumbai. Other cities in Gujarat including Surat, Vadodara and Rajkot also made it to the list of high number of social media users through smartphones, with over 56 per cent users.[67]

India is expected to have the largest Facebook population by 2016. While the US remains the country with the highest number of Facebook users (146.8 million in 2013), India, which comes in a distant second is set to have the world's largest Facebook population by 2016.[68] There are currently 93 million Facebook users and it is estimated that 2 million new users are adding every month in India.[69]

Search and Social media: They can no longer operate independently

Integration of social and search makes perfect sense when businesses aim to cater to the evolving customer behavior. Digital technologies have not only transformed the way people use social media, but have also led search to become increasingly influenced by social signals. Search engines such as Google and Bing are aggregating feed data from social networking sites such as Google +, Facebook and Twitter for improving search engine results and personalize them according to the customer needs and preferences. Google's 'Social Search' patent (granted in July 2013)[70] discussed the relevance of relationship connections in a social network and revealed that search engines can use these connections to answer searchers' queries in a better way. The patent also details out measuring of trust by intimacy as opposed to authority. For instance, a customer is likely to trust a family member's recommendation when compared to that of an anonymous reviewer online.

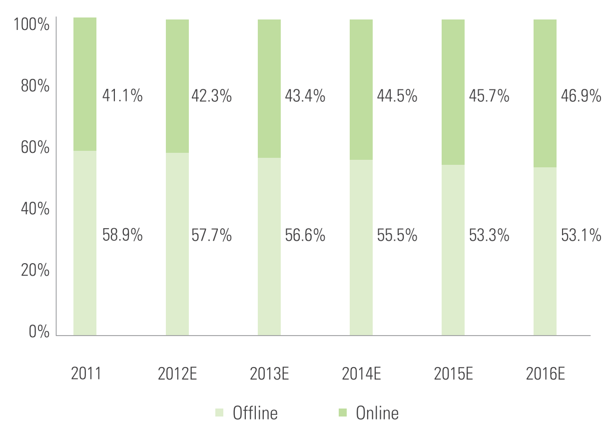
66. Comscore: India Digital Future in Focus, 2013
67. Times of India article ' Gujarat tops in social media users via smartphone', 31 Aug 2013
68. eMarketer newsletter, 19 Nov 2013
69. Press release, ZDnet - 4 Feb 2013
70. Media Post article 'Google secures patent for social search', 26 Jul 2013

Online classifieds

Online classifieds: a major market

Online classifieds began in the US and since inception online classifieds' websites have snatched USD 3.5 billion worth of ads from American newspapers. A similar development is also taking place in India. The classifieds ad budgets have started migrating to the online media from print.

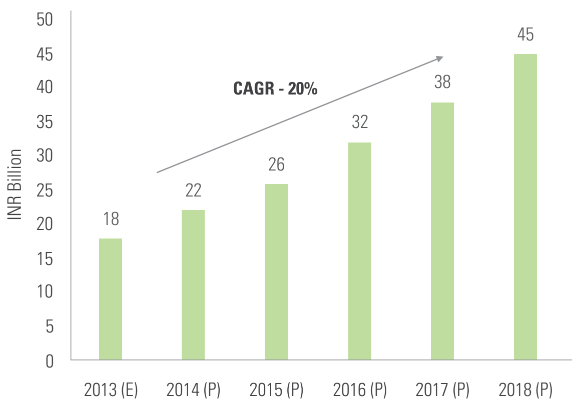
Increasing share of online classifieds market (by revenue) in India



Source: Netscribes, Centrum Broking (http://bsmedia.business-standard.com/_media/bs/data/market-reports/equity-brokertips/2013-09/13800961410.81028400.pdf)

Thanks to the growing number of internet users, every classified ad posted online reaches millions of users throughout the length and breadth of India. The major categories among internet classifieds are jobs, matrimonials, automobiles, education, real estate, as well as other assorted ads. Globally, the classifieds market is pegged at USD 12.5 billion and accounts for 20 per cent of global online ad revenues.[71] In India, the size of the online classifieds industry was estimated at INR 18 billion at end of 2013 and it is expected to grow to about INR45 billion by 2018 with a CAGR of 20 per cent.[72]

Indian online classifieds market



Source: Industry discussion conducted by KPMG in India and KPMG in India Analysis

Favorable demographics, new-age young entrepreneurs and growing business services sector seem to be driving the online classifieds market in India. Internet enabled Tablets and mobile devices play an important role in the continued growth of online classifieds to a considerable extent. To help things along, numerous online properties such as websites, mobile sites, apps, games, videos etc. have appeared on the internet highway that actively support the online classifieds industry. The online classifieds industry grows unabated, and mature listed players are growing at 20 per cent or more.[73]

Online classifieds models in India

Strategic segments	Categories	Key players	Revenue model	Growth Drivers
Horizontal classifieds	General (Non-category specific)	Olx, Quikr, Sulekha, ClickIndia, Justdial	Online advertising, featured listings, Paid listings and value added services	• Growing internet user base • Growth in digital ad spend • Young population /positive demographics • New ventures and growth in service sector
Vertical C2C Classifieds	Matrimony	Shaadi, JeevanSathi, Bharatmatrimony	Paid memberships	
Vertical B2C Classifieds	Auto	Carwale, Cardekho, India Automobile	Lead generation, Paid listing, Subscribtion fees from dealers, Auto Financing, Auto Insurance	
	Real estate	99acres, MagicBricks, Indiaproperty	Paid listing, Fees from developers, builders and brokers	
	Food and entertainment	Zomato, Burrp	Paid listings	
	Recruitment	Naukri, Monster, TimesJobs	Job listing, Employer Branding, access to database, VAS	

Source: KPMG in India analysis

71. Zenith Optimedia - http://www.kbridge.org/en/online-classifieds-choosing-a-successful-strategy/
72. Industry discussions conducted by KPMG
73. Press article http://www.thehindubusinessline.com/industry-and-economy/bringing-buyers-and-sellers-online-is-the-major-challenge/article5010374.ece

Job classified sites are the most popular segment in India

With the employment situation as it is in India, there is no wonder job seekers flock to online job classifieds sites in the hope to find a fresh job or a better job. With the growth in IT services, banking and manufacturing sectors in the recent past, most recruiters are highly dependent on online media to reach the vast talent pool available in India. All this has contributed to recruitment/ job classifieds growth and became the largest category in online classifieds and a preferred medium of hiring in India. Around 3.15 million resumes were uploaded in December 2013 compared to 1.05 million in November 2012. The number of online job seekers was estimated at 25 million in 2012-13 and the number is set to increase to 50 million in 2016-17. People in age group 21-35 years showcased high interest in the job portals in 2013.[74]

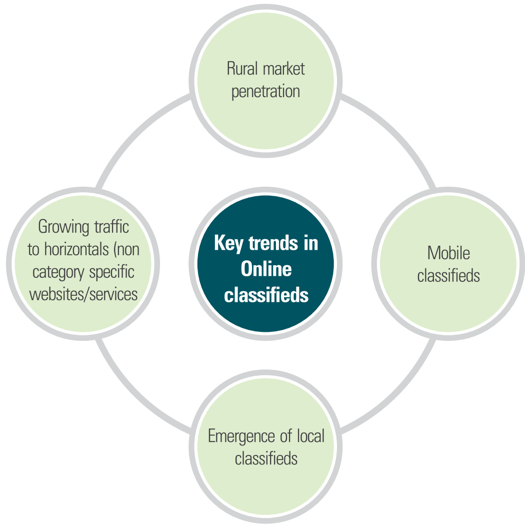
Followed by matrimonial classifieds

Matrimonial classifieds on the internet are a growing business in India and millions of users have taken to posting ads on them. From INR5.2 billion at present, the online matrimony segment will acquire a market size of INR15 billion by 2017 and this will be possible because of convenience and cost-effective services afforded by this segment.[75] The online matrimony services are estimated to grow at a CAGR of over 65 per cent in the next two years.[75] 25-34 years is the fastest growing age group for the matrimonial classified segment.[75] A few companies providing platforms for matrimonial postings have started providing counseling services and free books on the dos and don't's of a happy marriage to mailers and links to social media and blogs.[76]

Horizontal classifieds: scaling new heights

The major horizontal classified websites witnessed 200-400 per cent growth, with 40-50 per cent of traffic coming from mobile devices.[77] The estimated number of visitors per month is 50-60 million. Almost 50 per cent of searches came from mobile sites in 2013 compared to only 15-20 per cent in 2012. The horizontal classifieds with a CAGR of 50 per cent in the last two years was notably ahead of the 26 per cent CAGR for India internet over the same period.[77] Paid listings, advertising and lead generation services have been the primary revenue drivers for these players.[77]

Online classifieds sites such as Quikr and OLX have seen business coming from semi urban and rural areas in states such as West Bengal, Tamil Nadu, Karnataka, Maharashtra, Orissa, Assam and Uttar Pradesh.[78] The major metros are the main sources of traffic to these sites but the rural market is catching up and would account for 50 per cent of the traffic in the coming year.[78]

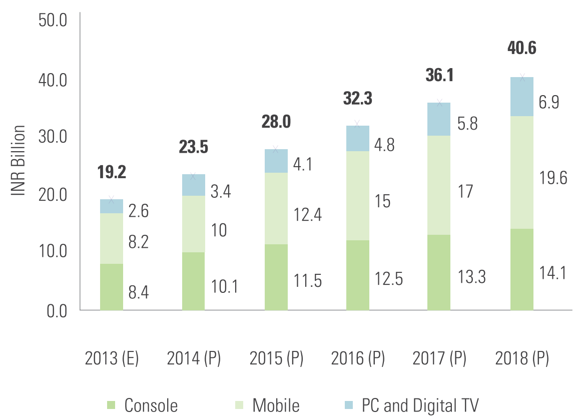


Source: Industry discussions conducted by KPMG in India

Gaming

The gaming industry is gaining traction at a steady rate in India. The growth is driven by a rising younger population, higher disposable incomes, introduction of new gaming genres, and the increasing number of smartphone and tablet users. The proliferation of gaming developers and publishers has also contributed to the growth of the gaming industry. The gaming industry in India was estimated at about INR 19.2 billion in 2013 and is poised for continuous growth.[79] However, the year gone by witnessed flat volume growth in the console segment specifically and this impacted the overall industry growth rate. Industry players are optimistic about 2014. The industry is expected to grow at a CAGR of 16 per cent and touch INR 40.6 billion by the end of 2018.[79]

Gaming market in India, 2013(E) – 2018(P)



Source: KPMG in India analysis

74. Press release, Assocham 'Rising trends & popularity of online Jobs and Matrimonial Alliances' – 17 Dec 2013
75. Press article, Assocham http://indiatoday.intoday.in/story/online-marriage-business-may-touch-rs-1500-crore-by-2017-assocham/1/331691.html
76. http://articles.economictimes.indiatimes.com/2013-06-26/news/40206906_1_portals-online-bharatmatrimony-com
77. Industry discussions conducted by KPMG in India
78. Times of India article 'Rural India selling cows, buffaloes on OLX, Quikr', 11 Jun 2013
79. KPMG in India analysis

Last year had been a challenging year of re-invention of the Console gaming industry. There is a change in the mass segment appeal of the consoles with the withdrawal of the PS2 and higher incidence of the smartphone gaming in the wider and deeper markets. The year also started seeing a higher involvement of core gamers in the top 18 cities around PS3 / PS4 and focused on the core gaming titles. We expect the mass segment based on better quality smartphone games to be wider in appeal but also a faster rate of creation of core gamers who will look for more immersive games on the consoles.

- Atindriya Bose
Country Manager
Sony Computer Entertainment

Console gaming

The console gaming market in India is currently estimated at INR 8.4 billion.[80] Some of the most prominent products in this segment are Sony Play Station series and Microsoft XBOX series. The growth of the console gaming market has been slower when compared to online and mobile gaming. Unit sales and attach ratios were impacted because of the overall sluggishness in the economy and frequent exchange rate fluctuations. Rupee weakening against the dollar coupled with high import duties forced the console gaming players to increase product pricing. This, obviously, had a negative impact on the number of units sold while the value of sales increased though only marginally. The high profile launches of Sony Playstation 4 and of Xbox One are expected to help the console segment regain lost momentum in 2014. The serious gamers in India comprise 15-20 per cent of the total gaming universe under the age group of 16-24 years with 99 per cent as males.[81]

While growth of console gaming can be seen in various pockets across the length and breadth of the country, Mumbai, Pune, NCR, Bangalore and Hyderabad are the major markets for console gaming and other markets such as Punjab, Gujarat, Chennai, Kolkata are growing fast[81].

The console gaming category in India is faced with a few challenges which held back growth and user adoption as was expected in 2013. Firstly, 80-90 per cent business in this category is import driven, as a result, of which exchange rate fluctuations have an impact on volumes. Secondly, the prices points for the units sold in India are higher than the corresponding price points in US and UK because of high import taxes on both console and the associated software. Thirdly, the game development community catering to this segment is in the nascent stage and has some catching up to do with their counterparts in mature markets to match quality of content.

Gaming console price comparison

Company	Console	Price
Sony playstation	PlayStation®4 500 GB	INR39,990
	PlayStation®3 500GB	INR22,990
	PlayStation®3 12GB	INR16,990
	PlayStation®2	INR6,990
	PSP® (PlayStation® Portable)	INR6,990
	PlayStation®Vita - Wifi and 3G	INR16,990
Xbox	XBOX One	launching in 2014
	Xbox 360 4GB	INR15,990
	Xbox 360 250GB	INR24,990

Source: Company websites

While the weakening of the INR definitely created an adverse impact on the pricing of imported products like consoles and console game software, the bigger challenge for the industry still remains in the form of high import tax structure. The rationalization of the total tax structure on the console games segment will not just open up the India market, it actually has the potential of switching on the game development industry in a big way with a high impact of total revenue for the Indian entrepreneurs and high quality employment generation potential.

- Atindriya Bose
Country Manager,
Sony Computer Entertainment

80. KPMG in India analysis
81. Industry discussion conducted by KPMG in India, KPMG in India analysis

PC and TV gaming

The PC and digital TV gaming segment in India is estimated at INR 2.6 billion in 2013.[82] This segment is expected to grow at a CAGR of 22 per cent during 2013-2018, to touch INR 6.9 billion by the end of 2018.[82] Single-player, single-session game comprises the leading category of games played in this segment in India. Positive response from gaming cafes such as Reliance WebWorld and Sify i-way highlight the growing popularity of PC gaming in India. On the other hand, price competition among distributors and retailers and internet piracy were seen to be the key challenges for this segment. PC games sales are set to grow internationally, with revenues expected to rise at 4 per cent every year. Worldwide, sales are expected to grow over USD 24 billion by 2017, largely due to demand in BRIC nations (Brazil, Russia, India and China).[83]

Best-selling PC games of 2013 in India

Grand Theft Auto IV
Counter Strike: Global Offensive
FIFA 14
Max Payne 3
Assassin's Creed IV: Black Flag

Source: Based on Flipkart's best-selling games of 2013 - http://www.videogames.net.in/best-selling-games-of-2013-in-india/

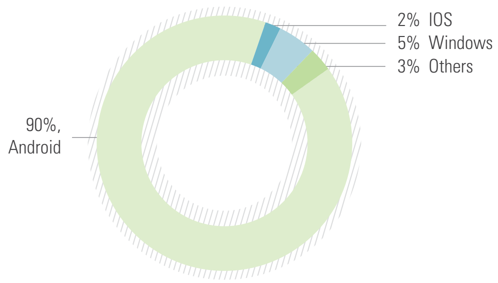
The digital cable platforms offer a good potential for gaming, which in turn could be a persuasive starting point for entry level gaming audiences. However, the biggest challenge is the fragmented cable operator network and non-standardized low specification of hardware and software platforms that fail to provide a good gaming experience for users. The situation is expected to improve when cable operators and consumers opt for next generation android set-top boxes.

Online gaming has also evolved to provide an interactive social experience. Social gaming is now considered the most popular segment among online PC gamers. Social games such as Farmville, Cityville, Candy Crush, etc. have impacted consumer's usage of social network sites such as Facebook, which as a result emerged as one the world's largest PC online gaming platforms.

Mobile Gaming

With more than 900 million mobile phone users and with rapid growth in youth population, India is one of the largest and fastest growing mobile gaming markets in the world. The penetration of mobile devices is higher than that of PCs and consoles in India. The mobile gaming industry in India was estimated at about INR 8.2 billion in 2013 and is projected to witness a CAGR of 19 per cent (2013-2018) to reach INR 19.6 billion by the year 2018.[82] The market has been further propelled by the increasing number of smartphone subscribers and a growing tablet audience as well. Approximately, 90 per cent of the mobile gaming market is held by Android OS followed by a 5 per cent share with Windows and 2 per cent going to iOS.[84]

Smartphone OS market share for gaming, 2013



Source: Industry discussions conducted by KPMG in India

The mobile gaming revenues continue to be driven by ads in India. Monetization still remains a key challenge, as a minimal percentage of consumers intend to pay for downloads and a large percentage prefer to play mobile games available for free. The Freemium model has not been a success in India so far. If the industry can crack the Freemium model, it could disrupt the revenue model of mobile gaming by turning a popular game into an ongoing revenue stream for developers.

Data subscribers in India are going to hockey stick 4X times from current levels. I expect gaming to outpace this growth and multiply 5 times. The only caveat is that the publishers must find a way to crack the freemium model which has so far been largely unproven in India.

- Samir Bangara
Co-founder and Managing Director,
Qyuki

82. KPMG in India analysis
83. IDC press release, Jan 21, 2014
84. Industry discussions conducted by KPMG in India

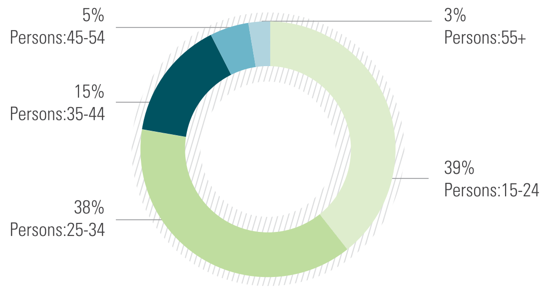
While top games played on smartphones remain the same across the different gamer segments, a key differentiator is found to be time spent on each game.

Engagement on top smartphone games in India, 2013

Games	Minutes/day
Subway Surfers	21
Temple Run 2	11
Hill Climb Racing	24
Angry Birds	18
Dr Driving	15

Source: Nielsen Informate Mobile Insights, July'2013

Total Audience for Dec 2013

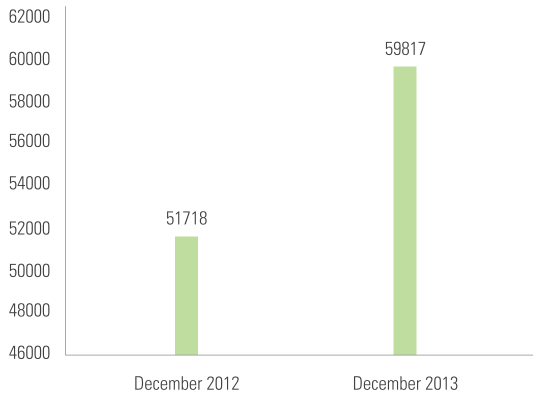


Source: Comscore 'India digital future in focus' 2013

Close to 165 million apps are downloaded by Indians off the iOS and the Google app store, bringing in revenues of over INR 270 million monthly. This makes India one of the leading markets in terms of app store downloads. Monetisation continues to remain a major challenge for Indian apps and app developers as free apps are the norm with Indian audience, however, with improving quality and more locally relevant content we should see the revenue mix align with global trends with in-app purchases comprising of the lion's share as mobile gaming becomes a INR 20 billion market by 2016.

- Jayont R Sharma
Chairman & CEO
Milestone Interactive Group

Total Unique Viewers (000)



Source: Comscore 'India digital future in focus' 2013

Video

Video-on-demand (VoD) growth remains steady

Online video category in India has seen steady growth over the past year. The month of December 2013 has seen a 16 per cent YoY growth.[85] The 15-24 and 25-34 age categories constitute the bulk of users contributing to ~ 80 per cent of total users.

The Indian premium video space is at a tipping point and we see a lot of consumption and interest in streaming platforms such as BoxTV. Mobile consumption is steadily increasing, given the advantage of a personal viewing experience. Family viewing is still catching up, but is poised to take off as Internet penetration, bandwidths and TV/TV-connected devices become more and more prevalent in the country. We're constantly exploring business models that will work best in the Indian market scenario, trying to create a win-win between our customers and our content partners.

- Pandurang Nayak
Business Head,
Box TV

85. Comscore 'India digital future in focus' 2013

"The VOD industry is in the nascent stage. The industry dynamics would keep changing very fast every 6 months for the next 3-5 years but the growth will continue for about 10 years. The content consumption behavior is evolving and is moving from "forced-to-see" content to search based, mood based, need based content. The demand for original content is high but the supply is limited. The trend, however, is changing with more and more original content creators joining the ecosystem which, ultimately, would balance the demand and supply. We will see more and more 'Digital Celebrities' coming to fore who will have a larger global audience and fan following unlike the contemporary TV and Movie stars. Innovative revenue models such as engagement based advertisement and data or traffic revenue will become prominent."

- Shabir Momin
MD & CTO,
Zenga TV

Waiting on 4G

The arrival of 4G is expected to promote the growth of VOD services, especially in the long format segment. However, players in this sphere do not expect 4G roll-out before 2015. Currently, an estimated 15-20 per cent[86] of traffic is driven through mobile but this is expected to rise considerably with 4G. Akin to the digital music industry, subscription video on demand services are yet to take off appreciably in the country with most users preferring the free, ad based service. Most video content providers cater to Bollywood tastes with up to 50 per cent of content from Bollywood with the rest composed of English and Local Language content.[86] As mentioned earlier, internet speeds are a concern in the video streaming sector.

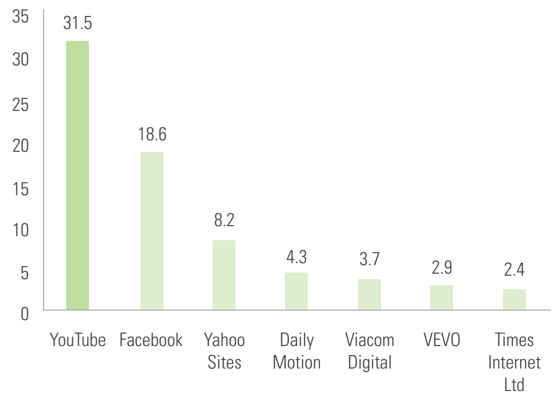
"During last 5 years, we have witnessed audio and video transmission through digital platforms on various devices. This trend will continue and gain huge momentum as soon as Internet speed increases in all countries. We will also see books and the overall publishing industry go through the same phase in which consumers will prefer to access information on digital platforms ONLY. The entire process will become more sophisticated as mobile devices become more powerful and affordable."

- Samir D. Khandwala
Founder & CEO,
iMusti

YouTube already very strong for Video content

YouTube is the number one destination by traffic for videos in India and is already becoming a meaningful monetisation platform for content owners. YouTube, in 2013, constituted for approximately 58 per cent of all online video views in India.[87]

Top Video Publisher Platforms In India By Unique Visitors in 2013 (in millions)



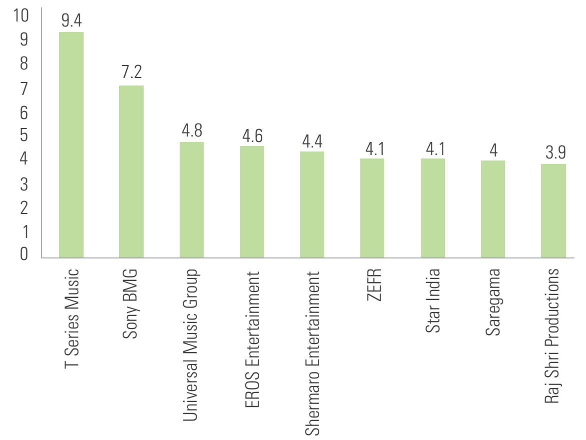
Source: Comscore 'India digital future in focus' 2013

86. Industry discussions conducted by KPMG in India
87. Comscore 'India digital future in focus' 2013

Numbers of studios/content owners have built a significant viewership of their YouTube channels

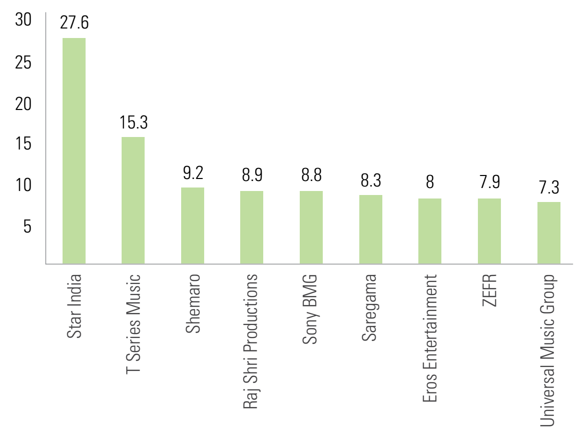
Multiple production studios and content owners have set up their channels on YouTube clearly to tap into the massive user base and traffic the website receives. Almost all the television channels/production studios are uploading content on YouTube for free. This allows users to stay up to date up with trends. The presence is delivering results by way of huge traffic numbers and constructive user engagement with the videos uploaded.

Top Studios in India by Traffic on YouTube Unique Visitors in 2013 (in millions)



Source: Comscore 'India digital future in focus' 2013

Top Studios by Engagement on YouTube in 2013 (Minutes per Visitor)



Source: Comscore 'India digital future in focus' 2013

UltraViolet – Your movies in the "Cloud"

Ravindra Velhal
Global Content Policy and Standards, Intel Corporation

Since its October 2011 introduction, UltraViolet (www.UVVU.com) has achieved significant milestones for industry and consumer adoption, and is rapidly becoming an integral part of the Home Entertainment landscape in the USA and beyond.

UltraViolet is the home entertainment industry standard to download and stream movies and TV shows consumers own for viewing on TV screens, personal computers, tablets and mobile phones. It allows consumers to take full advantage of the benefits of the "cloud" to view their movie and TV show library anytime, anywhere. With a focus on consumer needs, UltraViolet:

- Provides a breakthrough level of freedom and flexibility in how entertainment can be watched – spanning downloads, streaming and discs across TVs, computers and mobile devices
- Eliminates fears of "losing content" (crashed drives, difficulty transferring entertainment to new devices)
- Addresses concerns about "getting locked in" by purchasing entertainment tied to a single retail/device brand
- Enables sharing among six family account members, with personalized settings and parental controls

More Titles from More Studios: From catalog titles to new releases, there are now more than 10,300+ UltraViolet-enabled movies and TV shows from major content providers: BBC, DreamWorks Animation, Fox, Lionsgate, Paramount, Roadshow Entertainment, Sony Pictures, Starz Anchor Bay, Universal and Warner Bros.

Multi-Platform Versatility: Consumers can add titles to their UltraViolet library in three ways: 1) via new-release Blu-rays and DVDs that come with UltraViolet, 2) by buying online or via apps (EST) or 3) through a "disc-to-digital" program that upgrades already-owned discs to add UltraViolet download and streaming.

UltraViolet members can download or stream to PCs, Macs, iOS (iPad/iPhone) and Android devices. They can also stream to PS3/Xbox 360, Internet TVs and connected Blu-ray Players from nearly all leading brands. In the U.S alone, this equates to hundreds of millions of devices.

Continued Retailer Rollout: Several retailers now offer UltraViolet, including Access Digital (EzyFlix), Barnes & Noble (NOOK Video), Best Buy (CinemaNow), Cineplex, Flixster, JB Hi-Fi (JB Hi-Fi NOW VIDEO), Target Ticket, Kaleidescape, M-GO, ParamountMovies.com, SonyPicturesStore.com, UniversalHiDef.com, and Walmart (VUDU).

International Expansion: Currently available in the U.S., UK, Ireland, Canada, Australia and New Zealand, UltraViolet continues to broaden internationally. UltraViolet has also expanded its operations in France, Germany, with Benelux coming soon thereafter.

Strong Industry Support: Founded in 2008, UltraViolet was designed and is operated by Digital Entertainment Content Ecosystem (DECE) is the open consortium of leading global companies, with more than 80 members (www.uvvu.com/partners.php) are comprised of the largest Hollywood studios; leading video retailers and network-based distributors; global device brands; and top technology companies. DECE LLC has developed the business, technical and legal architecture of UltaViolet, and also owns the related branding. DECE provides its all partner licensees, the centralized account system, rights library, and authentication services to operate UltraViolet. UltraViolet has now attracted over 13 million accounts. With more retailers recently coming on board, UltraViolet's growth is expanding rapidly. For more information on UltraViolet / DECE, please visit http://www.uvvu.com.

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

EBooks

Underpenetrated but growing

The eBooks market in India is expected to be around ~INR1.2 billion which is 1 per cent of the total book market size, well below penetration rates in developed markets. The market is expected to grow at 20-25 per cent and this growth is expected to be fuelled by the education sector (K-12 and above) with the majority of the content in English. In contrast, the published book market is dominated by the Hindi language.[88]

In terms of consumption, it is expected that bulk of digital book content in the future would be consumed through smartphones and tablets. However, this hasn't deterred eBook reader manufactures with Amazon debuting its Kindle in 2012 and Kobo launching their devices in 2013.

Ebook are consistently discounted by Amazon and Flipkart when compared to the paper-back version. The discount levels remain similar for the large part to 2012 levels of 15 to 30 per cent.[89]

Price comparison (including currently prevailing offers)

Segment	Publication	Amazon Book	Amazon EBook	Discount (%)	Flipkart Book	Flipkart EBook	Discount (%)
Fiction	The Oath of the Vayuputras	192	148.50	23%	203	56	72%
Biography	I am Malala	227	216	5%	227	193	15%
Business and investing	David and Goliath	385	327	15%	385	327	15%

Source: Prices on Amazon.in and Flipkart.com as of 7 Feb 2014

88. Global ebook Report (Fall 2013)

89. KPMG in India analysis

Outlook 2014

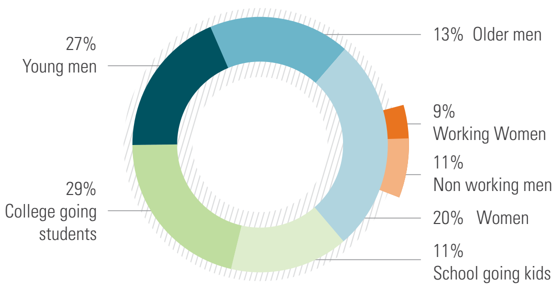
Social media as a shopper's platform

Major digital transformations in the consumer products and retails industries, help ensure that shopping in this digital age is a far more exciting experience, than ever before. These changes have helped create a new species of digital buyers characterized by their varied use of multiple channels (websites, social networking platforms etc.) and devices (Personal Computers, mobiles and tablets). With social networks providing marketplace platform(s) and with social media ad spends maintaining the growth trajectory in the coming years (faster than any other form of advertising), there is little doubt that social media would translate into a valuable shoppers platform. The present day customer likes being connected and expects the seller to be connected as well. Customers increasingly want to be able to shop online, have QR codes for easy access on smartphones and avail discounts on social media platforms. Retailers are working around the clock to enable fulfilling shopping experiences by catering to the increasingly mobile and social consumer.

Twitter is the live social soundtrack for TV. In India and around the world, viewers are tuning into TV and Twitter simultaneously for a live, public, real-time second-screen experience, bringing them closer to the characters, stars and personalities of TV. We are delighted that Indian broadcasters are increasingly optimizing their TV programming and their voice on Twitter to drive real-time viewership, engagement and value. If Twitter is the world's town square, it's also the world's biggest living room where we, together, as viewers, stars, and brands, enjoy the social, shared experience that TV has always been.

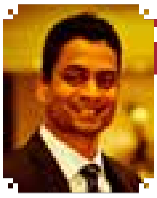
- Rishi Jaitly
India Market Director,
Twitter

Urban India would reach 91 million social media users in 2013



50%>>	**Spend more than 2 hrs per day on Social Media**
67%>>	Refer social media before buying online
17%>>	Purchase influenced by social media ads and promotiond
60%>>	Shop online once a month

Source: IAMAI, Frost and Sullivan, KPMG in India analysis



As customers traverse through the digital, vast amount of data is being generated. Granularity segmentation to generate insights at the speed of the business will hold the ultimate key to success for digital businesses. Advanced analytics will help in demystifying these real time strategies to predict consumer purchase decisions.

- Kedar Gavane
Director at comScore, Inc.

Marketing goes local: growing reach of location-based targeting

The combination of Social (So), Location (Lo) and Mobile (Mo) (SoLoMo) marketing tactics, also known as Location Based Marketing (LBM), are frequently put to use by businesses today. This is enabled through mobile phone apps that use social networking and location data. The companies with tangible products or services, such as, restaurants or bookstores can look to benefit from this. A number of retail, food and beverage and travel companies are using LBM to deliver mobile ads directly to individual potential customers within close proximity of the Point-of-Sale (POS) location. Globally, the revenue potential for LBM is expected to grow by 150 per cent and is set to double the CTR from the existing average of 0.4 per cent by 2020. [90]

The increasing reach of the Internet, new age marketing tactics along with the maturity in the consumer needs have paved the way for new, enhanced privacy and governance policies that can strike the right balance between easy access and robust security. The uninformed sometimes raise concerns around LBM being intrusive and that it tends to invade the privacy of the consumers if they receive unsolicited ad notifications. On the contrary, LBM works only if the customers opt-in for such notifications.

90. Market research reports 'Mobile location based marketing solutions market forecast 2013-2018', 13 Nov 2013

Location based mobile delivery

P R Satheesh
Principal,
TELiBrahma Technologies

In what started as a journey in quest of success in the mobile space, way back even before IPL was born in 2008, TELiBrahma's mobile solutions forayed into the location space using Bluetooth as a means and mode to deliver rich media content when GPRS was either not available and even if it was - it was way too expensive with not a very reliable connectivity. And the icing was when buzz delivered rich media content for brands during the 1st edition of IPL at cricket stadiums. Location based marketing (LBM) had well and truly arrived way before check-ins had even remotely been thought of or the population of Facebook was probably a tenth of what it is in India, today.

Cut to circa 2007, the first location was a mall in Bangalore, followed by Darshini's (fast food restaurants of Bangalore), temples to deliver wall paper of INDIAN GOD's and ringtones of religious songs. Today the device can understand your location and deliver the right content. To know the context and the location of the consumer using mobile has been the advancement in the last few years from a solution perspective, leveraging technology.

So, if a consumer walks into an airport, the WiFi/Bluetooth infrastructure obviously knows this consumer's location, device and so on, cut to a retail store in a high street, same story or at a coffee shop/hangout zone using buzz. To deliver a communication at the last mile for a Brand is the most ideal thing, as the human mind is most receptive to a "BUY" when closest to a store. One can't think of a more personal and interactive way of communicating and driving footfalls when the consumer is closest to a store.

Location need not be physical, for instance, if one can scan the advertisement in a newspaper/magazine/TV using a recognition app like pointart/pointtv, one gets to know what was scanned in the newspaper/periodical or in a TV program/spot. Data through this has immense value - be it at physical locations or from the comforts of one's home, information of consumer's interest can be used by brands, media owners, research organizations and more.

The growth has come in the last few years from increased use of internet on mobile and the stupendous growth of better phones, platforms, ability to conduct business using hand held devices. This trend will continue and can only get better.

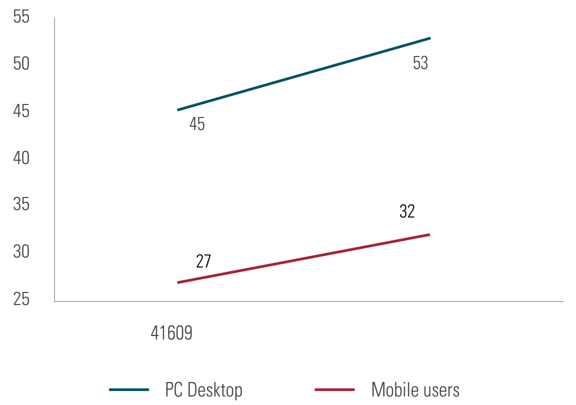
The future lies in "Who understands the consumer better and more intimately on a one-on-one basis". If brands are able to deliver deeper into media dark zones or in a heavily fragmented media scenario and into the most personal device - it is possible only through mobile. If we want to track the consumer while at home from what he/she is reading/viewing and up to the last mile, it is classic LBM and therein lies the future of Brands, media and technology.

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

Rural India logs into the internet

The number of computer literates in rural India rose nearly two-fold by June 2013 reaching 125 million as against 185 million urban literates.[91] By the end of 2013, there were approximately 72 million rural Indians who had accessed internet at least once in their lives and 49 million were active internet users. [91] It is estimated that by June 2014, the active user base in rural India would cross 56 million.[91]

Rural internet users split by PC and mobile, India (in millions)



Source: IAMAI - IMRB Internet in India report 2013

While wireline broadband and 3G coverage is restricted to metros and big towns as yet, EDGE-based (2G) networks are used to access data in rural areas and smaller towns. Urban India continues to account for the larger percentage of mobile internet users, but rural India is not far behind. Rural mobile internet user base is expected to record a 52 per cent growth by June 2014.[91]

Rural and smaller town internet users are not shying away from online shopping. Leading eCommerce businesses in India claim to have delivered 50 per cent of their sales volumes in non-metro cities. Sales from tier II and III cities are fast catching up with sales from the metros and tier I cities.

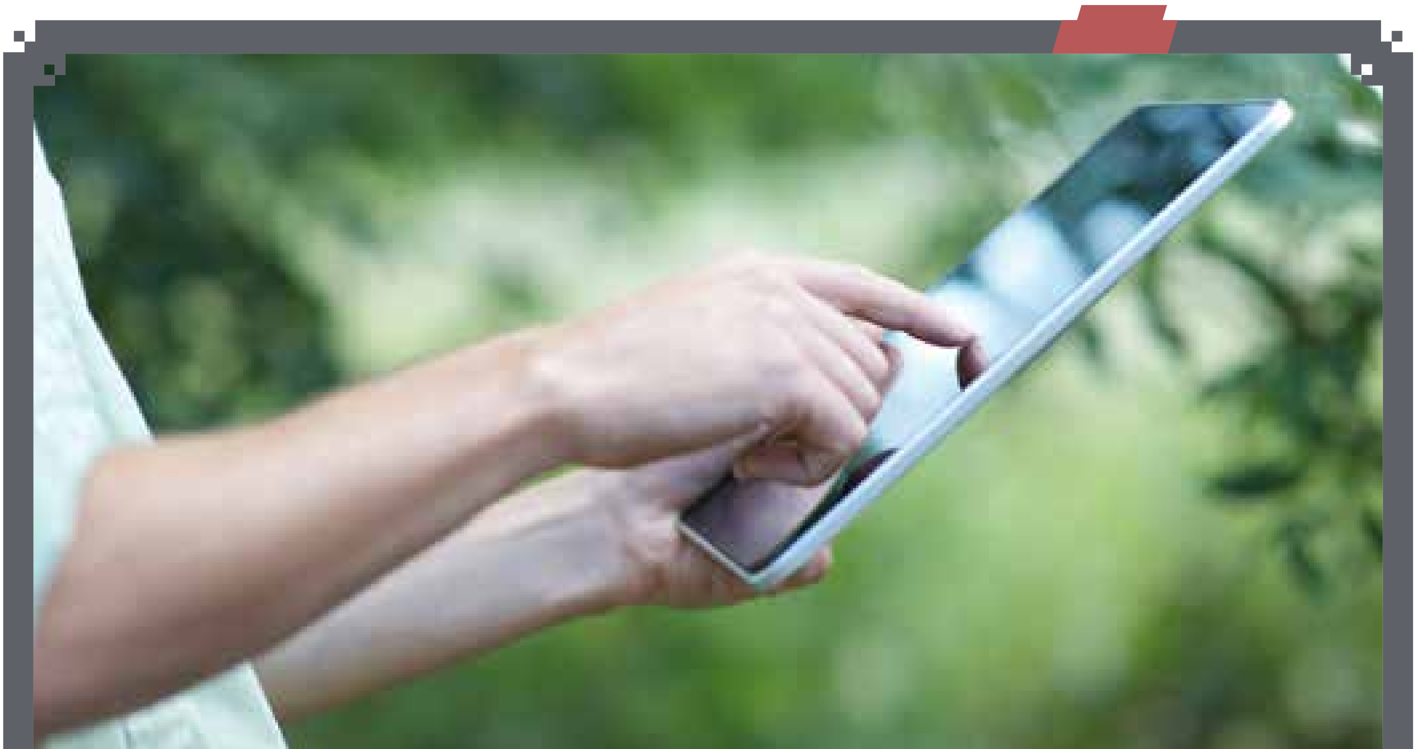
Nearly half of the internet users prefer to access content in their local languages only. Limited availability of local language content is one of the primary reasons that is holding back rural users who want to keep up with their urban counterparts.

Businesses especially online retailers have begun to take notice and are taking actions to bridge the gap and tap large number of online rural Indians. Snapdeal for example recently announced the shift to multi-lingual platform. Customers can now access the site in Hindi or Tamil, apart from English. Kannada, Telegu, Bengali and Marathi options are likely to be introduced soon. [92]

Advanced ad technologies could gain momentum

With the increased adoption of Ad exchanges, new Ad technologies such as real time bidding (RTB) is expected to see greater traction in 2014. These technology platforms could enable advertisers to deliver ads to relevant audiences using various advanced targeting parameters. In this controlled environment using third party data, advertisers can improve their ad performance and reduce the leakage rates more effectively and efficiently.

91. IAMAI - IMRB Internet in India report 2013
92. Press release, Economic Times – 30 Jan 2014



Programmatic buying is set to take center stage

Ashwin Puri
Vice President,
Remarketing & Mobile, Komli Media

Digital media is going through a shift where we are seeing the scale and complexity of media buying increase by the day. As marketers get savvier, they are expecting better targeting & reach resulting in a higher ROI for every dollar they spend on digital and so far the medium has kept pace with the expectations. Numerous ad networks, exchanges and data aggregators have emerged in the last few years, each adding its own share of innovation to the ecosystem. One such innovation that disrupted the digital advertising industry was the shift in buying and selling of digital advertising through programmatic channels (i.e., the media trades via an API). Real Time bidding (RTB) has enabled a new era in digital as marketers for the first time had the opportunity to value each impression and each consumer uniquely and bid for each impression in a real-time scenario.

Ad tech companies saw the efficiency and performance programmatic buying could deliver and were quick to respond to this opportunity. RTB (Real Time Bidding) has given all entities (ad networks, publishers, exchanges, DSPs etc.) a common ground to value impressions which has led to significant transparency and efficiency in the system. Advertisers now have access to more inventory and publishers benefit by getting ads from marketers they earlier didn't have access to, a win-win situation for both. In the early days RTB was used by publishers to sell un-sold or lower quality inventory but with the improved efficiencies & increased demand sources that come into play with RTB, we see publishers opening up higher quality premium inventory on programmatic channels. In the past year, an increasing number of publishers and aggregators have made most of their inventory available to RTB channels leading to an exponential increase in advertising spends through programmatic.

Although programmatic buying suggests minimal human intervention, algorithms can do only so much. Human optimization is required at multiple stages to maximize the campaign performance. Programmatic buying is also directly dependent on the quality and depth of consumer data that marketers have access to within the RTB eco-system. A marketer needs to have enough information about the end users to bid for an ad impression to be shown to the user at the right price and ensure that performance goals are met.

We increasingly believe that the next wave of innovation will come from specialized platforms that leverage the power of programmatic buying for a specific use case/type of campaign objective. The entire bidding algorithm, campaign workflows, user data management & segmentation will be customized to focus on a specific use case and do it really well. We at Komli have already created a Remarketing DSP that leverages the power of programmatic buying for remarketing campaigns. This is working really well across the eco system as on one side marketers are now able to get to as many as users as they would like to through extended reach from RTB and on the other side, the publishers benefit from the higher CPMs that marketers are willing to pay for a specific user. This approach could very well be extended to brand advertising or behavioral advertising and we are eager to see how the industry innovates in the realm of such specialized solutions.

With more and more innovation coming into this space every day, programmatic buying is set to see solid growth in the coming years across geographies.

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

Conclusion

Navigating through the hyper connected world

Digitisation of media products and services is associated with the increase of Internet usage by customers and businesses alike. Digital convergence has heralded the age of customer experience and now experience plays the role of differentiator. Buyer-seller exchanges moving from passive transactions to active and interactive relationships. The opportunity to access and consume media services anywhere, anytime and on any connected device has led to 'hyper convergence'. Hyper convergence tries to seamlessly integrate various media forms, content, commerce and social networks. It has helped draw virtual aspects of infrastructure together with the physical.

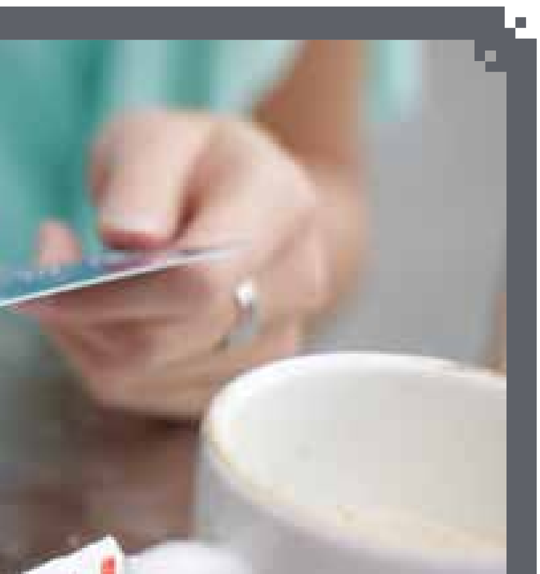
With the increase in mobile device adoption and usage rates, customers seek highly personalised and compelling responses to their needs. Consumer devices and technologies have turned into an important enabler to help meet fast-growing customer expectations, especially connecting with the 'always-on' and connected customer. Multi-screen interaction has provided an opportunity for innovation for companies to engage customers across the marketing, sales and service touch points.

The phenomenal growth of digital touch points including mobile and social networks indicates a strong need for consumers to connect and converse with the product or service provider. The need of the hour is personalization, with the focus shifting towards establishing long term relationships and tailor made solutions based on real time consumer needs. For instance, organisations that recognise the enormous opportunities in India's hinterlands are concentrating on vernacular content for personalisation and creating a brand experience that is focused on localising the brand. The digital revolution has altered the balance of power between the customer and the business. Customer expectations have risen considerably; they spend more of their time online and want businesses to reach out to them at their convenience through multiple touch points.

Digital transformation is gaining ground in India and the web is increasingly establishing itself as a mass market medium for products and services. In the year gone by, digital and social media revolution has been embraced by people across all strata of society. Politicians have made new media as an integral part of their campaign strategies. Businesses turned to result-oriented options including geo-targeting and location-based services and data targeting was rich, layered and highly nuanced. Looking ahead, India can expect to see a host of new technology innovations and advancements in marketing techniques with the key drivers of this growth being the need for better connectivity, device. In a short span of time, digital media in India has come a long way from being an information provider to an engagement enhancer.

Consumer expectations have undergone dramatic shifts and are constantly changing. Today, users expect a seamless, engaging experience across products, platforms and screens. Brands have also evolved in their understanding of online audiences and are upping their game with new possibilities through digital. Personalization, cross-screen experiences and rich immersive content are increasingly gaining ground.

- Nitin Mathur
Senior Director Marketing,
APAC at Yahoo!



Radio

At a new frequency!

Round up of the year gone by

2013 was a mixed bag - challenging and rewarding at the same time. A sluggish economy and stringent market conditions compelled companies to look at internal efficiencies to squeeze out growth. The radio industry still outperformed the growth of all other traditional media segments, and this, without Phase-III– which remained elusive, in spite of several assurances by the government that the licensing was imminent. The industry's growth could be attributed to two major reasons. Firstly, advertising budgets were under pressure and clients were forced to re-evaluate their media mix. Secondly, there is a tendency to shift focus from nationwide pure brand-building to more tactical, local, focused promotional targeting. Both these factors played in Radio's favour. Radio's combination of high reach and affordable pricing makes it an attractive advertising medium.

> A weak economy and the resultant slowdown in advertising revenue growth did not impact Radio as much as other media. The 12 minute ad cap in TV also resulted in advertising revenues moving from Television to Radio. As a result, Radio advertising growth has been better than the overall media advertising growth.
>
> **- Asheesh Chatterjee**
> CFO,
> Reliance Broadcast

The overall revenues of listed radio players exhibited double-digit growth rate over the previous year, approximately 12-14 per cent.[1] This growth was driven equally by volume enhancements in Tier II and Tier III cities and increase in ad effective rates ('ER'). The industry managed to keep the Compounded Annual Growth Rate ('CAGR') steady in 2013 with smaller players turning profitable during the year as their networks matured. Categories like Real Estate, FMCG, Government, Retail and M&E increased their spend on radio.[2] Also, one witnessed a change of attitude towards radio - FM radio is no longer seen as an add-on medium; today, it is an integral part of a media plan and sometimes, campaigns are planned around it. The innovations in radio advertising along with growth of the industry and the positive vibe surrounding it have made sure that advertisers can no longer afford to take the industry lightly.

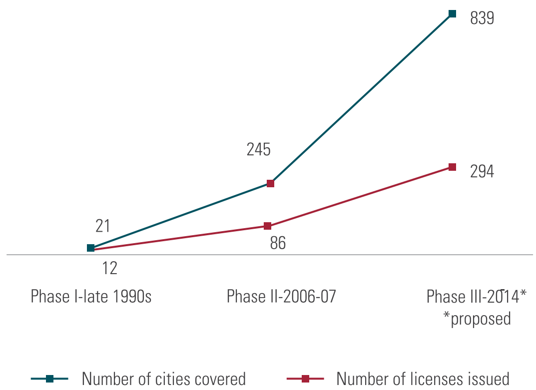
Industry landscape

India's commercial radio industry has only emerged in the last 15 years with two phases of FM licencing (in the late 1990s and 2006/07).

In Phase I of its development, FM was made available to private broadcast channels in Chennai, followed by Delhi, Mumbai, Kolkata, Goa, and then Bengaluru, Hyderabad, Jaipur and Lucknow. 21 licenses were awarded to eight radio companies across 12 cities with the key objective to attract private companies to invest in FM radio in India.[3]

During Phase II of its development, 338 frequencies were offered, of which about 245 were sold to 38 radio companies across 86 cities. The key objective was to spread FM radio to larger number of Indian cities and towns with local players.[3]

Phasewise details of FM radio license and cities



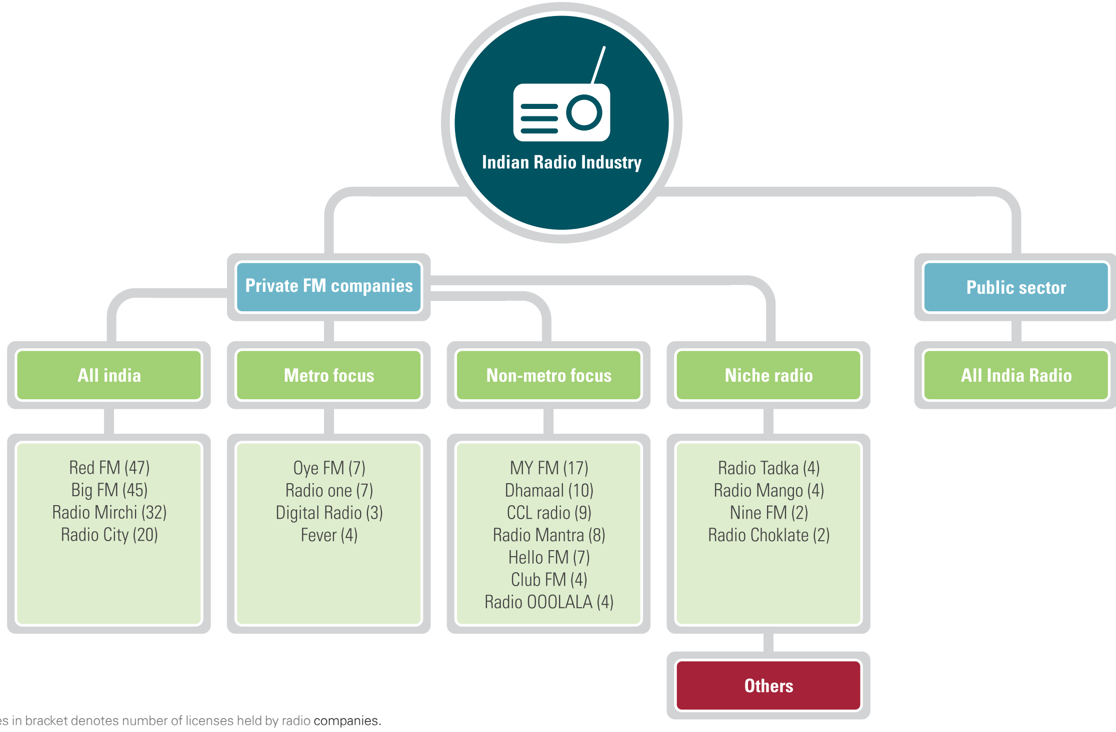
Source: Ministry of Information and Broadcasting ('MIB') www.mib.nic.in - Recommendations on Phase III of Private FM Radio Broadcasting 22nd February 2008

The industry's foundation was weakened by a licensing process (ascending non electronic auctions) which encouraged overbidding and an annual fee structure (fixed upfront fee) which ultimately proved to be a strain on the finances of radio companies. Whilst these issues were resolved by the time the second phase of licensing was being implemented (single step closed bid tenders were invited and license fee was based on an entry fee plus four percent share of gross revenues every year),[3] the industry has struggled with building sustainable profitability – primarily due to heavy investment in brand building and a tight regulatory regime which has restricted the industry's ability to reduce costs through networking content and ownership of multiple licenses in each city.

The private FM radio industry comprises network players (national, regional and metro-focused), single stations and some niche players. A broad categorisation of FM radio companies is provided below.

01. KPMG in India industry discussion and analysis
02. KPMG in India analysis
03. Ministry of Information and Broadcasting www.mib.nic.in

Broad structure of Indian radio industry[4]



Note: Figures in bracket denotes number of licenses held by radio companies.

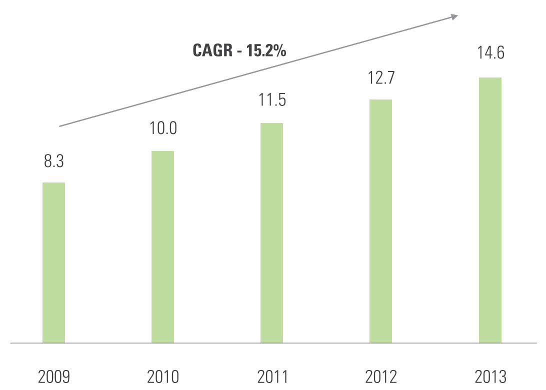
Prasar Bharti operates All India Radio ('AIR'), India's public sector radio service. AIR's home service comprises 406 stations across the country, reaching nearly 92 percent of the country's area and 99.19 percent of the total population. AIR originates programming in 23 languages and 146 dialects.[5]

At present, AIR operates 18 FM stereo channels, called AIR FM Rainbow, targeting the urban audiences. Four more FM channels called, AIR FM Gold, broadcast composite news and entertainment programmes from Delhi, Kolkata, Chennai and Mumbai. With FM popular across the country, AIR is augmenting its Medium Wave transmission with additional FM transmitters at Regional stations.[5]

Historical growth in industry revenues

Size of radio industry

Amount in INR billion



Source: KPMG in India discussion and analysis

Revenue growth in FM radio is expected to be driven by[6]:

- Launch of stations and increase in their popularity across more Tier II and Tier III cities, which enables radio companies to provide advertisers with a bouquet of channels that can support brand launches across states or regions as a substitute for print or regional TV
- Growth in advertising ER on radio

04. Ministry of Information and Broadcasting www.mib.nic.in
05. www.allindiaradio.gov.in
06. KPMG in India interviews and discussion

- Expected regulatory reforms that are likely to improve profitability and stimulate foreign investment
- Implementation of an accurate nationwide measurement mechanism including allowing multiple station ownership in a single city and content networking will increase returns across FM stations.

Listenership trends[7]

According to analysis by Radio Audience Measurement ('RAM') which covers four metros – Mumbai, Delhi, Bengaluru and Kolkata, in 2013, the share of audiences tuning on to radio from out-of-home mediums such as cars, etc. as compared to in-home listing increased from 21.3 per cent in 2012 to 23.1 per cent in 2013. It was the highest in Delhi (31 per cent), followed by Mumbai (25 per cent), Bengaluru (24 per cent) and Kolkata (12 per cent).

Time spent on radio

Time spent on radio (Average Weekly Minutes)	Weekday		Saturday		Sunday		Average weekly time on radio	
Major metros	2013	2012	2013	2012	2013	2012	2013	2012
Delhi	642	585	147	133	143	136	932	854
Mumbai	574	628	128	140	128	144	830	912
Bengaluru	890	854	189	183	194	188	1,273	1,225
Kolkata	678	739	162	172	166	172	1,006	1,083

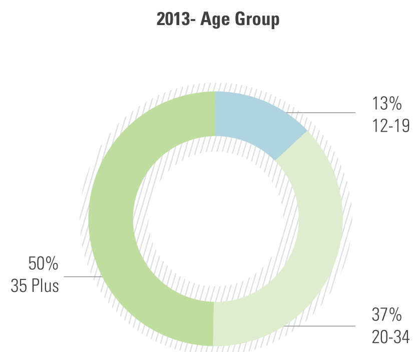
Source: RAM data for the year January 2013 to December 2013. Copyright reserved with TAM MEDIA RESEARCH PVT.LTD. Any use of RAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

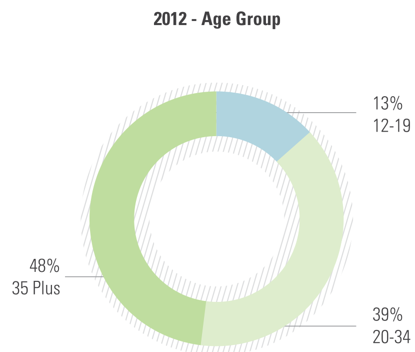
In 2013, there was no significant change in the time spent on radio per week in the four metros. While time spent on radio increased in Delhi and Bengaluru, there was a decline in Mumbai and Kolkata. Bengaluru and Kolkata continued to have higher time spend as compared to the other two metros. Radio listeners in Bengaluru spent about 21 hours a week, while in Delhi and Mumbai, radio listeners spent approximately 14-16 hours a week. The average time spent on radio by listeners continued to be higher over the weekends.[7]

Audience profile[7]

In 2013, men and women spent almost equal amount of time listening to radio in the four metros taken together; however, Mumbai had the higher share of women listeners at 56 per cent while Delhi had the highest share of male listeners at 58 per cent. Also, 2013 saw a marginally higher percentage of listeners over 35 years of age, especially in Mumbai and Kolkata.[7]

Audience profile





Source: RAM data for the year January 2013 to December 2013. Copyright reserved with TAM MEDIA RESEARCH PVT.LTD. Any use of RAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

07. RAM data for the year January 2013 to December 2013. Copyright reserved with TAM MEDIA RESEARCH PVT.LTD. Any use of RAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Some key trends

Social awareness on Radio: It's not all about money

In the recent past, Radio stations have been undertaking many different social initiatives to educate the public and increase awareness by playing Public Service Announcements, celebrating special days like World AIDS day, interviewing personalities on related issues, and holding contests. The general perception is that the private FM industry is entirely commercial but the industry also plays a part in community building and social awareness. Public service announcements on health, environment, safety measurement, education, gender issues, etc. are now a regular feature of broadcasts. Live traffic, rules and updates of traffic in the city, farming tips, health tips, weather reports, cooking tips and exam counseling are now increasingly featured on several stations.

Insight into social awareness programs carried out on Radio in recent times

Program	Radio station	Content of the show
Green Durga initiative[9]	Big FM and Big Magic	Green initiative in the Bihar and Jharkhand region with The BIG Green Durga aimed to propagate a sense of responsibility amongst the local populace by encouraging them to celebrate Durga Pooja the Green way!
Pinkathon – Run to Lead[8]	Big FM	10km run for women in Bengaluru with an aim to spread awareness on breast cancer.
Mirchi for Muzaffarnagar[9]	Radio Mirchi	Launched in association with NGO Goonj, the campaign aimed at urging Delhiites to come forward and contribute their winter clothes and blankets for the riot affected people in Muzaffarnagar.
Campaign to educate auto drivers[9]	Radio Mirchi with Muthoot Finance	This campaign was carried out to encourage auto drivers in Coimbatore to consciously drive safely and responsibly.
Don't drink and drive Campaign[8]	Radio City with SABMiller India	All day during Diwali, listeners could through calls or social media take an on-air pledge not to drink and drive and participate in activities like 'Pledge Mobile'.
Munni Vardaan Hui[8]	Red FM	A campaign against Female foeticide on Women's day in all the major cities of the east such as Bhubaneshwar, Silliguri, Guwhati and Jamshedpur.
Deep Jyoti campaign[10]	Radio City with Sunkalp Energy	The mission of lighting up an unelectrified village in U.P, Samranpur was taken up by Radio City.
Pani Bachao, Life Banao[8]	Big FM	The three month campaign engaged listeners across 30 stations of Big FM network with partnerships and associations with local NGOs, governing bodies and celebrities. The campaign had multiple on-ground and on-air elements which encouraged listeners to conserve water during the course, highlighted the gravity of the issue, combined with tips on water conservation which varied from rainwater harvesting to simple tips on saving water
Green Ganesha[8]	Big FM	Green Ganesha Campaign completed its sixth successful year of nurturing an improved environment while celebrating Ganesh Chaturti, one of India's most popular festivals.

Radio goes beyond music: Programming with a difference

In the absence of multiple genres of music or talk radio, Radio stations are learning to innovate to try and differentiate their station. A number of stations have taken the initiative of going beyond music and RJ programming to create differentiation and strengthen their brands.

08. www.radioandmusic.com
09. www.medianewsline.com
10. http://social.yourstory.com

A few examples of non-music content on Radio

Program	Radio station	Content of the show
Yaadon ka Idiot Box[11]	Big FM	A relatively new show, Neelesh Misra's primetime show on which Neelesh tells stories every day from the imaginary city of Yaad Sheher, is highly awarded radio show, having most recently been honored for the most unique programming content at the Golden Mikes Awards. The Facebook page of the show, titled 'Yaad Sheher with Neelesh Misra', gets approximately 5 million page views every month with the content being heard online in 20 countries. Also, the show is the first example of radio content being developed into a series of books in India.
Kya Woh Sach Tha[12]	Fever FM	A 20-episode horror series, this 15-minute ad free show inspired by several real life stories was aired with a new story for every episode. The show revolves around a fictional character, Dr Nagar, a parapsychologist who narrates experiences from his daily life.
Friends in a Metro[13]	Fever FM	Friends in a Metro is a series based on the lives of five individuals from distinct walks of life, brought together by circumstances which lead them to develop a wonderful bond of friendship.

These are just few examples; smaller stations like Radio Choklate and Tomato FM have been airing radio plays and other non-Bollywood, non- music contents. Besides playing Oriya music, Radio Choklate also airs opera or plays called 'Choklate Rangamancha'.[14]

While the majority of the content played by most radio stations includes music, non-music content is increasingly finding a niche. With increasing competition in the market, many radio players are creating innovative contents and programming to cater to the audience at large. When FM Phase III is rolled out, this trend is expected to gather strength as the number of stations multiply and the need for programming differentiation accentuates.

Radio Advertising: More than a recall medium...

The radio advertising industry has shown noticeable growth in 2013 in absolute terms, although the share of radio to the total advertisement pie remained constant at approximately 4 per cent to 4.5 per cent.[15] Industry experts are saying that the trend is expected to continue till the introduction of Phase III of licenses. Among categories that generally advertise on radio are Real Estate, Retail, FMCG, M&E and Government.

With carefully worded scripts, brilliantly created situations, and tailor-made strategies, radio advertising is getting more innovative and effective. Studies indicate that instead of two back-to-back commercials on television, one commercial on television and another one on radio gives about a 20 per cent[15] higher brand recall.

Campaign recall increases many fold, when radio is used in a right mix with Print and TV.

- Harrish Batia
Chief Executive Officer,
DB Corp (Radio Division)

Another interesting face of the Indian radio story is the mobile phone explosion and its convergence with FM; today, 80-90 per cent of mobile users access the radio on their phones.[14] This has exponentially increased the width and depth of the market.

Radio-based advertising can thus be used effectively for communication and positioning.

While Radio does have the disadvantage of not being a visual medium, effective usage of Radio through a good creative can help overcome that disadvantage. The key is for the industry to educate the advertisers, not only about the effectiveness of the medium in delivering better Return on Investment ('ROI') for their brands, but also about the quality of its listenership profile.

Path ahead

Innovation and engagement

Since Radio spots, RJ mentions and promo contests are the norm today, innovation that will help break the clutter to get the desired response is the need of the hour. Industry conversations highlight that the radio industry will continue to position itself as an engagement medium - regular mentions by RJs who have emerged as celebrities in their own right, dial-in shows as an engagement tool, and as local advertisers continue to get educated on the effectiveness of radio as a medium – the share of local will also continue to climb.

Consolidation of advertisement avenue by Radio

To increase the overall impact of Radio advertising, Radio has to have linkages to other parts of the marketing elements or touch points, such as directing listeners to a website, Twitter handle, Facebook page or retail touchpoint where consumers can buy or interact with someone. A lot of Radio channels also offer on-ground activation to complement on-air marketing initiatives

11. www.dumkhum.com
12. www.afaqs.com
13. www.radioandmusic.com
14. www.mxmindia.com
15. KPMG in India industry interviews and discussion

because of which brands are increasingly viewing Radio channels not just as an advertising medium, but as partners in their respective campaigns and initiatives. The digital age has also opened up more opportunities in this space.

Localised and targeted marking

Radio's advantages of mass localised reach and communication, with a quick turnaround of campaigns across multiple geographies, ability to integrate digital and most importantly the ability of RJs who have a huge standing amongst their audiences to anchor a campaign is a significant differentiator for the medium. For sectors such as real estate and retail, radio has emerged as the go-to medium. This medium is extremely important when it comes to reaching out to consumers in certain parts of small town and rural India.

A lot more research

Industry experts believe radio gets sharper segmentation and one can choose the period and timing. Therefore, a lot more research is needed in terms of demographics to ensure correct engagement with the right audience.

HEAR, HEAR!

Radio ads are not talked about as much as their Print and Television counterparts, but some brand campaigns really grabbed the listeners' attention[16]:

Program	Content of the show
RANG DO YEH PAL	**Objective:** Getting new users or henna users to try the hair colour, Godrej Expert Rich Creme. **Concept**: Key consumer insight was that people across the country like to look good during festive occasions as they have maximum social interaction during this period; starting with Father's Day, a list of major festivals was prepared for each State. **Execution:** The medium proved to be effective with various routes of communication, each catering to a different task. Consumers were asked to call a toll-free number to register and avail of the free hair colouring session; the RJ mentioned occasion-specific contest questions which ensured participation from consumers. The captured consumer experience at the free hair-colouring activity was played back on the Radio, providing positive testimonial for the brand. On father's day RJs asked listeners to narrate experiences with their role model, their father.
JOHNSON'S BABY KARE MAA JAISI DEKHBHAL	**Objective:** To reach out and engage with mothers in the rural areas of UP and Bihar. The challenge was 'How do we engage with these women in media dark markets and establish connect with the Johnson's baby brand?' **Concept:** Consumer insights revealed that these women in Uttar Pradesh and Bihar had limited knowledge of baby care and that they had tremendous faith in doctors' recommendations. **Execution:** Radiowani and AIR tied up to develop Johnson's Baby Care presents 'Karein Maa Jaise Dekhbhal a 15-minute programme was aired daily on primary channels of AIR in the afternoon slot. A character called 'Doctor Didi' would answer mothers' queries about baby care and also give tips on baby care. To make the show more interactive, mothers could send their queries through postcards or by IVR - call back (missed call). Johnson's Baby product ads were also played in the breaks to establish the brand's connect. It highlighted the special care mothers need to take while they are pregnant. The programme also had a call-in segment where consumer queries were answered by health care professionals. The format of the programme and the reach of the medium allowed Johnson's Baby Care to drive equity in these geographies as an expert in child care that is recommended by doctors.

16. http://www.impactonnet.com/How-can-radio-be-more-useful-to-advertisers

Program	Content of the show
BENADRYL BIG GOLDEN VOICE HUNT	**Objective:** To create an entertainment based campaign related to the benefits and values of brand Benadryl cough syrup. **Concept:** Singer Abhijeet hosted a singing reality show on Radio via an interactive digital portal exclusively created for the campaign. One winner was chosen among participants from 45 stations across India. **Execution:** Benadryl tied up with BIG 92.7 FM to launch the 'Benadryl BIG Golden Voice Hunt', a Radio-based singing competition. City-wise shortlisted candidates were pooled together in Mumbai for grooming cum competition by Abhijeet. This format was a good fit for the brand as the underlying thought was to position Benadryl as a 'cough expert' and show that it understands the impact that a bout of cough can have on one's voice, especially to the golden voice of a singer.
TATA I-SHAKTI 'DAL ON CALL'	**Objective:** Getting consumers to try TATA I-Shakti Unpolished Dal and ordering dal over phone, email or by visiting their website. **Concept:** Radio was used to tap working couples who prefer healthy products and housewives who listen to radio while doing household chores. The campaign concept was to educate consumers about the benefits of unpolished dal and prod them to try the product. **Execution:** A high decibel radio spot campaign was followed by a shorter, crisper creative where the 'dal on call' number was promoted along with extensive RJ promotions incentivising the listeners who called the number to place orders. Prominent RJs, like RJ Malishka on Red FM was roped in to discuss the significance of consuming unpolished dals which are nutritious and also taste great. To ensure engagement with consumers and encourage listeners' participation, a quiz contest was introduced on health-related subjects.
MAX i-GENIUS CHHOTE GENIUSES KI KAHANIYAN WITH NEELESH MISRA	**Objective:** To create a buzz around the launch of 'Twist in the Tale', a book by Max i-genius Young Author Hunt by involving Neelesh Misra as a part of the book launch plan. **Concept:** A show 'Chhote geniuses ki kahaniyan with Neelesh Misra' was created where 10 selected stories written by i-genius young authors were presented in the voice of Neelesh Mishra. **Execution:** The show was aired across six cities, twice over the week, for a period of five weeks, where Neelesh Misra, an already established name, added longevity and recall factor to the property, thereby promoting the book launch. Max Life had organized 'i-Genius Young Authors Hunt', a nationwide search for young writers in India. Radio seemed the perfect medium that could be used as a platform to bring these great stories to life and Max Life Insurance partnered with 92.7 BIG FM to create a unique show 'Chote Geniuses Ki Kahaniyan with Neelesh Misra'.
WOMEN MPOWERED DAY - NEVER ALONE WITH MTS	**Objective:** The Mobile Telecom category was male-oriented and no other telecom player had addressed the 'Women'. With increase in crimes against women, MTS India created the MTS Women Mpowered Plan with a range of special initiatives aimed at empowering their women customers. **Concept:** For 24 hours on Women's Day, the programming, advertisements, promotions and integrations would be driven towards 'Women's Safety and the Never Alone with MTS' idea. It gave MTS direct access to unobtrusively bombard the listeners with the safety features of an MTS Mpowered Plan subscription. **Execution:** Radio was the chosen medium as it allows real time interaction between brand and audience and the concept was executed with Red FM 93.5 in Delhi using Shared Radio Spots. Here, Radio was the exclusive medium used for about a week with a three-phase teaser – revealer, launch and sustenance. The targeted direct reach, interaction and innovation possible with the medium worked for the messaging.

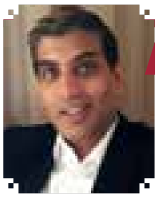
Digital radio: Making new waves!!!

In recent years, penetration of internet has increased to 17 per cent.[17] This coupled with growth of the smartphone segment (mobile phones internet users are approximately 130 million[18]) has blurred the lines between traditional analogue broadcast media in the form of television and radio and the Internet and new mobile technologies, bringing them all under the broadcast umbrella. As more consumers consume digital media and more content owners use this medium, it is very crucial for companies to access some untapped audiences as this will not only add new listeners but also strengthen the hold among existing consumers from being taken away by new competitors. The traditional broadcast radio channels are also exploring contemporary avenues of Internet radio such as an online stream, podcasts and platforms such as YouTube and Sound Cloud to expand their reach and enhance consumer engagement.

Some of the traditional FM players who have taken their station online include:

Planet radiocity[19]	Radio Mirchi[20]	Big FM[21]
Radio City Fun Ka Antenna	Meethi Mirchi	Big net - humor radio
Radio City FREEDOM	Purani Jeans	Big net - celebrity radio
Radio City INDIPOP	Club Mirchi	Big net - spiritual radio
Radio City SMARAN	Mirchi Edge	
Radio City INTERNATIONAL	Radio Romance	
Radio City LOVE	Cassette Classics: Rewind, Replay English Retro	
Radio City HINDI	Mirchi Rockistan	
Radio City TAMIL	Devraag	
Radio City MALAYALAM		

Additionally, there are certain stations catering exclusively to internet radio, for example Radiowalla.in has over 25 channels across genres, Radio Maska plays 24x7 Hindi music catering to Indian and NRI listeners.



"Radio, till now, is considered as a medium to disseminate traditional music and news content.. With digitization, there is a huge opportunity to provide Radio as a service "RaaS" through various delivery platforms, both on-line and off-line - domestically and in international markets. This will help in promoting content for Special Interest Groups, who have been deprived of this medium till date..."

- Anil Srivatsa
CEO, Co-Founder,
Radiowalla Network Pvt. Ltd

- Harry Bhatia
Co-Founder,
Radiowalla Network Pvt. Ltd

Digital radio uses various channels to reach its audience:

Podcasting

Podcasting is a convenient way of automatically downloading audio or video files to your computer. Though still at a nascent stage in India, the trend is fast catching up.It is a cost effective and easy medium to broadcast content among the wider audience and the number is expected to go up with improvements in internet bandwidth and deeper penetration.The Radio industry is slowly waking up to the benefits of podcasting and currently we see a large number of podcasts doing the rounds on the popular portals and websites, as podcasting surely helps in reaching out to an audience that would otherwise have been lost.

For instance, Radio Mirchi podcasts regularly through the iTunes platform, and is the only radio station which features on the cover flow of iTunes Store.Radio Mirchi is the number one audio podcast from India as per iTunes reports.Radio city has five podcasts for each of its 20 stations.These podcasts showcase the station comprehensively, from snippets of shows to pre produced features (PPFs) and ensures traffic of 15,000 plus in a month.[22] AIR also offers podcasting but they provide live services unlike private radio stations.AIR offers three ways to subscribe to programs – iTunes, My Yahoo and RSS.

YouTube

Radio stations are also using other online media platforms for ensuring a wider presence. Private FM radio companies such as Radio Mirchi have established their own YouTube channels to offer customized content for audiences.Other players are also present on this platform.

17. IAMAI Mobile Internet in India, 2013
18. TRAI Performance indicator reports 2013
19. www.planetradiocity.com
20. www.radiomirchi.com
21. http://www.big927fm.com/bignetradio.php
22. www.radioandmusic.com

SoundCloud and Whatsapp

Big FM continues to use online media sharing platforms like SoundCloud to expand its user base to overseas listeners with a high demand for vernacular content. The radio station has also recently started using the Whatsapp application to engage with users.

The radio companies are trying to reach their audience through DTH as well as mobile value added services (mVAS).

Though Internet Radio is still at a nascent stage, it is appealing to mushrooming audiences who want dedicated channels for a specific genre and do not wish to wait for some part of the day allocated to it by a radio station or listen to mass consumption music. The constraints faced by traditional radio players such as lack of available spectrum and expensive license fees are not faced by Internet radio and hence, it can air multiple genres. Many traditional broadcasters see it as an extension of their current offering. The market for Internet radio is still small as compared to broadcast radio and currently caters to only specific or niche audiences, but listenership is increasing. The number of listeners has increased to 120 million in 2013 from 23 million in 2003 i.e. a whopping 421 percent increase as compared to 8 percent[23] for broadcast radio.

Increase in listernership of broadcast radio vs internet radio[23]

Some internet radio mobile applications

- **TuneIn:** claims 50 million to 100 million installs and has an average Google Play Store rating of 4.6 stars out of a possible 5 from 304,933 reviewers.[24]
- **Pandora Internet Radio:** claims 50 million to 100 million installs and has an average Google Play Store rating of 4.5 stars out of a possible 5 from 1,030,968 reviewers.[24]
- **Stitcher Radio - News and Talk:** claims 1 million to 5 million installs and has an average Google Play Store rating of 4.1 stars out of a possible 5 from 19,302 reviewers.[24]
- **Scanner Radio:** claims 10 million to 50 million installs and has an average Google Play Store rating of 4.4 stars out of a possible 5 from 85,481 reviewers. Gordon Edwards' Scanner Radio is for listening to over 4,000 public safety, weather and amateur radio frequencies from around the world, including police and fire dispatch and incident-based tactical communications.[24]

23. Broadcast Radio data: Arbitron RADAR 2003-2013
24. www.teachnewsworld.com

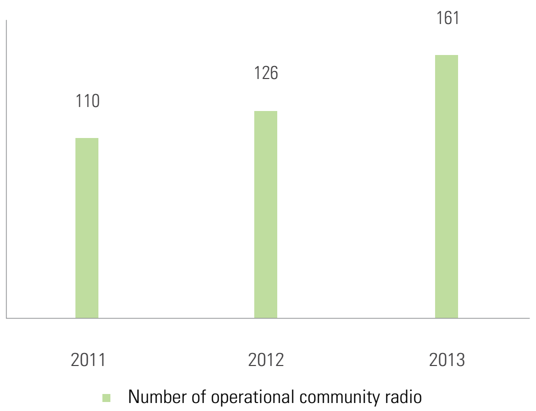
- **iHeartRadio:** claims 10 million to 50 million installs and has an average Google Play Store rating of 4.4 stars out of a possible 5 from 160,561 reviewers.[25]
- **Radiowalla.in:** is a radio app with multiple audio channels of music, sports and celebrity talk shows across all genres.
- **Radio India:** is an India specific Internet radio app for Windows 8 from K9 Apps which features many of the popular Indian radio channels. The app has radio stations in 10 leading Indian languages (Hindi, Marathi, Gujarati, Kannada, Punjabi, Bengali, Assamese, Malayalam, Telugu, and Tamil). Total number of radio stations available on the app is 200 and the developers say that the number is growing fast. While the private radio stations are available live, users can hear the recorded programs of All India Radio in different languages.

Community radio: A voice for and of the people

Community radio ('CR') is a radio service offering a third model of radio broadcasting in addition to commercial and public broadcasting. Community stations serve geographic communities and communities of interest. They broadcast content that is popular and relevant to a local, specific audience but is often overlooked by commercial or mass-media broadcasters. They are generally nonprofit and provide a mechanism for enabling individuals, groups, and communities to tell their own stories, to share experiences and, in a media-rich world, to become creators and contributors of media.

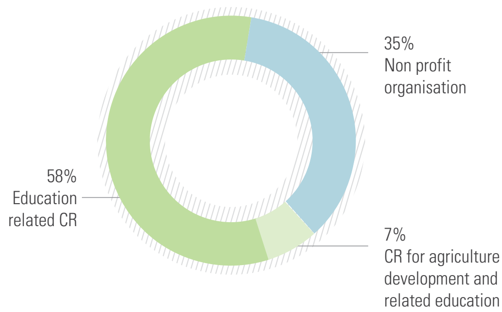
In India the campaign to legitimise community radio began in the mid-1990s, soon after the Supreme Court of India ruled in its judgment of February 1995 that 'airwaves are public property.' Until late 2006, only educational institutions were allowed to set up campus radio stations having a transmission range of 10-15 km; however, the scope was expanded with the implementation of new Community Radio Guidelines on 16 November 2006[26] which also included non-profit agencies, agricultural research institutes, and schools, to set up community radio stations that would involve local communities in the content production process.

Number of operational community radio stations[27]



As at 15 February 2014, out of 163 total operational CRs, 94 are education related, 58 are NGOs and balance 11 CRs are dedicated to agriculture development and related education.[27]

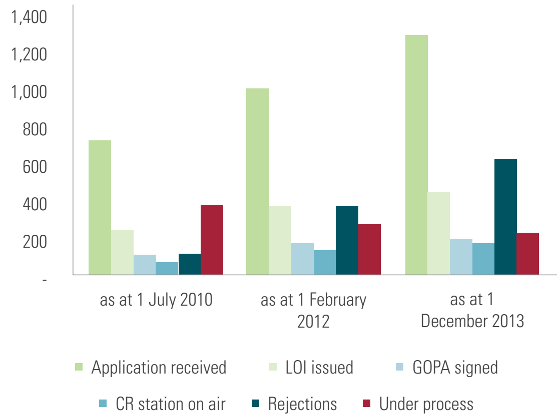
Types of community radio[27]



Status of CR licenses as at 1 December 2013

As at 1 December 2013, the Ministry of Information and Broadcasting announced that 1,277 applications for CR licenses had been received, 438 Letters of Intent ('LOI') were issued, Grant of Permission Agreements ('GOPA') were signed with 194 applicants, and 161 community radio stations were on the air. 616 applications were rejected, and 223 applications were being processed.[27]

Application status at various dates[27]



As is evident from above, there is a rise in the number of application for CR licenses. However, there are strict rules and stringent pre-requite conditions which have resulted in an increase in the number of rejections.

25. www.teachnewsworld.com
26. ISSN (Online):2347-1697 INTERNATIONAL JOURNAL OF INFORMATIVE AND FUTURISTIC RESEARCH (IJIFR) Volume -1 Issue -4, December 2013 Research Area: Mass communication & Community Radio, Page No.: 97-100
27. Ministry of Information and Broadcasting www.mib.nic.in

Case study on community radio[28]

Sangham Radio – 90.4 MHZ

Launch Date: 15-10-2008, Broadcast Timings: 19:00 - 21:00, Broadcast Hours: 02 Hours, Languages: Telugu, Programme Bank: 513 Hours

Vision and Mission

Sangham, referring to village level women's collectives, is the cornerstone of the work of the Deccan Development Society ('DDS'). Every activity is designed, planned and implemented by these collectives.

Genesis

The DDS community media initiative commenced around 1997 and was founded on the principle that media has always treated rural people and also women from the marginalised sections as consumers, not its producers. A media of the people, for the people, by the people is the only way to respond to their marginalisation.

Thematic Focus

Women and biodiversity, women and ecological agriculture, women and land ownership, seed sovereignty and women, food sovereignty and women, ecological enterprises of rural women, healthcare and plant medicines, herbal care for animal diseases, making children's education relevant to rural milieu, violence against women and legal education for women.

Signature Programmes

Our farming, Our crops; Our language and its unique nuances; Our folk culture; Dialogue of in-laws; Our food, Our cuisine; Balanndam – a children's programme etc.

Community Participation

As many as 2,500 women are involved in contributing to the programmes of Sangham Radio. At least ten women come daily from different villages to discuss, debate, sing, tell stories, take part in plays and to participate in recordings etc. Sangham Radio considers its own community of women and the non-literate as the best teachers-learners. Therefore they occupy this broadcast platform. Sangham Radio has four young women as producers and 14 local men and women as reporters.

Innovations in Format

It is a community media programme in which grassroot communities work together to discuss their issues and use their technical capabilities to tell their stories in their own voices and language.

Partnerships and Funding

Infrastructure development and procurement of technical items was supported by UNESCO. Every Sangham member of the DDS villages contributes INR50 a year towards the running of the Community Radio Station. Besides this, the project is also supported by DDS for promoting organic farming practices, seed conservation practices, traditional healthcare, women empowerment and education etc. The station also gets revenue through advertisements from the DAVP as well.

Lessons Learnt and Impact

After listening to the radio programmes, people are coming forward voluntarily to share their experiences in organic farming and millet promotion activities.

People's Voice

This channel speaks about herbal medicines and sharing with other people what is learnt from the radio channel.

Conclusion

In the real sense, community radio plays an essential role in making the masses aware about their basic rights and duties. Not only limited to solving problems which a common man faces in his day-to-day life, community radio provides him a strong platform from where he can freely disseminate his ideas among his community members in the best possible manner. Thus, community radio becomes one of the important instruments in strengthening our 'Right to Freedom of Speech and Expression'. Besides solving social problems as well as entertaining local people, community radio also acts as an intermediary between the Government and the local masses.

28. Ministry of Information and Broadcasting www.mib.nic.in – Community radio: Compendium 2013

Key risks, issues, challenges facing the radio industry

Macroeconomic risk

The performance of the advertising industry is directly proportionate to the fortunes of the economy. As an economy slows down, advertisers cut spends as a means of managing their profits. While the overall outlook of the Indian economy is turning positive, growth is expected to be slower than in the recent past. The combined impact of moderating growth, high inflation and monetary tightening can adversely impact advertising budgets of companies, which forms the largest component of revenue for the radio companies.

Delay in phase III

The radio industry has grown and surpassed the analyst estimates (in 2013), but the frustration of another year passing without Phase 3 (policy and auctions) has dampened the overall sentiment.

-Rahul Gupta
Director and Project head,
Jagran Radio

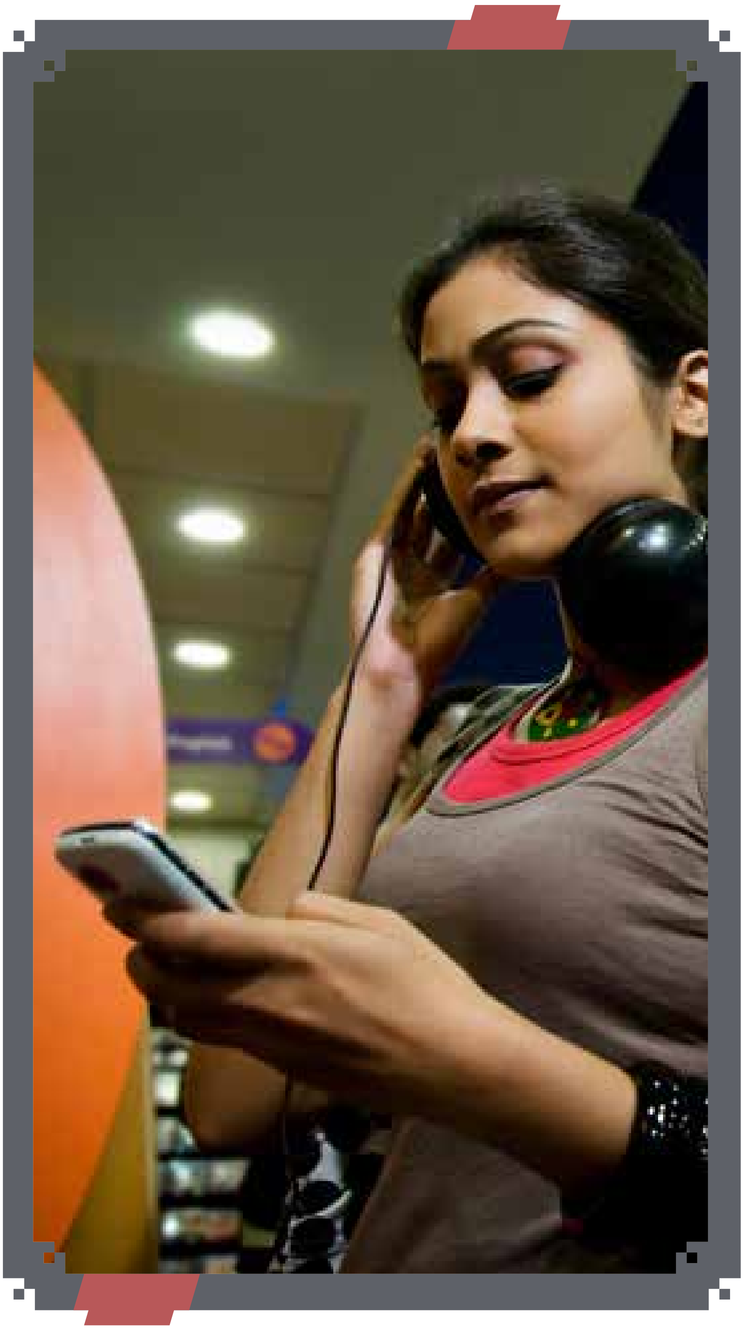
Delay in the roll-out of policy for the third phase of the licensing of 839 FM stations, cleared by the Cabinet in July 2011, has stymied the growth for the INR14 billion radio industry which needs to expand, fast. India today has only 245 FM stations across 86 cities, in addition to the All India Radio network, out of the 1600 odd number of cities in India. Per industry sources, only a few of the 30-odd operators are profitable at a post-tax level. After more than 12 years of privatisation, radio remains one of the smallest segments of the INR920 billion[30] media and entertainment industry.

It is believed that the policy is going back and forth over a few key issues. One is the auction itself. For phase-III, the Cabinet has recommended an open, ascending, e-auction. The 'open, ascending' approach could lead to overbidding, unsustainable licence costs and impossible breakeven numbers, just as in the case of phase-I. In an open, ascending auction, the reserve price is fixed. This is the highest bid for a town in a similar category in the same region. So, for example, the phase- II bid of INR156 million for Chandigarh becomes the reserve price for small towns like Shahjahanpur[31], though the potential for ad revenues is not similar. It may be pertinent to note that more than 90 per cent[29] of the licenses to be auctioned in this round are in Tier-II and -III towns, such as Bhavnagar, Dehradun, Kargil and Ujjain.

The second issue is frequency allocation. One of the things holding back the government was the scarcity of spectrum, large parts of which are with All India Radio or the defence services. A solution, according to industry players, could be to reduce the minimum gap between frequencies of two radio channels.[29]

Update on FM radio phase III[32]

On 3 December 2013, TRAI issued a Consultation Paper ('CP') on 'Migration of FM Radio Broadcasters from Phase-II to Phase-III' wherein written comments and counter comments on the CP were invited from stakeholders. Based on written submissions of the stakeholders, the Open House discussion and international practices, the Authority finalised its recommendations which dealt with various issues related to the migration of FM Radio Broadcasters from Phase-II to Phase-III.



29. www.business-standard.com
30. KPMG in India analysis
31. Telecom Regulatory Authority of India site
32. Telecom Regulatory Authority of India site: www.trai.gov.in/Content/ReDis/522_2.aspx

Issues related to migration	Authority recommends
Minimum channel spacing	Acceptance and early implementation of its 'Recommendations on Prescribing Minimum Channel Spacing, within a License Service Area, in FM Radio Sector in India' dated 19th April, 2012.
Period of Permission	The period of permission for the existing operators, who migrate from Phase-II to Phase-III, should be fifteen (15) years from the date of migration.
Date of migration from Phase-II to Phase-III policy regime	A cut-off date, for the existing FM radio operators, for migration from Phase-II to Phase-III of FM Radio broadcasting should be fixed by MIB after the completion of auction process for Phase-III of FM Radio. This cut-off date should not be later than 31 March 2015. Also, the Authority recommends that an explicit provision needs to be incorporated in the Notice for Inviting Applications (NIA) to permit an existing Phase-II operator to bid for an additional channel (frequency) in existing cities, where it already has an operational FM channel, subject to the condition that if it is able to win another channel in the existing city, then it would have to migrate all existing channel(s) also to Phase- III on such terms and conditions as may be prescribed by MIB.
Migration fee for migration from Phase-II to Phase-III	The migration fee should be: • Group X cities: Higher of - – Phase-II average bid of the target Group X city multiplied by a factor of 1.5; or – Phase-II highest bid of the target Group X city increased by the average increase in auction prices in Group Z cities (vis-à-vis their reserve prices) in the same category in Phase-III. • Group Y cities: Higher of- – Phase-II average bid of the target Group Y city multiplied by a factor of 1.5; or – Phase-II highest bid of the target Group Y city increased by the average increase in auction prices in Group Z cities (vis-à-vis their reserve prices) in the same category in Phase-III. but, the lower of – The above; and – Phase-III auction price obtained in the target Group Y city. • Group Z cities - 42 cities where more than 1/3rd of the total frequencies are available for auction: – The actual auction price obtained in Phase-III. In all cases, the residual value of the Phase-II permission, calculated on a pro rata basis, should be deducted from the migration fee
Reserve Price for fresh (new) cities in Phase-III Auction	The methodology for determining the reserve price for fresh cities in Phase-III should be reconsidered as the current methodology might jeopardise the auction.

Source: Telecom Regulatory Authority of India site: www.trai.gov.in/Content/ReDis/522_2.aspx

Phase-III offers exciting opportunities for companies to expand – both into new cities and within cities with a 2nd and even 3rd frequency in the existing large markets. With economic activity increasing in small towns, operators have a positive outlook for these markets. In the smaller towns, the share of radio is higher than what it is in the bigger towns, in some markets, the share of radio is as high as 20 per cent[33] of the print market.

Also, given the large size of metros, there is a pressing need to operate multiple channels in these markets, which would make differential programming and targeting of different sets of consumers possible. The policy also has other features including giving broadcasters the right to operate more than one channel in each city (thus allowing for more programming variety, the ability to target a different set of listeners), networking of small cities with big ones (thus helping cut operating costs), extending the license period to 15 years from 10 years (thus reducing vulnerability to economic slowdowns) and tradability of licenses (allows broadcasters to sell off its stake in the radio company after 3 years instead of 5 years).

33. www.mxmindia.com

Phase III policy permits networking of radio channels across the country and this shall be used very effectively by operators for providing local as well as networked content to cut both capital and operational costs for ensuring profitable operations. Phase III policy also shall make available opportunity for owning multiple channels in major cities which in turn shall facilitate Niche Radio Channels.

-J.P. Nathani
General Manager,
Broadcast Engineering Consultants India Ltd,
(A Government of India Enterprise)

Bullish on radio

Asheesh Chatterjee
CFO,
Reliance Broadcast

Background

92.7 Big FM has done considerably well this year recording a 25% yoy growth in revenues and significant improvements in margins. This was led by improved inventory utilization, with local and regional advertisers playing a key role in increasing the demand for radio inventory. This was further fueled by the 12 min advertisement cap on TV channels thereby leading to a more equitable distribution of the advertisement dollars. Also, on the cost side, we have been able to look at improvement in efficiencies, partial networking, economies of scale and changing the revenue mix by exiting low margin businesses, this has contributed to sustainable growth in margins.

The radio industry is at an inflexion point and will emerge as a major media segment in the coming years. One of the key problems of the radio industry from a monetisation perspective was a) restricted reach and b) lack of content variety leading to listener fatigue.

At 92.7 Big FM we have undertaken in-depth listenership studies, results of which drive programming innovations, we have successfully gone 'Retro' and created many successful celebrity led shows like Suhana Safar hosted by Annu Kapoor, Yaadon ka Idiot Box with Neelesh Misra and shows with leading names like Madhurima Nigam and Talat Aziz.

Post Phase 3 private FM radio is estimated to reach 313 odd cities across India or 85%-90% of India's population.

The TRAI recommendation on reduction in channel spacing, if accepted, will increase the number of frequencies in the top A+/A category cities, thereby leading to content diversification and growth in radio listenership in an otherwise mature market with untapped potential given the Advertisement to GDP ratio in these cities.

The 12 minute advertisement cap on the television channel has also resulted in the advertisement money to start flowing to the radio sectors. I see that trend continuing into next fiscal as the12 minute cap is implemented more strictly across all channels.

Some of the key regulations that still need addressal are the following :

Reserve price for phase 3

The reserve price for phase 3 auctions, is based on highest bid received in the phase 2 auctions. This needs to be corrected as the highest bidder in phase 2 auction, did not necessarily represent the fair market price of the spectrum at that point of time. It has been clearly demonstrated by the recently concluded telecom auctions that a reasonable and fair reserve price leads to fair play and successful auctions. I believe an average of phase 2 prices would be a more reasonable reserve price.

For cities which are undergoing auction for the first time, I believe the reserve price should be a nominal amount as the ascending e-auction methodology enables price discovery on its own.

Further, similar to the telecom auctions, there is a need to look at a deferred payment mechanism for NOTEF. Also, there is need to raise the FDI cap to 49% immediately, which will pave way for necessary fund raising to take care of the next level of growth and expansion.

Music royalty

The new Copyright Act has paved way for statutory licensing for radio operators on the basis of a royalty rate which has to published by the copyright board. But the new copyright board has not been reconstituted consequently no royalty rate has been prescribed. There is a pressing need to implement and publish the applicable royalty rates before the phase 3 auctions.

Coverage of New /Current Affairs / Sports

The phase 3 regulations will allow news and current affairs to be covered by private FM but has restricted sourcing of the same from a few government bodies only. The sourcing of news content should be made more flexible. As in today's day and age of social networking, news is a commodity which has already reached the market through multiple co-existing medium. Restricting it on only one particular medium makes it unfair for that medium.

Secondly, the definition of Live Sport of national importance needs to be explained and expanded, so as to include all kinds of sports played anywhere in the world.

Monitoring charges:

Today the private FM sector pays the government towards monitoring charges. These charges put an exorbitant burden on the radio sector and are only unique to private FM radio sector. The private satellite television sector does not have any such burden. To create a level playing field in the media entertainment space, these additional costs need to be rationalised to make the radio sector competitive and profitable.

Service tax

Radio Advertising falls in the ambit of service tax although print advertising, internet advertising and out of home advertising have been given an exemption and included in the negative list. This again creates an anomaly where one very small segment of media and entertainment industry, Radio, which is truly a 'free to air' medium for the common man has been subject to service tax, while the larger components (Print, OOH, Internet) have been excluded.

Conclusion

I believe that if some of these anomalies are addressed, the radio industry can rise to its true capability and potential. Radio can reach where Print, TV, OOH cannot reach, given the demographics of our country, illiteracy levels, power issues, TV penetration, etc. I believe Radio has the potential to double its share in the overall advertisement pie, making it one of the highest growing sectors within the media and entertainment space.

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

Migration of existing licenses

The government was initially of the view that once Phase III auctions were completed, they would commence the process of renewing the current Phase II licenses. Since many licenses will start expiring from April 2015 onwards, the next two years are crucial for the renewal process. The government has however given indications that it would want existing broadcasters to continue after their current license term expires. Clarity on the process of renewals is awaited and with licences due to expire soon, there is very little time left.

In light of the delay in auctions and Phase 3, we look forward to an urgent resolution of the migration formula by MIB in conjunction with TRAI so that we can showcase the long term viability and success of the business model to investors.

-Apurva Purohit
Chief Executive Officer,
Radio City

Ammendment to the Copyright Act and subsequent appeal filed by music labels

Previously radio networks were required to pay a 'needle hour' royalty to music companies and the cost of these royalties amounted to 10-50 per cent of a radio station's annual revenues.[34] Both Houses of Parliament passed the amendments to the original Copyright Act of 1957 in May 2012.[35] The Copyright (Amendment) Rules 2013, which prescribe rules for statutory licenses, were notified in March 2013. The provisions of Statutory License has a significant impact on the operations of a radio company as it ensures unfettered access to music at rates fixed by a statutory authority, approximately 2 per cent of a radio station's annual revenue.[35] Super Cassettes Industries Limited ("T Series") has filed a writ petition before the Delhi High Court challenging the constitutional validity of the provisions of statutory licensing as described.[35] The outcome of the said appeal may have an impact on the entire radio industry.

Measurement

Measuring audience composition is an additional challenge, making it difficult for stations catering to a niche audience to convince advertisers of their targeted reach. Industry players and advertisers all cite the need for a robust measurement system covering all radio markets. This is crucial to ensure that multiple genres can co-exist.

News on radio[35]

The ban on broadcast of news programmes by private radio operators has been a constant issue for the radio sector. Over the years, radio operators and the Association of Radio Operators in India ('AROI') have tried to get the Government to change its stance. A Public Interest Litigation ('PIL') was filed in the previous year by social activist Prashant Bhushan, following which the Supreme Court questioned the Government on the reasons behind the existing ban. The Government's primary concern is that it lacks a regulatory system to monitor content on radio channels.

Most private operators feel that the Government's concern over security is not necessarily justifiable as news is available across other media.

Foreign Direct Investment ('FDI') cap in radio[36]

In August 2013, the Telecom Regulation Authority of India ('TRAI') proposed increasing the FDI limit in private FM radio broadcasting to 49 per cent from the current 26 per cent, according to recommendations posted on its website. The recommendations, which have been made following consultations with industry stakeholders, are in line with those made by a finance ministry panel led by Arvind Mayaram, secretary in the department of economic affairs, on FDI caps across sectors, including the media.

34. KPMG FICCI 2012 report: Digital Dawn
35. KPMG in India Industry discussions
36. www.livemint.com

The earlier increase in FDI cap from 20 per cent to 26 per cent in 2011 was not significant enough to attract global radio companies, since radio is considered as a sunset medium in most developing countries. Hence, the proposed substantial increase from 26 per cent to 49 per cent may possibly be a step in the right direction towards attracting global companies.

Service tax[37]

Service Tax legislation in India has recently undergone a paradigm shift with the introduction of Negative list based taxation, under which all services are liable to service tax unless mentioned in the Exemption list and Negative list. The ad revenue earned by a radio company continues to be liable to the standard rate of Service Tax, which is currently 12.36 percent. Although the changes implemented in the service tax legislation may not have a significant impact on the revenues of radio companies, expenses on which service tax is applicable has increased with the introduction of the negative list-based Service Tax regime. Now RJs and other persons like support artists will charge service tax to radio companies, unless they are employed by the radio companies, which could result in an increase in the available Cenvat credit.

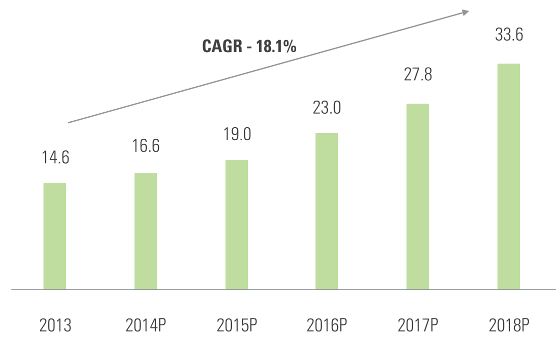
One of the major expenses for radio companies is the royalty they pay to copyright owners for rights to broadcast music. While licensing of copyright of original works and cinematographic films has been specifically exempted from levy of service tax, copyright of sound recording or music will continue to be levied with Service Tax as earlier. Furthermore, an increasing trend has been witnessed of films and artists being promoted on radio stations, and the radio stations are then termed as their partners or sponsors. These barter arrangements or marketing tie-ups for co-promotion and co-branding may attract Service Tax.

The introduction of Point of Taxation Rules in 2011 led to Service Tax becoming payable on invoicing, irrespective of when the consideration is received. Selling of space or time slots for advertisements other than advertisements broadcast on radio or television forms part of the negative list, thus, sale of space/ timeslots on radio is still liable to service tax. The leading players in the industry are of the view that inspite of the fact that radio is a cost free and easy medium of mass communication, the aforesaid benefit of exclusion from the levy of service tax is not granted to radio industry which is an unfair treatment to it. However this would result in an increase in the available Cenvat credit.

The road ahead

Projected size of the industry

Amount in INR billion



Source: KPMG in India Industry discussion and analysis

The Radio industry in India is expected to witness a significant growth during the forecast period. In the short term, 2014 may not see any massive change, specially, in the first half. However, it is expected that Phase III, as and when it is a reality, will definitely add to the industry volume. The industry, which currently brings in INR14 billion revenue, will see 839 new radio stations, across 227 plus towns coming up. With this expansion, FM radio will likely touch 90 percent of the Indian population, making it truly a common man's medium. The doors to expansion will be opened and the industry expects to see around 21 per cent year-on-year growth from 2016 onwards, assuming Phase III is in full steam.

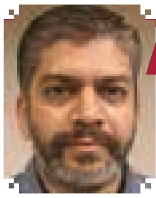
The future looks hopeful with two other critical factors pertaining to the industry finding a closure. One such challenge was the Copyright Act (Amendment) Bill, 2012, which was passed by the Lok Sabha on May 22, 2013 this year. This closure to a very long pending issue is a constructive and beneficial step in truly recognizing the real owners of music, which is so critical to the business.

Another key development in 2013 was the increase in foreign direct investment (FDI) from 26 per cent to 49 per cent, making it a good time for strategic investors to look at the industry. Pro-media policies are expected, that may help clear backlogs and move things faster. The increasing number of low-cost FM-enabled mobile handsets and internet radio could also increase the popularity of the Radio market in India.

37. KPMG in India discussion and analysis

Radio is one of the oldest mediums and continues to be a free to air medium that legitimately monetizes music, regulatory support is required in determination of reasonable reserve price and migration fee, increase in number of frequencies per city, formation of the copyright board and publishing of the royalty rates linked to net revenue. This will improve reach of radio and also ensure content plurality, thereby taking industry to its true potential.

- **Asheesh Chatterjee**
CFO,
Reliance Broadcast



Broadcasters have an opportunity to create value for the business and to the listeners starting 2015, its the last mile with the trial period getting over soon, FM Radio in India will emerge in a Real race soon.

- **Sanjay Hemady**
Chief Executive Officer,
HIT 95 FM

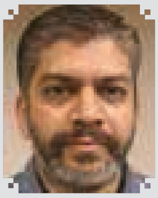
Conclusion

Like in 2013, the FM radio industry is expected to outpace the growth of the overall advertising industry in the coming years. With a forecasted CAGR of 18.1 per cent till 2018, industry revenues are expected to more than double by 2018. Phase III is also now looking a reality – there is an expectation that the auctions should commence before FY14 is over. Phase III roll-out is vital for the FM radio industry's growth. The other segments of the media industry have all grown by leaps and bounds. More and more TV channels continue to get launched every year, and today there are 750 plus channels available. Newspaper groups have launched several new editions of existing titles as well as new titles across the country. With more transport infrastructure projects (airports, highways, etc.) getting completed, the Out Of Home (OOH) industry has also got a boost. And of course, the internet knows no bounds. In the midst of all these fast growing alternatives to advertisers, the radio must continue to remain competitive and cement its place among media. It has had to rely on increasing the utilization of available advertising inventory, but now with inventories almost fully exhausted, the only way left to grow further is to have more channels and increase rates. Phase III is expected to provide the requisite growth impetus.

Phase III migration and expansion is very important for evolution of radio as a key advertising media. Clarity on licence renewal before the auctions take place by providing a formula for extension would help existing and new players to firm up their investment plans for this phase.

- **Satish Chander**
Vice President,
India Value Fund Advisors Ltd

Coming soon.......My moment of radio



Sanjay Hemady
Chief Executive Officer,
HIT 95 FM

What can we learn from Radio – To entertain, who all – who comes first?

The Broadcaster; The Advertiser; The Listener

Radio has been the not so cool but still playing to the ears of the business and entertaining somebody sometime, and someday will entertain all of us.

Radio is playing and playing with a will to demonstrate every single day so that a crystal will emerge to show its true worth.

Radio dances to the tune, brings a smile and changes when the wind changes, and the music and the rhythm changes.

This time will be remembered. All the secrets are now open – emerging research scenario, guidelines, time line driven processes and the strength, only to know that what we start with now, will take the shape of an evolving revolution to entertain to a new level, a level that many started passionately more than a decade back.

FM Radio in India will go back to the kindergarten stage and emerge as a new sunrise, challenger for all who believed in and have stayed long, as long as they would like to believe.

Some have done adjustments to suit themselves, some have stayed with a hope, some had little choice and most had a dream and the passion to make the dream come true.

Radio, ten years back and now, what and where we wanted to be……..the sparring and practice has built us strong, the confidence will make us victorious, for the broadcaster, for the advertiser and for the listener, we know now that there is somebody there, have stood high – For the love of Radio.

How can radio increase its share in the total advertisement pie and be an attractive medium for advertisers. The following factors are linked to each other that will bring in a smile;

- Broadcasters strong belief in the medium
- Research that should bring in transparency
- Heterogeneous Content – giving variety
- Creative Talent and Freedom
- Self Regulation – Self Assessment - Acceptance
- Demonstrate effectiveness
- Confidence building measures for the Advertisers
- Channel Spacing – More Radio Stations
- Positive Approach
- Equal partnership between Advertiser – Media Agency and the Broadcaster – nobody is above all approach.

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

07

Music

Waiting for the digital promise

Technology is transforming the way music is produced, distributed, discovered, and monetised. In 2013, consumption of music was increasingly 'on the go'. Key drivers were the growth in mobile devices, particularly smartphones, more affordable data plans, and the popularity of streaming services and mobile applications. The spurt in live events has also been a catalyst for growth, especially for independent artists, and this has grown royalty revenues from public performances.

However, there was a lag in monetisation of digital consumption through subscription services. Connectivity was a hurdle, as adoption of 3G networks was mostly slower than anticipated and low willingness to pay and hurdles in online payments remained dampeners. Further, with the significant fall in CRBT (call back ring tones) revenues and continued decline in physical sales, the overall size of the industry in 2013 declined for the first time in many years, by 10 per cent to reach INR9.6 billion[1]. The shutdown of players like Flyte and Dhingana also indicated that the industry is still in the process of fine-tuning digital business models and collaborations.

Going forward, digital revenues are expected to be driven by the rapid growth in mobile devices, with increased connectivity as 3G/4G networks advance. Digital revenues, which already contribute 53 per cent of the industry, are expected to contribute close to 62 per cent by 2018.[1]

For the music industry, the opportunity for growth could come from:

- Nurturing and strengthening digital platforms such as streaming and download services
- Customer centricity in every aspect; from digital product design, to content curation, to exploration of hybrid payment models to enable growth of subscriptions
- Partnerships and collaborations within the industry to offer wider and innovative ranges of services across devices and platforms
- Expanding the business model to grow music related services – exploiting music rights through artist management, and sync revenues from placement in advertisements, videos, gaming etc.
- Expanding the B2B business of music – in particular, packaging and licensing music with electronic devices.

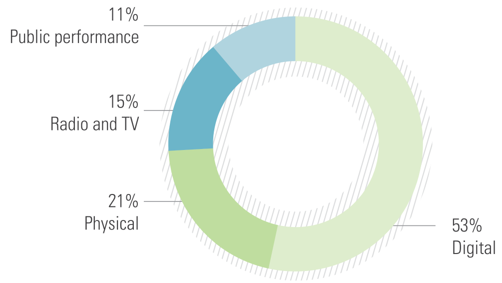
Overall size and growth projections

Segment (INR bn)	2009	2010	2011	2012	2013	Growth in 2013 over 2012	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
Digital	2.6	4.2	5.2	6.0	5.1	-15%	5.5	6.3	7.5	9.0	11.0	16.6%
Physical	4.5	3.2	2.6	2.3	2.0	-13%	1.8	1.6	1.4	1.2	1.0	-12.9%
Radio & TV	0.5	0.7	0.6	1.4	1.4	0%	1.5	1.7	2.0	2.3	2.7	14.0%
Public Performance	0.2	0.5	0.6	0.9	1.1	20%	1.3	1.6	2.0	2.4	2.9	21.8%
Total	**7.8**	**8.6**	**9**	**10.6**	**9.6**	**-9.6%**	**10.1**	**11.2**	**12.9**	**14.9**	**17.6**	**12.9%**

Note: these are net revenues considering share of the music industry only

Source: KPMG in India analysis and industry discussions

Digital revenues still form the majority of the market in 2013



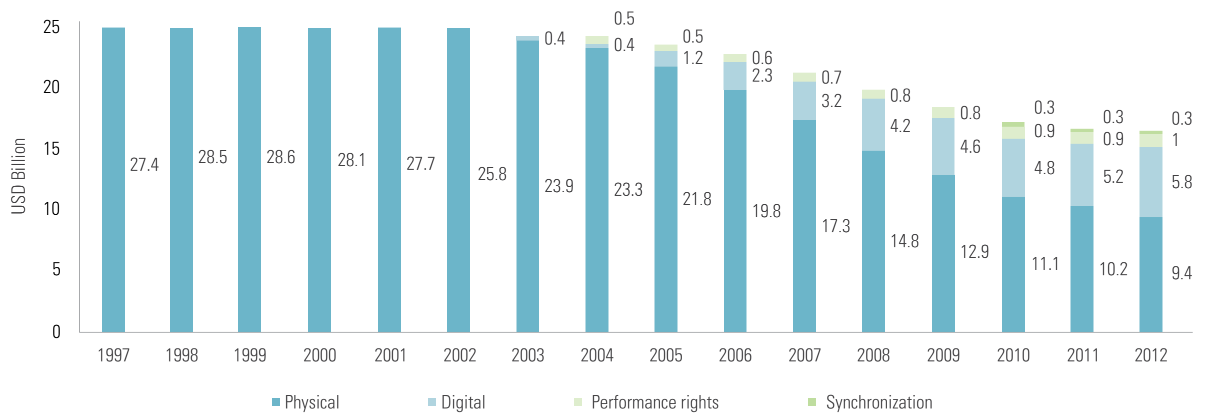
Source: KPMG in India analysis

01. KPMG in India analysis

A snapshot of the industry performance in 2013

Digital revenues have arrested decline in the global music market

Global Sales of Recorded Music

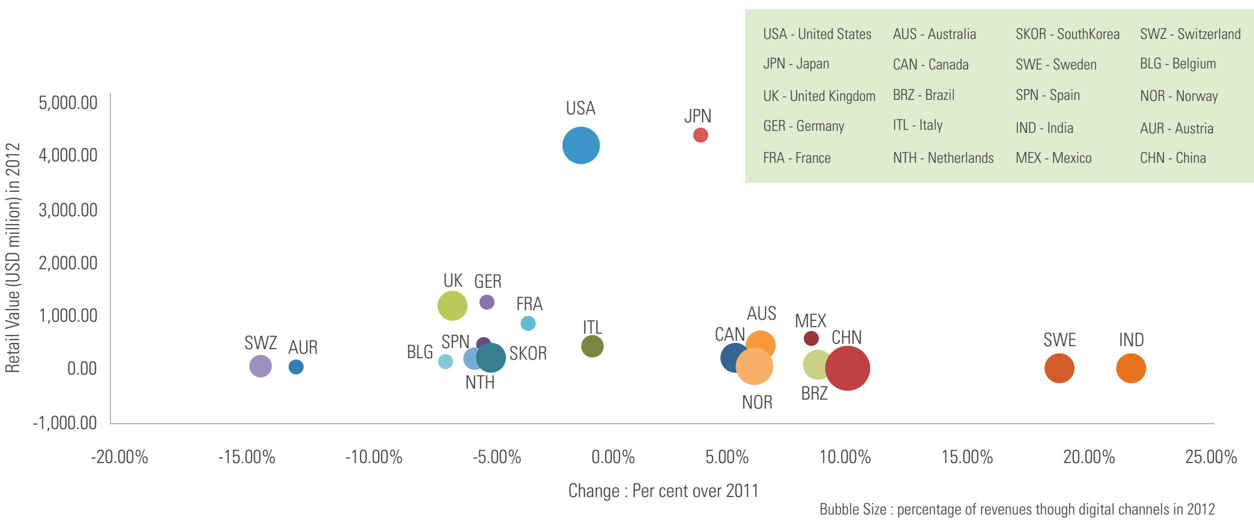


Source: Recording Industry of Japan, RIAJ yearbook 2013; IFPI 2012

Globally, the music industry is on a slow road to recovery, primarily driven by growth in digital sales and services across streams (subscriptions services, download sales, streaming video, digital radio, performance rights and synchronisation revenues), and increased measures to control piracy.

There is growing significance of India in the global recorded music market

Digital Platforms Fuelling Growth



Source: Recording Industry of Japan, RIAJ yearbook 2013; IFPI 2011, IFPI 2012, Top 20 Markets Global recorded sales

Digital channels have enabled greater reach for key global players in the music industry. Major licensed stores and services now operate in over a 100 countries in 2013 vis a vis 24 countries in 2012.[2] India, while still small in scale, is one of the higher growth markets, driven by digital revenue growth especially through mobile channels. This has been evidenced by its shift from 23rd rank by IFPI, in the global recorded music market in 2004, to 14th in 2012 (9th rank for digital segment).[3] International music has seen a growth in terms of familiarity and popularity. There is hence, growing importance of India for global music labels as well.

Following is a summary of growth across the four key revenue streams in the Indian industry; digital, physical, royalties from Radio and TV broadcast, and royalties from public performances.

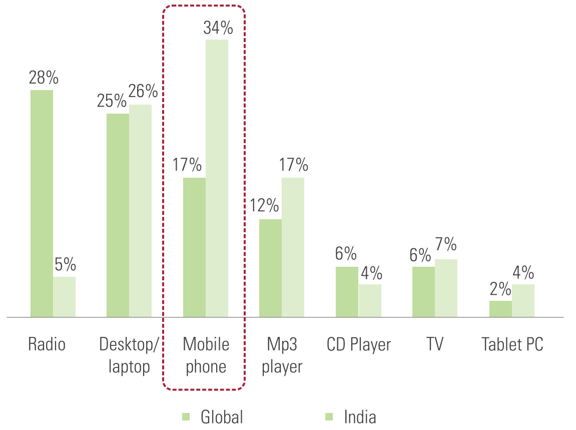
02. IFPI Digital Music Report 2013

03. Industry discussions, based on IFPI reports

Digital Sales in India are driven by growth in mobile

India grew to have the second largest mobile base globally of more than 900 million[4], of which approximately 130 million accessed the internet via mobile devices.[5] Last year saw rapid growth in smartphone adoption. According to the International Data Corporation (IDC), India became the third largest smartphone market in the world in 2013, in terms of smartphone shipments of 44 million units.[6] Further, CY2013 also witnessed a remarkable migration of the user base from feature phones to smartphones, primarily due to the narrowing price gaps between these product categories.[6] Android OS is estimated to have 90 per cent of the market share of smartphones.[6] Data plan rates have come down. The telecom operators are expected to increasingly focus now on increased data usage; music is likely to be a key component. For example, streaming service Gaana saw a 50 per cent growth in mobile consumption in the last quarter of 2013.[7] According to Comscore India Digital Future in Focus 2013, 24 per cent of users access music on the go (mobile or tablet) vis a vis 76 per cent on PC.[8] There has also been a growth in awareness and availability of music based applications. This has been a significant driver overall, for digital music services.

Devices used most often to listen to music: in India Mobile matters!



Note: based on an online survey conducted in April 2012 across 26 global markets.

Source: Ipsos Global @dvisor: Music Matters 2012

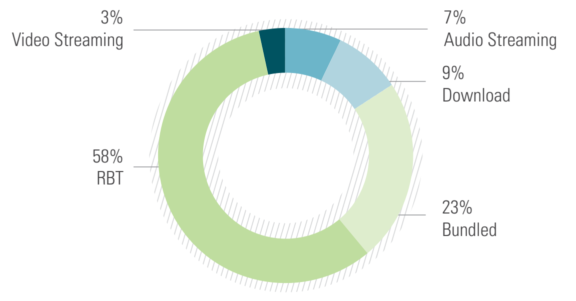
We have summarized the performance across the four main sub-categories of digital music offered:

- Streaming services
- Ringtones and Caller Ringback tones
- Music bundled with consumer devices like phones and laptops
- Download stores

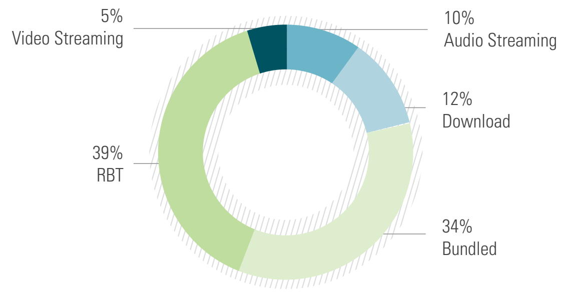
Overall, there has been a shift in composition of digital revenues. The fall in RBT (Ringback tone) revenues due to TRAI guidelines has been compensated to some extent by growth in other revenue streams, but given its dominance over digital revenue market till now, this has resulted in an overall decline in revenues by 15 per cent to INR5.1 billion in 2013[9] :

Shift in composition of digital revenues[9] in India

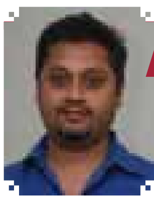
Digital revenue 2012



Digital revenue 2013



Source: KPMG in India analysis and industry discussions



There has been a year-on-year drop in the CRBT revenue post the TRAI regulation, however the digital segment is still growing strong due to growth in streaming sites and other online sales. A hybridised model is expected to kick-off in the coming time which will be a mix of download and streaming. Also, such platforms are expected to carry curated content which will also witness some traction in the coming time.

- Mandar Thakur
Chief Operating Officer,
Times Music, a division of the Times of India Group/BCCL

04. TRAI performance indicator report, Sep 2013
05. KPMG in India Analysis
06. IDC Press release, 26 February 2014
07. Gaana management
08. Comscore India Digital Future in Focus 2013
09. KPMG in India analysis

Growth in the streaming story; revenues still undermine the potential

Globally, there has been strong growth in streaming services, as consumers increasingly perceive value in getting ubiquitous access and these services have entered new markets and seen overall expansion. According to estimates from IFPI, there was a 44 per cent growth in 2012, resulting in 20 million paying subscribers globally.[10]

For example, in Europe, where streaming services are well established, particularly in Scandinavia, subscription revenues already account for approximately 20 per cent of total digital income in 2012, vis a vis the global average of around 10 per cent.[10] There are different models followed. Some offer a free tier and then aim to upsell users to their premium paid for services, others offer an initial trial period before aiming to convert users to their paid service based on a monthly fee. New services such as top 40 chart apps are moving away from the monthly pricing model. Bundled partnerships are driving growth.

In India, streaming services such as Gaana, Hungama, Saavn, Raaga, have all seen a significant growth in traffic as well as engagement in 2013. For example, stream consumption grew 2.5 times for Gaana.[11] While these services had been offered for free initially, 2013 saw the introduction of subscription offerings (see table for pricing details). These have seen a slow start, but the industry believes that with price discovery and experimentation with hybrid models (including elements of free and paid, download and streaming) these models could see increased uptake from 2014. This can be critical in balancing the current advertising supported model. Video streaming (on YouTube in particular), has also emerged as on of the strong revenue streams for the industry.

Where these sites play a key role is in bringing in legal customers, as the industry still struggles with massive piracy in the market. Yet, with the subscription model yet to take off, these sites have still not monetised the potential consumption. We saw the shutdown of one major player Dhingana in 2013, as well as shutdown of the Network 18 owned in.com.[12] Besides the challenges of a price sensitive market, they remain hampered by slow internet connections, and relatively low rates of awareness of the services.

Key websites offering music streaming services in India

Company name	Saavn	Gaana	Hungama
Overview	Saavn (South Asian Audio Visual Network) was launched in 2009. The company's products include Saavn.com, Saavn Music for iPhone, and Saavn Music for Android. The company is based in New York, USA.[13]	Gaana.com, launched in 2011. The website was launched by Indiatimes and is a provider of both Indian and international music content[14].	Hungama.com was launched by Hungama Digital Media Entertainment in 1999[15].
Services offered	Online music streaming, offline music access, creating playlists and sharing playlists on social media such as Facebook. The website also has an internet radio option.	Online music streaming, creating playlists, offline music, sharing playlists via Facebook. Also has internet radio and Radio Mirchi.	Music streaming and download of music tracks, ringtones, videos and mobile wallpapers for Android, iOS and PC. The website also provides streaming movies.
Catalogue	Saavn distributes its catalogue to 75+ global companies including Time Warner, Verizon and iTunes. The company has over 250,000 music tracks, 20,000 music videos and 10,000 ringtones. The company provides music in Hindi, English, Tamil, Marathi, Punjabi, Bengali, Gujarati, Kannada, Bhojpuri, Malayalam and Telugu [16].	The entire Indian music catalogue is available to users worldwide, but only users in India have access to international music. The website features music from 21 languages - Hindi, English, Kannada, Malayalam, Marathi, Punjabi, Tamil, Telugu and other Indian regional languages.	The website has a library of over 2.5 million across genres and languages, in the form of music tracks, movies, music videos and dialogues; mobile content such as ringtones & wallpapers. The website provides content in Hindi, English and regional languages (Tamil, Telugu, Kannada, Punjabi, Bhojpuri, Gujarati, Marathi, Bengali).
Investors	212 Media developed Saavn. It is a New York City-based, privately-held, venture funded firm, founded in 2004[16].	The website is a part of Times Internet which is promoted by The Times Group (90 per cent stake) and Sequoia Capital (10 per cent stake)[17].	Intel Capital, in October 2012, invested in Hungama.com[18].

10. IFPI Digital Music Report 2013
11. Gaana management
12. 'Indian Music Streaming Service Dhingana Is No Longer Running Its Business', Businessinsider. in, 14 Feb 2014
13. http://en.wikipedia.org/wiki/Saavn - accessed on 3 February 2014
14. http://en.wikipedia.org/wiki/Gaana.com accessed on 3 February 2014
15. http://en.wikipedia.org/wiki/Hungama_Digital_Media_Entertainment accessed on 3 February 2014
16. http://www.212media.com - accessed on 3 February 2014
17. http://en.wikipedia.org/wiki/Indiatimes accessed on 3 February 2014
18. http://www.medianama.com/2012/10/223-intel-capital-invests-in-hungama-digital-40-million-in-10-companies/ accessed on 3 February 2014

Company name	Saavn	Gaana	Hungama
Pricing models	Online streaming and playlist creation is free for subscribers. For removal of ads and offline storage of music: Saavn Pro: INR220 per month with uninterrupted music on unlimited devices, and up to 3GB of music saved on any device, with a 30 days free trial Saavn Pro Lite: INR110 per month on one mobile device, and up to 1GB of saved music[19].	Online music streaming and radio is free. Subscribers can opt for Gaana+ for offline music facility and removal of ads. Gaana+ service comes with a 15 day free trial after which users need to pay a monthly subscription fee of INR110 with high audio quality at 320 kbps[20].	Following subscription plans: **Single download:** INR10 for single music track, ringtone, video or mobile wallpaper. **Value pack:** any four items for INR20 for downloading music tracks, ringtones, videos and mobile wallpapers. **Super Value Pack:** any 99 items for INR99 for downloading music tracks, videos, mobile wallpapers, animations, ringtones, fun tones. **Unlimited downloads:** INR99 per month for unlimited download of music tracks, ringtones, videos and mobile wallpapers[21]
Telco tie-ups	Tata DOCOMO: GSM prepaid subscribers who will recharge with certain 2G internet packs, to be provided with 100MB of free data to stream Saavn music[22].	Airtel has a tie-up with Gaana.com to provide customers across India to select and subscribe to Hello Tune via Gaana.com[23].	Mobile company Karbonn entered into a tie-up with Hungama.com to provide Hungama's Music App on Karbonn's devices. Tata Docomo tied up with Hungama Mobile to provide its pre-paid users with access to unlimited music. The VAS service is known as Endless Music and enables users to listen to music for a set period of time depending upon the recharge done[24].

Going forward, growth will likely depend on the success rate of conversion to subscription models. At least one key global player is expected to enter the Indian market. Telecom operators are also launching their own branded music services. 4G and greater uptake in 3G services is likely to grow the market. The anticipated growth in penetration of smartphones is also likely to drive the market further, as streaming services are smartphone friendly. 2014 is likely to be a year of discovery and fine tuning the proposition both in terms of variety (e.g. language or genre based packages) and pricing (e.g. hybrid models).

The contentious issue of viability of the upfront Minimum Guarantee (MG) model for streaming services may require labels and services to come together to build a model that ensures sustainability of a promising revenue stream, while ensuring equitability for all. Greater transparency across the system, and hence more accurate data reporting across the value chain, can also build trust which could drive more equitable revenue sharing structures.

My belief is that the next two years will see the evolution of a strong music streaming market in India. If you look at the ecosystem, it is all lined up to make this happen. Mobile internet penetration is growing rapidly on the back of 3G/4G spectrum, accessible data pricing and a richer experience, thanks to the growing smart phone penetration. The key is that, unlike the west, we must have a revenue model that is not dependent merely on advertising.

With most telecom players and device manufacturers actively curating their own branded/co-branded services, bundling music with data and devices and the imminent entry of global platforms who will add to the already entrenched Indian players, we see a streaming revolution of sorts in the not too distant future.

- Neeraj Roy
Managing Director and CEO,
Hungama Digital Entertainment

19. http://pro.saavn.com/ accessed on 3 February 2014
20. http://www.medianama.com/2014/02/223-saavn-operator-billing accessed on 3 February 2014
21. http://www.hungama.com accessed on 3 February 2014
22. http://www.tata.in/article/inside/5cJqriOYTX0=/TLYVr3YPkMU accessed on 3 February
23. http://telecomgyaan.com/2012/04/bharti-airtel-announces-airtel-store-hello-tunes-on-gaana-com/ accessed on 3 February 2014
24. http://www.watblog.com/2013/11/12/tata-docomo-ties-up-with-hungama-mobile-to-give-its-prepaid-users-affordable-access-to-music/ accessed on 3 February 2014

Key players are likely to focus on:

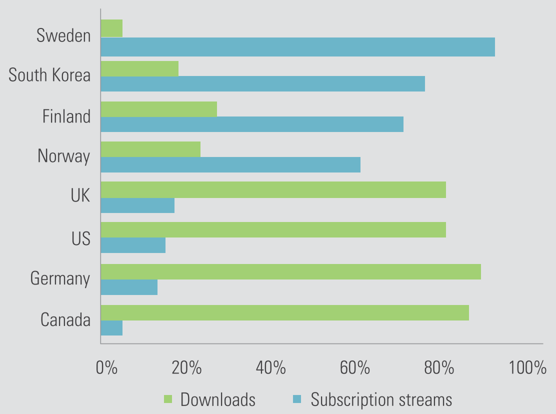
- Measures to grow customer engagement by enhancing the customer experience
- Increased collaborations for content aggregation, with devices and telcos
- Increased marketing and greater integration with social networks to grow awareness of these services.

SOUND BYTE: Music market in Sweden - A streaming success

The success of digital music in Sweden is attributed to uptake of subscription services, telco partnerships, marketing, and the crackdown on pirated sites. Subscription services have played a pivotal role as against the download model in this market. With the launch of music streaming site Spotify in 2008, revenues from the digital medium witnessed growth as the consumer could stream music for a month at the cost of one album download, driving more legitimate consumption of the content.

- Digital revenues accounted for 76 per cent of music sales in 2012 and more than 90 per cent of digital sales were from streaming services[25]
- Per Capita music spend jumped by 15 per cent between 2008 and 2012[26]
- Spotify is considered the largest source of digital revenue in Sweden and over a third of the population used this service[26].

Streaming v/s Downloads – per cent of digital revenues in 2012



Source: http://www.bbc.com/news/business-22064353

Partnering with telcos brought reciprocal benefits. Spotify's partnership with major telecom company Telia Sonera, and Deezer's partnership with T-Mobile enabled it to get instant customer base access, and these services were also heavily marketed. On the other hand, positioning Telia Sonera's new mobile data plan around Spotify was a catalyst for data plan adoption.[27] A change in the existing business model, collective approach by both industry stake holders and the consumers to fight piracy and adoption of new services driven by increased awareness, resulted in growth of streaming services in Sweden.

25. Wall Street Journal 27 January 2014
26. IFPI Digital Music Report 2013
27. Building the new business case for Bundled Music Services, MiDiA consulting, report commissioned by Universal Music, July 2013

Monetizing Digital Music Platforms

Pawan Agarwal
VP and Business Head,
Gaana, Times Internet Limited

The Digital Music industry saw a lot of activity in 2013, from online music consumption growing by over 100 per cent on digital music broadcasting platforms like Gaana, to artists from the digital/social world being signed up by big music labels in India. Piracy continued to be the biggest challenge for the Indian Music industry, and a few services shut down in the digital music broadcasting space due to lack of monetization and challenges with licensing music.

Despite best efforts from the industry, online music piracy doesn't seem to be anywhere near its demise. The most significant force to curb piracy, globally, is the emergence of online digital music broadcasting platforms. Piracy being rampant, consumers in India have a low willingness to pay for music but based on what's happened globally and with some other industries in India – the consumer is willing to pay (a premium) for convenience and experience.

Convenience and a high quality, engaging experience is the key to increase adoption and monetization of any digital music platform. Building a world-class product that offers an unparalleled music experience is top priority across online music services such as ours. Some of the key focus areas:

Access – to millions of songs across platforms, anytime, anywhere. Consumers now access and consume content across multiple devices and platforms and expect a hassle-free access across devices.

Curation – bring the best of music across languages and genres. For eg, professionally curated Radio Mirchi streams on Gaana have the highest engagement in terms of average listening time as per google analytics.

Personalization – music to suit consumers' tastes and preferences. Technology enables a high degree of personalization, a big value proposition of any digital music platform.

Discovery – introducing consumers to new music through their social circles. The service has to seamlessly integrate with various social networks, enabling social music recommendations to the consumer.

It's truly been an exciting year for the digital music broadcasting industry, with mobile adoption growing faster than desktop. Monetization should follow in the coming years. However, some of the major challenges with monetizing online music broadcasting businesses in India are:

Exclusive Content Rights – Owing to the exclusive arrangement between one of the dominant music labels and one of the digital music services, there's no single service on which consumer has access to all the music. It's unfair to expect a lot of consumers to pay for a service that doesn't have most of the new popular content. Such exclusive arrangements around various commercial rights are anti-competitive, hurt the entire eco-system and could be fatal for the digital music broadcasting industry.

Minimum Commitments vs. Revenue Sharing – Digital broadcasting is an evolving industry, there's going to be a lag between adoption and monetization. The gap between content costs and revenues from advertising and subscriptions is huge. For the industry to flourish, the incentives need to be aligned for the content owners and distributors. The content owners need to take a longer-term view of business by supporting revenue-share based licensing as opposed to minimum commitments.

Mobile/Micro-payments – Price discovery is yet to happen for online music. Plug-and-play mobile payment services are required to experiment with various pricing models.

Digital Audio Advertising, a relatively new concept – Brands are increasingly demanding advertising innovations that provide the right returns on their investments. Hybrid audio-visual advertising based experimentation and innovation should lead to higher revenues from digital music broadcasting platforms.

The music industry is witnessing declining physical sales, mobile VAS revenues, and music consumption shifting to digital. With increasing adoption of smartphones and mobile Internet getting cheaper, digital music broadcasting is poised to grow, provided the eco-system is supportive of the model.

Unless otherwise noted, all information included in this column/ article was provided by Pawan 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.

Caller ringback tones (CRBT) market falls; can collaboration and innovations revive this space?

The ringback tones market, once a significant revenue earner for the music industry, has seen a significant decline in 2013, on the back of the TRAI directives to get consumer confirmations for activation and renewal of VAS (Value added services). 2012 saw the initial impact with a fall of around 15 per cent,[28] after the mid-year introduction of the TRAI directive, but the greater impact was felt this year. Across the industry, players have seen a fall in CRBT revenues ranging from 30- 50 per cent[28] as this has now become a pull versus a push business. Once estimated to have a 90-100 million consumer base, this market is estimated to have fallen to around 55 million in 2012[29] and further to approximately 30 million[28] in 2013. The telecom companies also effectively offered lower 'sachet' pricing options which has resulted in shift of volumes of RBT to lower price points (including INR1 daily modules vis a vis monthly packages at INR30 or song switches for free[30]). New VAS products, including voice based RBT, could potentially further compete with CRBT.

Going forward, the other digital revenue streams such as streaming and download stores are estimated to grow at a higher rate vis a vis the CRBT market. Reviving this segment could take place through innovations such as enhanced discovery mechanisms, applications for browsing and downloading RBT, or personalization options, and advertising RBT. For example Saavn has partnered with Vodafone and Airtel to offer CRBT on their website, and close to 5-6 per cent of their web users in India are already transacting for RBTs.[31]

Collaboration with key music labels and telecom companies, to develop and promote relevant products, and simplifying discovery and subscription processes, (e.g. through single codes) may be the key to growing this segment back again (see Indonesia case study inset).

SOUND BYTE: Reviving the RBT Market in Indonesia through collaboration

Circa 2003-2011: The Indonesian music industry became significantly reliant on RBT sales in this period (with some upto 90 per cent of revenues) [32] and telecom companies were strong in promoting the same, as their VAS revenues climbed in the face of declining voice and messaging services. The service generated gross recurring annual revenues in excess of USD100 million in the period 2008 to 2010.[33] At this time Indonesia was the fourth-largest RBT market in the world after Japan, South Korea and China[33]

Oct 2011: The regulator BRTI (Badan Regulasi Telekomunikasi Indonesia) directed telecom companies to deactivate RBT services following complaints from consumers who could not unregister from these services, and for credit theft cases. This remained in force for a year, causing significant disruption

December 2012: Indosat, XL Axiata and 12 of Indonesia's largest music labels, launched a major initiative to support ringback tone sales. The program integrates the promotion of ringback tones of both telcos, formerly using separate dial-in numbers, to a single code applicable to both telcos, and also combines the marketing budgets of both telcos. The telcos are now investing heavily again in promoting ringback tones to their customers. The telcos are targeting 100 per cent growth in subscriber base over 2013.[34] For example, by July 2013 XL RBT service subscribers reached 60 per cent of what it was prior to the 'Black October' 2011 situation.[35] XL claimed their RBT subscribers reached 6.5 million as on July 2013[35]

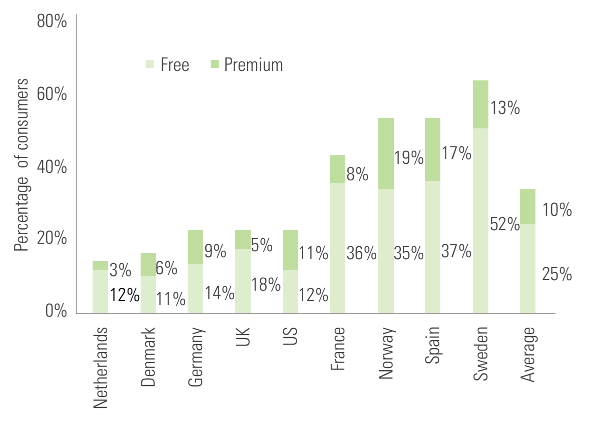
28. Industry discussions by KPMG in India
29. Caller tune revenues no music to telcos' ears, Business Standard, 08 Mar 2013
30. Soundbox.co.in "Can the RBT be revived" October 2012
31. Soundbox.co.in, Rishi Malhotra, Saavn as quoted in "What is on the cards for Saavn in 2014" January 2014
32. http://www.thejakartapost.com/news/2013/05/10/digitalized-tunes-back-liven-local-music-industry.html
33. http://redwing-asia.com/analysis-posts/is-there-money-to-be-made-in-the-indonesian-music-industry/
34. http://en.indonesiafinancetoday.com/read/27524/Indosat-XL-Target-100-RBT-Service-Growth
35. http://www.idnfinancials.com/n/4921/XL-eyes-Rp500-billion-revenue-from-VAS

Telco bundled services see growth - to contribute 18 per cent of music industry revenues[36]

The market for telco bundled services saw introduction of several new partnerships in 2013. Given the market context where there is still low willingness to pay for music or subscription services, this translates to a win-win situation as the telcos are looking at music as a driver for differentiation, reaching out to a younger demographic, and device and data promotion, and music companies benefit from access to the large user base, potential from habit formation, telcos marketing push and the pricing subsidy. This proposition also aids discovery of music, and importantly, simplifies the billing process in a market with low credit card penetration.

The flipside to this, is the risk of consumers getting habituated to free music. Hence, higher engagement during the trial period is key, including integration of social engagement with friends, curation to enable laidback experiences, and discovery of new music.

Globally, while streaming services are getting better established, a significant chunk of streaming users does not pay; partnering with telcos is bridging that gap



Source: Building the new business case for Bundled Music Services, MiDiA consulting, report commissioned by Universal Music, July 2013

There are many success stories globally, with around 50 music-telco partnerships live across six different global regions.[37] These include Spotify and Deezer deals with Orange, and Beats music and Rhapsody bundled with AT&T. A July 2013 MidiA Consulting report commissioned by Universal Music, studied many of these cases and assessed that globally, around 55 per cent of promotional offer users converted after one month.[37] Key success factors included placing the music branded offering at the heart of the promotional strategy, clear measures to assess music service impact including growth in ARPU and stickiness as a result of bundling, and a consumer service focussed mindset.

The Nokia Music Store which became a strong contributor in 2012, saw a significant decline in 2013, linked with a slowdown in handset sales.[38] Nokia also shut down its web version of the store, in line with a mobile first strategy.[39] However there were several other partnerships that grew the market. Examples of bundled services introduced in the Indian market include:

HP Connected Music

HP tied up with Universal Music and Hungama.com to launch a subscription based service called HP Connected Music that offers more than one million songs across different genres. The service is available on select HP notebooks and the users can download free unlimited music for a period of one year.[40]

Hungama app on Karbonn mobiles

Karbonn has partnered with Hungama to pre-load Hungama Music App on latest smartphones.[41] Similarly, Panasonic has tied-up with Hungama.com for its latest smartphone -T31.[42] It gives the consumer unlimited access to the content for up to 30 days

Sony Music Jive

Sony Music India has launched this music streaming and downloading app globally with Sony Xperia smartphones. It has a catalog of two million songs across different genres. The service is free for the first six months.[43] This application is also pre-installed on the Sony Vaio range of laptops [43]

Saavn and Tata DOCOMO

The partnership allows DOCOMO's subscriber's access to Saavn's catalog of over a million songs via special stream-anywhere data plan. Plans are available for DOCOMO's GSM Prepaid customers with three different tiers of music streaming capacity: 500 minutes, 1000 minutes and 2000 minutes.[44]

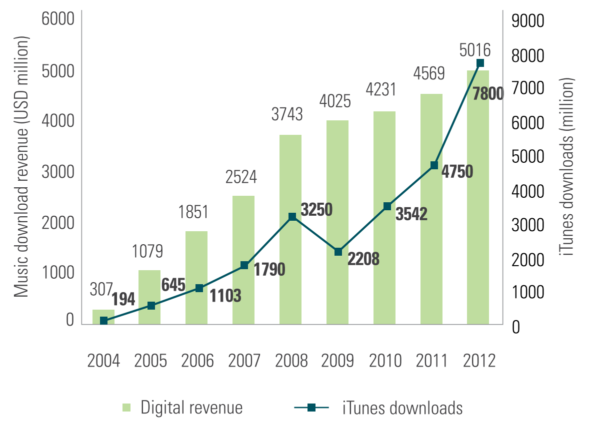
> The device- bundled music services market has seen strong growth over 2013 to reach a size of approximately 175 crores. This is a win-win proposition both for device brands and the music industry. Streaming Apps and Services are the other segments to have witnessed growth, and are playing an important role in driving traffic to legitimate websites and giving consumers a 'full track' experience.
>
> **- Shridhar Subramaniam**
> President, India and Middle East,
> Sony Music Entertainment

36. KPMG in India analysis
37. Building the new business case for Bundled Music Services, MiDiA consulting, report commissioned by Universal Music, July 2013
38. Industry discussions by KPMG in India
39. 'Nokia: Not Out as Yet', Soundbox.in, October 22, 2013
40. Medianama.com 31 January 2013
41. Medianama.com 16 July 2013
42. Yahoo news 16 October 2013
43. Medianama.com 6 March 2013
44. PRweb 25 June, 2013

Downloads continue to contribute to digital revenues

Globally, major players such as Apple, Google and Amazon, have expanded the market for download stores.

Apple iTunes still underpins the growth of the digital market



Note: Download revenue refers to top 10 global music markets
Source: midiaconsulting.com, Mark Mulligan, April 2013 using Apple and IFPI data

In India, while we saw the shutdown of Flipkart's Flyte in 2013, Apple's itunes store completed a year. Its uptake however is likely to depend on growth of iPhones and credit card penetration. Apple still has just 2.3 per cent market share in the price sensitive Indian market.[45]

Hurdles continue to be online payments, as less than 2 per cent of the Indian population has a credit card,[46] and low and slow broadband access. The key success factors for digital services mentioned earlier, can be critical going forward – measures to enhance customer experience, simplicity, flexibility and ease of search, access and payment. Collaborations may be required to offer the user the music he or she wants. Integration of cloud based features provide access to the user's music library anytime anywhere. There is always likely to be a segment of customers that would like to 'own' music vis a vis 'rent'.

Physical sales continue to decline, with further shutdowns in music retail stores

The growth in digital consumption of music (through legal and illegal channels) has continued to eat into the share of physical sales, which saw a continued decline of around 13 per cent in 2013 to reach INR2 billion.[47] 2013 saw further retail shutdowns such as the MusicWorld chain, or several Reliance TimeOut stores, and significantly reduced music in the product mix in chains including Tata's Landmark, Shopper's Stop Crossword and Videocon's Planet M.[48] With labels now increasingly focusing on measures to grow the digital market, there are also challenges of lack of titles available in the physical market.[48]

At the same time, physical sales still hold in some Tier 2 and 3 markets where lower internet penetration has resulted in slow uptake of digital services. Some regional language markets and genres such as devotional, classical and fusion also see continued physical sales.

While this degrowth mirrors the global trend, physical sales are still a major chunk of the global market – an estimated 58 per cent in 2012.[49] In some cases, innovations have brought about some renewed interest. For example, 'Record Store Day' brings together fans and artists at record stores globally, on the 3rd Saturday of April each year, to create experiences around sales.[50] Special releases and promotions create buzz around the event.

We have also seen Indian players innovating with formats such as kiosks inside other stores, for digital content or shop in shop. For example, Giri Traders, a retailer with origins in South India, set up over 40 music download kiosks across Tamil Nadu, leveraging a model where albums are updated online and distribution is still physical across locations.[51] Another example is Sony DADC, that has consolidated catalogues of Sony and Saregama, which has tied up with over 100 Niligiris stores in South India to retail music and is considering non-traditional outlets as well.[49] Vinyl records is another small but growing space with dedicated fan base that has increased their collections.[52]

Amazon.in launched its music store in India in February 2014. It has positioned it as the largest online physical album store in India, with options to purchase over 400,000 Indian and international albums including the Warner Music repertoire from Sony DADC;[53] digital downloads are currently not an option.

Going forward, the industry believes that the decline may eventually plateau in 3-4 years (possibly sooner in urban areas).

Music consumption has gone up many fold, however the consumption habits have changed. With the influx of satellite channels and data on mobiles, music consumption is now on the go. Thus the life cycle of most of the music release is not more than 4 weeks. It's not too far when music composers and singers will find no revenue coming from physical sale of CDs.

- Sanjay Karwa
Chief Executive Officer,
Planet M Retail

45. RBI data
46. http://www.paymentsjournal.com/Content/Featured_Stories/16443/
47. KPMG in India analysis
48. Soundbox.co.in, "Are the Shutters rolling down" October 2013
49. IFPI Digital Music report 2013
50. 'Record Store Day: Saving Independent Music Stores Since 2008', Huffington Post, 20 April 2012
51. Retail Plus Chennai, Music Add-On
52. Industry discussions with KPMG in India
53. http://tech.firstpost.com/news-analysis/amazon-adds-new-stores-video-games-music-luggage-217728.html

SOUND BYTE: Japan (the second largest digital market globally) and South Korea see growth in physical sales

While globally, physical sales are on a decline, there is an interesting trend of how companies are innovating in the physical/packaged music market, with deluxe products such as box sets, and bundling these with premium products or experiences, such as memorabilia, merchandize or concert tickets. This has worked particularly well with a core fan base, or an older demographic.

For example, in Japan, co-existing with a strong digital sector, physical sales formed 80 per cent of total sales in 2012, up from 75 per cent in 2011.[54] The first driver for this deviation from the global trend is the strong local pop industry, with intense fan loyalty amongst the youth segment, that purchases special edition CD sales, or CDs bundled with tickets, artwork and special inserts.[55] The second is the older demographic in Japan, which is still more attached to physical goods.[55] In South Korea, sales are expected to have increased for the third consecutive year, driven significantly by K-Pop acts whose fans demand high-quality physical formats and deluxe box sets.[56]

Fall in radio royalty revenues offset by growth in royalties from television broadcast segment

The royalty received from radio and television broadcast segments was INR140 million in 2013,[57] constituting 15 per cent of the music industry revenues. For radio royalties, there has been a fall post the change in royalty rate from the earlier weighted average of INR660 per needle hour to a net advertisement revenue share of 2 per cent. This change was effected based on the compulsory license granted at the fixed royalty rate to the radio industry for all works falling in the repertoire of PPL. This however excludes some key music labels such as T-Series and Yash Raj.

However, this fall was offset by a 20 per cent growth in royalties received from television broadcasting.[58] The television music channel segment showed robust growth over last year, including demand from new entrants in the regional music space, and music based content in GEC and other channels, resulting in appetite for Bollywood and other music content. Going forward, there is likely to be continued growth in the music channel segment, with additional entrants expected to enter the space in niche genres.

The royalty mechanism for television is currently determined through negotiated voluntary contracts.[58] However, with the 2012 amendments to the Indian Copyright Act stating that statutory license would make it mandatory for content owners and music companies to provide content to radio and television companies at rates as determined by the Copyright Board, there is some uncertainty in the industry as to the kind of impact this would have on television royalties and interpretation as to content covered by this clause.[58] 2014 is likely to see greater clarity with the constitution of the Copyright Board and clarification on nature of and applicability of rates.

The auction of Phase-III of radio licenses is expected to benefit the music industry with an additional 839 frequencies across 227 plus towns coming up for auction.[59] Although the immediate term impact is likely to be negligible, and advertisement based royalty is relatively low in these markets, over the medium to long term, the music companies are likely to benefit from increased penetration of radio as a tool for music discovery and promotion in these markets.

Surge in live events drives Public performance royalty revenues

With the growing demand for music in commercial establishments such as malls, pubs, hotels etc. and mandatory procurement of license for playing copyrighted music in such establishments, the public performance business has witnessed a steady growth in the year 2013. The tone was set in the year 2012 when the country witnessed a surge in live music events. In the year 2013, music events continued to hold a larger share in the overall live-events pie.[58] (See chapter on live events business for a detailed look at growth drivers)

The growth in public performance revenue is also attributed to the increased awareness among the audience after the enactment of Copyright Act. The Act allows payment of royalty to the owners of copyright. The revenue from public performance segments was at INR1.08 billion, which grew by 20 per cent over the previous year.[57]

Key themes in 2013

Film music still the dominant genre, but non film genres including other regional music, devotional and international music see growth

Film music still dominates approximately 65 per cent of music sales in India.[58] Bollywood dominates at least half of that, followed by regional film music markets such as Tamil, Telugu and Punjabi.[58] The success of these music albums is highly correlated with success of the films and they have the backing of strong promotional spends by the film fraternity. The strong symbiotic relationship with music and films continues, evidenced by traditions such as pre launch of music albums to publicise the film. According to the Ormax Bollywood Audience Report (2013), music channels and internet promotions are the strongest sources of promoting new film awareness amongst youth. The music preferences of the Indian consumer have been evolving, and they have been catered to, with increasingly contemporary and western influenced interpretations of the traditional sounds of Bollywood songs. Further, with the trend of multiple music composers often collaborating on film projects, there are fresh styles emerging.

54. Recording Industry of Japan, RIAJ yearbook 2013; IFPI 2012
55. http://money.cnn.com/2013/08/19/news/japan-cd-music/
56. IFPI Digital Music Report 2013
57. KPMG in India analysis
58. Industry discussions by KPMG in India
59. Another 227 places to tune in to FM', Business Standard, 08 July 2011

SOUND BYTE: Punjabi music market: independent artists lead the way

The Punjabi music industry is an interesting case of strong growth, and not just from the film sector but across genres (pop, devotional and folk). Key drivers include:

- Multiple platforms for discovery of music including popularity in Bollywood films, live performances, TV promotion (with dedicated Punjabi music channels such as 9X Tashan and ATN MH1 and several GEC channels), and a growing film market (Punjabi movies crossed INR4360 million in 2013, and estimated to cross INR6500 million in 2014) [60]
- Customer segmentation (For example, music for audiences in Amritsar would be more folk driven vis a vis contemporary music for consumers in metros or tier I cities such as Delhi or Chandigarh)
- Tapping into overseas potential (popular in markets including U.K., U.S., Canada and Australia – driven by diaspora, concerts, fusing international elements such as hip-hop, rap, reggae and disco)
- Artiste driven market, with strong promotion focus, growth in investments in music videos – in an interesting trend, the music industry stars have also crossed over to star in hit films – e.g. Diljit Dosanjh, a singer with several hit albums to his name starred in Jatt and Juliet, which went on to become a blockbuster
- Social media enabling artistes to engage with their fan base, several Punjabi music artists have a social media following rivaling those of Bollywood actors

The regional film music markets such as Marathi and Punjabi also saw significant growth with increase in the number of films, and the overall budgets and production value of films, with multinational and other large producers getting attracted to this space (e.g. box office collections of Jatt and Juliet in Punjabi[61] and Duniyadari in Marathi[62] have broken all time records). This has translated to greater investments and growth of the music industry in these markets as well and attracted new artists to the space. Going forward too, the growth in these film industries is expected to drive music industry growth.

Regional music continues to grow faster than others, across key markets including Tamil, Telugu, Kannada, Malayalam, Punjabi, Bengali, Bhojpuri, and Rajasthani.

Key drivers include vibrant performance of regional GEC and music TV channels, films and web stations. With phase-III, radio could also increasingly become a platform for music discovery across regional markets. This has reflected in music labels strategies to expand in regional markets. For example Sony has continued its focus on acquiring music in the Tamil and Punjabi music markets.[63] In February 2013, Gaana.com had partnered with the South Indian Music Companies Association (SIMCA) to acquire music from 79 regional labels.[64] Saavn has also been focusing attention on acquisition of regional music, and states that it has 75 per cent of all Tamil music content, 90 per cent of all Telugu music content, 90 per cent of all Marathi content, and 90 per cent of all Gujarati content available.[65]

Regional music markets such as Punjabi and Marathi have been on an upswing. Growth in respective movie markets have been a significant driver, and independent artists have also been on the rise. Production values and budgets have also risen in line with the growing interest.

- Amar Tidke
Senior VP and Content Head, 9X Media Group

International music has seen good growth to reach 10-12 per cent of the music market.[66] The top trending music videos in India on You Tube 2013 included two international artists (Lady Gaga and Miley Cyrus).[67] VEVO, an international online music video channel, saw an 11 per cent increase in visitors to reach 2.88 mn in 2013.[68] Based on 'user likes', the facebook page for Akon has over 17 per cent fans from India, the late Michael Jackson has ~7 per cent followers from India while 8-9 per cent of Shakira's fans on facebook are from India.[69]

One of the key drivers is the growth in digital channels – as it has been observed that share of revenues of international music through downloads and streaming is significantly higher than other genres. Another driver is the growth in international artist performances in India, and increased popularity of the EDM genre (Electronic Dance Music). With increasing cross collaborations between Indian and International artists, there has also been increased awareness and Western music influence through Bollywood. Further, there is greater promotion and focus from labels, (with Universal Music group strengthening their focus on the market post EMI merger, and Sony Music Entertainment India aligning with Warner Music Group to sell their catalogue in India and other SAARC countries), and from international music channels, hence this genre is expected to see continued growth.

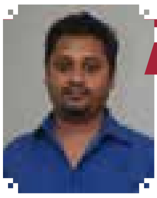
Platforms such as live events, social media channels, streaming and downloading sites play a major role to influence and bring that change in the audience preference and taste for music. International music is one such genre that has witnessed growth in consumption in the last year. For instance, the demand for EDM music has grown spectacularly among young audience since the past few years.

- Devraj Sanyal
Managing Director, Universal Music Group South Asia, EMI Music South Asia

60. Radioandmusic.com, Nov 2013, "Punjabi music has a story to share"
61. http://www.punjabicinema.org/highest-grossing-punjabi-movies
62. Wikipedia, accessed on 10 Feb 2014
63. 'Sony contributes to 30 per cent of the regional space: Shridhar Subramanium', Radioandmusic.com, 12 Feb 2014
64. http://www.medianama.com/2013/02/223-gaana-simca-tie-up/
65. Dhingana Partners Sony, Universal & Others To Improve Its International & Regional Catalog, via Factiva, accessed Dec 2013
66. Industry discussions by KPMG in India
67. You Tube Rewind 2013 India
68. India Digital Future in Focus 2013, Comscore
69. http://www.thetop10.in/2013/06/top-10-most-popular-celebrities-on-facebook-in-india.html

Devotional and spiritual music continues to be a significant contributor. Given the cultural affinity for this genre in India, the industry believes that there could be continued interest in the genre. In particular, it is a key driver for physical sales. Recent releases have seen innovations with styles and new artists including celebrities, in order to make it relevant to current music styles and preferences. E.g. Amish Tripathi author of Siva Trilogy released a soundtrack album based on his trilogy, with artists like Sonu Nigam and Taufiq Qureshi contributing.[70] Hema Malini also released a devotional music album as her first, along with Shankar Mahadevan.[71] For example, given the growing popularity of spiritual music in India, and its continued physical sales, Universal signed on spiritual leader, Gurmeet Ram Rahim ji Insaan, who has a strong following in rural India, and released an album that sold 7.5 million copies in 2013, mostly in smaller towns and villages.[72]

The genre tends to see spikes during festivals, and with launches of compilations and special releases by artists along with narrations, etc to highlight the spiritual context.



Bollywood music continues to play a dominant role in the music industry but the non-film genres like devotional, classical, spiritual etc have witnessed growth in consumption over the previous year. Given the varied choices in genres and upcoming digital platforms, it is important to reinvent the catalogue to ensure better utilization.

- Mandar Thakur
Chief Operating Officer, Times Music, A division of the Times of India Group/BCCL

The comeback of 'Indie music' music (loosely defined to cover independently produced, non-film music across genres from rock to jazz to folk to sufi and across languages) has been much talked about in the last couple of years. There has been a plethora of new artists and bands. However the revenue potential still lies in live events and performances vis a vis music sales. The mushrooming of music festivals and concerts, growth in venue infrastructure, online platforms, social networking sites and TV shows such as Dewarists, Coke Studio, Sound Trippin, SoundTrek, have all played a role in promoting interest and widening the fan base.

The growing indie scene, while largely a live event phenomenon, is playing a strong role in developing a talent pool for the industry. There is increasing popularity, and loyalty of bands & artists in what's till now been largely an event based experience.

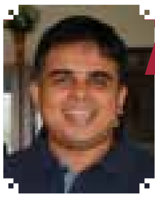
- Arjun Sankalia
Director - International Music and Publishing,
Sony Music Entertainment, India

OK Listen, a digital platform for independent artists saw 100 per cent month on month growth in 2013, and even directly released an album by popular group Raghu Dixit project.[73]

Sony Music's indie platform 'Live from the Console' and Universal Music India's 'Contrabands', which aims at discovery and offers a stage for indie artists have both seen active levels of interest from fans and artists/ bands alike.

A testament to the popularity of this genre, is the recent launch of the Pepsi co-branded MTV Indies channel which is focused on promoting indie music and sub genres across TV, mobile, web and televised events. The channel already has more than 500 indie group music videos in its library across Indian languages.[74]

These drivers have assisted in creating a thriving music scene and talent pool, expanding genres of music, and a lot more is being done on discovery and promotion, yet there is a lag in realizing revenues; it's still not the day job for many indie artists. While distribution and recording costs are reducing, enabling indie artists to grow and interact with fans, greater marketing and promotion is required, across traditional and new media, to break through the clutter.



Social media platforms are very important for new talent to connect with consumers. Facebook, used widely by the artists, is very successful in helping musicians to reach out to their target audience. It also helps music discovery and is one of the top referrals for converting music sales on OKListen.

- Vijay Basrur
Founder,
OK Listen

70. en.wikipedia.org/wiki/Amish_Tripathi , accessed on 20 Feb 2014
71. 'Hema Malini's first music album is all about spirituality', The Times of India, 31 Oct 2013
72. 'Digital music sales, live events most viable combo for musicians in India' Economic Times, Dec 08 2013
73. Discussions with OK Listen Management
74. PepsiCo to pour up to 50 crore into MTV Indies, Economic Times, Feb 7, 2014

Digital technology and popularity of live events drive innovation:

Year 2013 witnessed the launch of some striking initiatives by various stake holders of the music industry.

SOUND BYTE: Innovations in 2013

Red Bull tour Bus: a new pop up venue came to town

Beverage brand Red Bull brought its concept of Tour bus in India in 2013. The custom built in bus gets transformed to a live sound stage featuring bands that can travel across cities. In an estimated three to four hours, the bus transforms from a typical 36 foot long vehicle to a custom rock stage fully equipped with a sound system and lights. It has already made successful appearances across Mumbai, Nashik, Ahmedabad, Kolkata, Pune and Goa. By end 2013, over 30 bands played in 14 cities.[75]

Platforms for independent artists

- **'Find your freedom' contest by Harley Davidson on Facebook** – In its fourth season, this contest invited young music artists from across India to showcase their talent and compete for a place at the World's biggest bike festival, the European Bike Week, 2014 in Australia.[76]
- **PUMA Loves Vinyl** - In its third edition, PUMA Loves Vinyl in association with NH7, organized a free music concert which had country's renowned music bands on one Vinyl LP. The event targeted music and vinyl lovers and also included curated vinyl listening session for the audience.[77]
- **Contrabands** – A Universal Music Group, Vh1 and Hard Rock Café's property provides a platform to discover, promote and nurture indie artists.

Kailesh Kher goes direct to Fan

Singer Kailash Kher composed a special song to pay his tribute and bid adieu to the master blaster Sachin Tendulkar in November 2013. The song was released through his YouTube channel and the track was available for free download for a month.[78]

T-Series – offering content in cars on the go

T-Series is partnering with UK based Prodigium Mobile and Clarion car music systems to enable music downloads on car stereos. This addresses the consumer need for on the go access to a large catalog for download as well as viewing video content through the T-Series You Tube channel.[79]

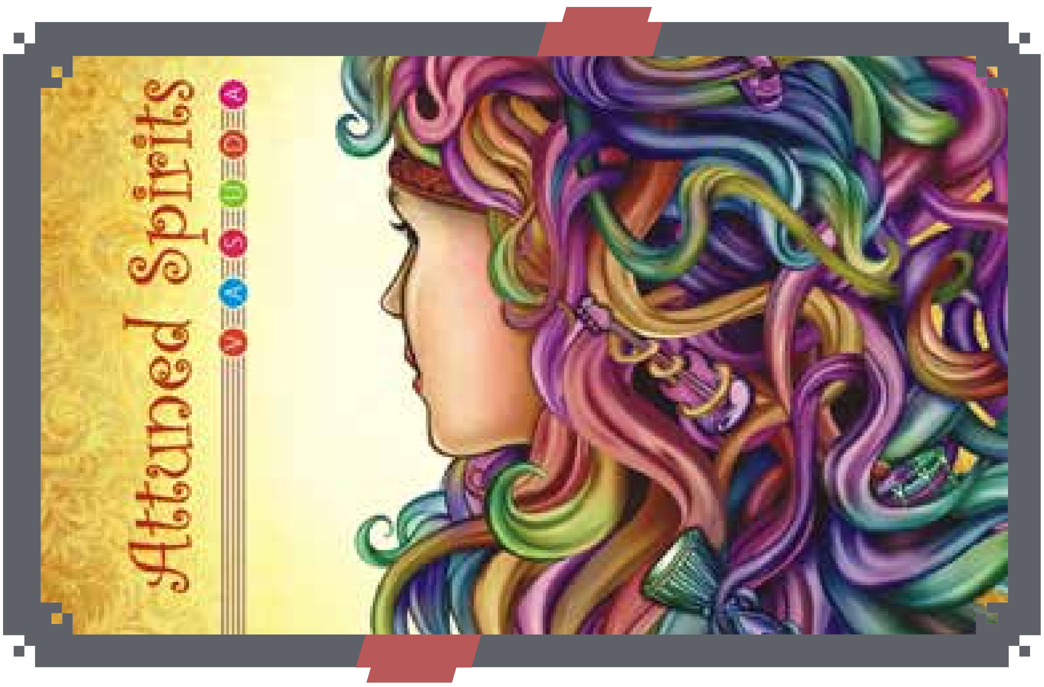
Biscoot Digital Prepaid Wallet

Launched by Shotformats in October 2013, this app allows users to access digital content including movies, music, games and apps through scratch cards which are available at denominations of INR1000, INR500, INR100, INR50 and so on. It is especially targeted for the users who do not transact online. The application or the content cannot be copied to, or shared with, any other device, thus helping create a stream for content owners to monetize their content better and curb piracy.[80]

Karaoke service by Tata Sky

Tata Sky has tied up with Hungama.com to launch a DTH based karaoke service. The service displays music videos along with lyrics and features a 'Sur Meter' that rates an individual's singing performance.[81]

75. Redbull India website
76. 'Harley Davidson India to help bands "Find their freedom" at the Rock Rider Festival's fourth season', Pitch, 5 August 2013
77. Puma.com and eventfaqs 12 November 2013
78. India Today 12 November, 2013
79. Music on the Move, Soundbox.in, 22 Nov, 2013
80. 'Shotformats launches offline applications store, online digital prepaid wallet' Business Standard, 23 October 2013
81. Medianama.com 13 February 2014

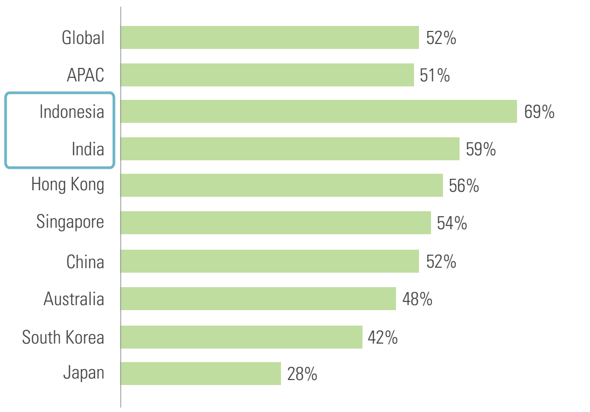


Growth in music video

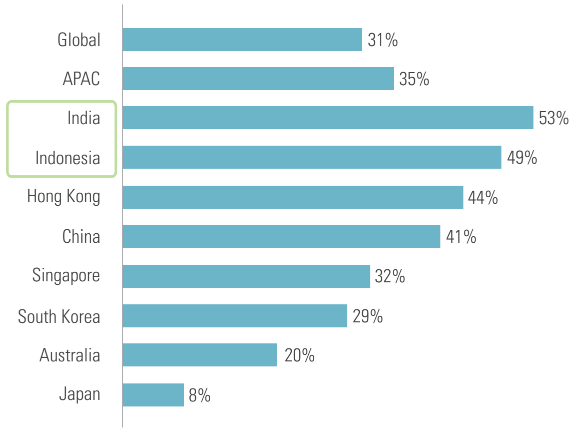
There is continued surge in the growth of video streaming of music videos. Social media websites and YouTube continue to be the preferred channels for music video consumption. According to research by Ipsos Global in 2012, 59 per cent of the Indians watched music videos through social networking sites and 53 per cent shared the content.

APAC: India and Indonesia are socially connected

Listened to/watched music videos on social networking sites



Posted/shared music or music videos on social networking sites



Note: Based on an online survey conducted in April 2012, activities done in the last 30 days
Source: IPSOS global @dvisor, Music Matters 2012

Bollywood movie music is driving the bulk of music video consumption in social and media sites. One Digital Entertainment recently launched a live music channel 24x7, nonstop Punjabi music feed for Speed Records, with built in chat, reflecting the demand for video based and interactive content.[82] Some of the popular channels with significant music content include:

Network	Uploaded Videos	Views (mn)	Subscribers (mn)	Channels in the Network
T-Series	49,734	2,382	5.2	13
YRF	4,102	1,065	2.5	38
Tips Music	3,199	592	1	5
Ultra Hindi	20,875	541	0.7	19
Sony Music India	1,118	266	1	3
Coke Studio @ MTV	4735	111	0.7	2

Source: YouTube Website as accessed on 01 March 2014

82. 'www.youtube.com/user/speedrecordss '. Accessed on 1 Mar 2014

In a sign of the times, for the first time globally, Billboard and Nielsen Soundscan announced that Youtube streaming data will be factored into their charts and there was an interesting impact for some videos like Baauer's Harlem Shake which saw low sales, but with a viral YouTube video set to its music, topped the top 100 at No. 1 for consecutive weeks.[83] In line with the trend, streaming player Saavn is planning to add music videos and movies to its portfolio. The company is planning to offer music videos by mid-2014 and full movies within the next two years[84]

Opportunity for Indian music in overseas market, latent potential still waiting to be tapped

The growth of digital distribution channels, makes it increasingly possible for music to cross global boundaries. For example, global top selling charts include artists from Brazil (Michel Telo), South Korea (Psy and G-Dragon) and Australia (Gotye). No Indian artist however, has broken through with a hit on that scale.[85]

At the same time, Bollywood movies are doing increasingly well on the international circuit. Bollywood movies are earning up to 12-15 per cent revenues from international markets.[86] They have gone beyond traditional expatriate markets such as the US and UK to break into new markets such as Japan and South Korea. Further, the popularity often extends beyond the diaspora audience. For example, closer to home there is a huge untapped potential for Bollywood music in markets with cultural affinity including Pakistan, Sri Lanka and in markets such as Middle East and Africa. Last year, the Middle East market alone showed a growth of 30 per cent for overseas film revenues.[86] Regional music also has strong overseas potential, for example Punjabi music has a fan base across the US, UK, Canada and Australia. Another driver is increased touring/ live performance overseas by Indian artistes.

Analysis of streaming music sites indicates that on an average 15-25 per cent of consumers are global.[87] These are also high potential customers as many are from economies with greater familiarity and willingness to get on to subscription based models.

For example, Saavn's music license covers over 200 countries and defines itself as a company targeting worldwide audiences. In March 2012, it released statistics stating that India accounted for 58 per cent of Saavn's usage, followed by United States (10 per cent), United Kingdom (3 per cent), Canada (2 per cent), and Singapore (1 per cent), with the rest of the world contributing to the remaining 26 per cent of the usage.[88]

To tap into overseas markets, it has tie ups such as the one with WesternUnion.com which brings audiences a show on StarTV USA, simulcast online, called Direct from Bollywood, with content such as 'Connecting back home' and shows tied to the local diaspora experience, staying in the US. During episodes, viewers are presented promotional codes for Western Union offers redeemable via the Western Union app or online. The target audience is South Asia Americans, who, according to a July 2013 Nielsen study, have the highest rate of smartphone ownership.[89]

Japan could be an interesting case in point. It has a well established music market, the second largest globally.[90] In 2013, Yash Raj films entered into a partnership with The Nikkatsu Corporation, a 100 year old Japanese production and distribution company, to increase the number of Hindi movies accessible in Japan.[91] This was for the release of films such as 'EK Tha Tiger', 'Don2', '3 Idiots, and 'Jab Tak Hai Jaan' across 9 major cities in Japan including Osaka, Kyoto, Sapporo and Kobe.[91] There is hence increased familiarity and popularity of Bollywood in new markets which could be a great entry point for music.

2013 – Illustrations of International concerts by Indian artists

Concerts	Artists	Country	Period	Description
Crocus City Hall Concert	Sonu Nigam	Russia	10-Aug-13	First ever concert in Moscow. Organised by Overseas Bihar Association.[92]
DAR Constitution Hall Concert	Shreya Ghoshal	USA	20-Sep-13	Opening concert of Shreya's US tour with concerts in Washington DC, Detroit and California.[93]
Royal Albert Hall Concert	Sunidhi Chauhan	UK	27-Sep-13	Last concert of Sunidhi's UK tour, organised by TLC Events and Rock On Music.[94]
Temptation Reloaded Concert	Honey Singh	Malaysia	11-Oct-13	One of the biggest Bollywood concert productions, Temptation Reloaded sold out in 12 countries.[95]
Celtic Connections at Glasgow	Raghu Dixit, Papon, Ruhaniyat	Scotland	Jan 16 - Feb 2	It is one of the largest annual winter music festivals with 2100 artists and 300 events. This year, Indian folk music was showcased at the event.[96]

83. 'Baauer's 'Harlem Shake' Debuts Atop Revamped Hot 100' Billboard.com, 20 Feb 2013
84. http://techcircle.vccircle.com/2013/08/06/saavn-to-offer-music-videos-from-next-year-movies-in-next-2-years
85. IFPI Digital Music Report 2013, 'G-Dragon Enters the Billboard 200 and Places First on the Billboard World Album Chart', MWave, 21 Sept 2012
86. Industry discussions by KPMG in India
87. Alexa.com visitor data, KPMG analysis
88. Saavn Claims To Have 9.3M Users; Mobile, Country Wise Usage Data (Infographic), 20 Mar 2012, Medianama
89. WesternUnion.com Collaborates with Saavn to Launch, 19 September 2013, Telugutimes
90. Recording Industry of Japan, RIAJ yearbook 2013
91. Trying to create demand for Indian films in Japan, 08 March, 2013, Economic Times
92. http://indrus.in/arts/2013/07/23/sonu_nigam_to_perform_in_moscow_27427.html
93. http://www.americanbazaaronline.com/2013/08/29/shreya-ghoshal-render-concerts-three-cities-us/
94. http://bollyspice.com/68711/bollyspice-review-sunidhi-chauhan-creates-history-royal-albert-hall-spellbinding-concert
95. http://www.indiantelevision.com/movies/hindi/srk-madhuri-honey-singh-in-malaysia-for-temptation-reloaded%E2%80%99-140215
96. http://www.celticconnections.com/Pages/default.aspx

Concerts	Artists	Country	Period	Description
Indian Ocean Concert at California	Indian Ocean	USA	14-Sep-13	Indian fusion rock band Indian Ocean performed at Chabot College Performing Arts Center. The event was presented by the Asha for Education group.[97]
Avial Concert in Kentucky	Avial	USA	11-Feb-14	Indian alternative rock band Avial performed in Kentucky this year.[98]
du World Music Festival 2013	Soulmate	UAE	28 Mar - 6 Apr	Indian blues rock band Soulmate performed at Dubai du World Music Festival 2013 [99]
Remember Shakti Concert in Brussels	Shankar Mahadevan	Brussels, Belgium	7-Nov-13	40 year celebration of Remember Shakti group organised by Bozar Music brought together Zakir Hussain, tabla, Shankar Mahadevan, vocal, U. Srinivas, mandolin, V. Selvaganesh, kanjira, gahatam, mridangam vs John Mc Laughlin, guitar[100]
The Firebrand of Indian Music	Shankar Ehsaan Loy	Indonesia	29-Sep-13	Shankar Ehsaan Loy performed in Jakarta in the Firebrand of Indian Music concert presented by DML Live[101]

Recent international collaborations:

Aadesh Shrivastava	Akon	Global Sounds Of Peace Album[102]	28-Jan-13
Salim-Suleiman	Lady Gaga	Born This Way[103]	13-Apr-13
Priyanka Chopra	Pitbull	Exotic (Single)	9 July 2013
Sonu Nigam	DJ Avicii	Indian Levels[104]	2012

Opportunities for growing alternate revenue streams; artist management and brand-music partnerships are key

Globally, the industry continued to grow alternate revenue streams. Music-brand partnerships are increasingly coming of age, as brands find strong gains from such associations. For example, artists have been appointed as brand ambassadors (e.g Alicia Keys for Blackberry, Beyonce for Pepsi)[106] and there are examples of innovation in this space such as the Air France app – Music the Sky, launched with BETC Music, incorporating music, games, and options to win concert and airline tickets. Rapper Jay Z pre-released an album exclusively through mobile with Samsung, that went platinum even before its album release, (despite some technical glitches, given the unanticipated demand on release) with the artist preselling a million albums, and with Samsung Mobile USA seeing a tripling of views to their official YouTube channel from the previous month, with more than 51 million video views,[107] as well as a significant growth in social media buzz. Music labels are increasingly diversifying into new areas including touring, artist management, and growing synchronisation revenues in new areas such as placement in gaming, web based videos, corporate videos, film, internet and television advertisements, brand partnerships, applications and merchandizing.

There are growing examples of brands investing in music in India, which include Coke Studio at MTV, Pepsi India-MTV co branding for the upcoming Indies music channel, and several liquor and other brands sponsorships for live events and festivals such as Bacardi NH7 and Mahindra Blues Festival. The Nescafe coffee advertisement morning song featured composers Shankar Ehsaan Loy.

97. http://events.sulekha.com/asha-for-education-presents-indian-ocean-live-concert_event-in_hayward-ca_288932
98. http://www.songkick.com/concerts/19542029-avial-at-gospel-talent-contest
99. http://www.songkick.com/festivals/645659-du-world-music/id/15803099-du-world-music-festival-2013
100. http://www.europalia.eu/en/article/remember-shakti_127.html
101. http://www.songkick.com/concerts/17922434-firebrand-of-indian-music-live-in-jakarta-shankarehsaanloy-at-skeeno-hall
102. http://zeenews.india.com/entertainment/musicindia/aadesh-shrivastava-launches-album-global-sounds-of-peace-in-mumbai_127204.html
103. http://rollingstoneindia.com/lady-gaga-collaborates-with-salim-sulaiman/
104. http://www.digitalspy.co.uk/bollywood/news/a357127/dj-avicii-to-collaborate-with-sonu-nigam-on-levels.html
105. https://www.britishcouncil.org.in/folk-nations/events/
106. Rethink Music, New Business Models in the Music Industry, 26 April 2013, Berklee College of Music-Valencia Campus
107. http://www.hypebot.com/hypebot/2013/07/so-how-did-the-samsung-jay-z-partnership-turn-out.html

While India continues to be largely a song driven market, music artists are growing in recognition and popularity, thanks to the live events boom and direct to fan platforms such as You Tube. For example, tapping into the growing artist management business, Universal in India has set up an arm (universal Live) that focuses on music talent and avenues for revenue extension. Universal in India has signed up deals for many in their talent lineup (e.g Sunidhi Chauhan, Sonu Nigam, Mohit Chauhan and Shaan) to make brand anthems, advertising films and jingles.[108] Only Much Louder (OML) now manages over 1,000 independent artists.[109]

It is important to diversify your service offerings to survive in this ever-demanding and competitive world. The non-traditional revenue streams such as merchandising, events, 360 deals for an artist and other in-house branded properties are expected to be a major source of revenue for the music companies in the coming time. At Universal, 50 per cent of our revenue is generated through such mediums.

- Devraj Sanyal
Managing Director, Universal Music Group South Asia, EMI Music South Asia

Music related merchandizing in India is still a small market, with inherent limitations – but there are pockets of growth such as Universal's international music linked Bravado range of merchandize (such as T Shirts, Cell phone covers, backpacks) that has seen uptake.[110]

Going forward too, there are likely to be more instances of 360 degree deals (especially with a newer crop of artists) that enable music labels to promote artists across avenues including live shows. As direct consumer revenues from digital sales still fall behind in the scenario of declining physical sales, such avenues could bridge the gap with a win-win association with key brands and advertisers.

Unfortunately the digital business does not really earn money for non film music and with physical sales vanishing, how does a music label invest in recording and promoting new talent? So there needs to be a change in the way digital works or labels need to reinvent themselves as essentially concert organizers, for the non film music market to re-emerge.

- Atul Churamani
Head of content, OnMobile Global Limited

Challenges

Low internet speeds a dampener to uptake in digital music products and services

India still has a relatively low internet penetration rate of 17 per cent.[111] This is partially due to the higher price of broadband and mobile data connections and partially due to lower level of maturity of the internet ecosystem. Further, the internet infrastructure is not yet ready to deliver high speed internet. 3 G adoption in 2013 was slow vis a vis the anticipated growth rate. Both the advent of 4G and uptake of 3G networks (as telecom operators are expected to invest more in improving infrastructure, and with fall in prices of phones and data plans), are anticipated to improve this scenario from 2014.

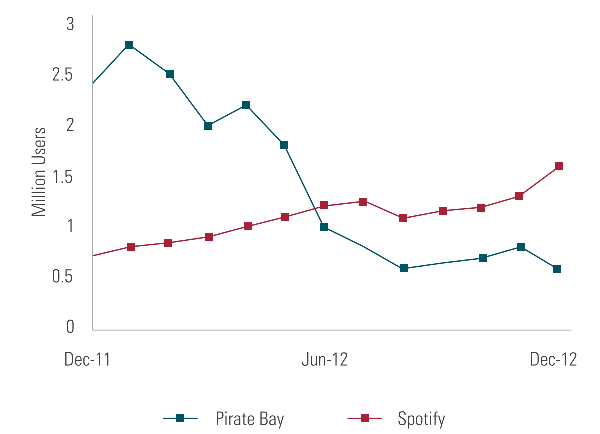
The challenge of piracy

Piracy still remains a significant challenge for the music industry in India. IFPI estimates that approximately 54 per cent of internet users access unlicensed services in India.[112] In particular, there is significant peer-to-peer music sharing that results in illegal music downloads.

Globally, legislative "graduated response" processes and measures to facilitate site blocking are some of the measures being taken to address this serious issue. Public education also plays a key role in the current digital age of enhancing awareness of respecting the artist and industry's right to royalties.

For example, access to The Pirate Bay, then the biggest unlicensed service in the Netherlands, was blocked by two ISPs following a court case, with the others following in May 2012, following which the sector has seen much better uptake of legitimate streaming services.[112]

2012 online users of Spotify vs Pirate Bay in Netherlands



Source: IFPI Digital Music Report 2013, Comscore

At the same time, we cannot undermine the role of developing propositions that deliver the right experience and quality, which can lure customers to go legitimate.

108. 'Standing Tall', Soundbox.in, 18 April 2013
109. http://m.businesstoday.in//story/independent-artist-india-india-music-industry/1/195958.html 9 June, 2013 as accessed on 1 Mar 2014
110. Discussion with Universal Music Group India Management
111. KPMG in India analysis
112. IFPI Digital Music Report 2013

For Piracy to be curbed it needs to be dealt with both pragmatically and firmly. One needs to treat the symptom as well as deal with crime and therefore it's about dangling the carrot and wielding the stick at the same time. I believe much more needs to be done on both scores and all stakeholders namely content owners, distribution platforms and the regulator/ government need to play their part and act in concert. While the former ought to ensure a great proposition to the consumer which would mean a great product experience at a competitive price offering the latter needs to deal with perpetrators of piracy as stringently as they would with other crime. Then only will we replace the ill-legit with the legit.

- Albert Almeida
Chief Operating Officer,
Hungama Digital Media Entertainment

Continued ambiguity over implementation of Copyright

A notable development in the Indian music industry was the amendment to the copyright law that mandates continued royalty payments to lyricists, singers and composers for a lifelong period (60 years).[113] Experts believe that as a part of this new law, 50 per cent of the revenues could stay with the music label, 25 per cent with the producer, while the remaining 25 per cent of the revenues may be equally split between the lyricist and the composer as royalty on any new music contracts.[114] This new law created ripples amongst industry stakeholders. We have below, a guest column by Shantanu Surpure, Managing Attorney of Sand Hill Counsel, that discusses this in more detail.

Copyright Law in India - Status and regulatory isseues

Shantanu Surpure
Managing Attorney, Sand Hill Counsel

Act: The first Copyright Act in India was passed in 1914 (an extension of the British Copyright Act, 1911). The Copyright Act, 1957 (the 'Act') has been amended five times since then.

Amendment: The recent amendments to the Act, the Copyright (Amendment) Act, 2012 (the "Amended Act") have drawn a lot of public attention due to the inclusion of progressive provisions such as 'right to royalty', 'statutory licensing' and 'exceptions for persons with disabilities'.

113. http://www.livemint.com/Consumer/NJi8F3XEI95UEt2jesmILO/Music-firms-may-challenge-copyrightlawamendments.html
114. http://entertainment.in.msn.com/bollywood/article.aspx?cp-documentid=250070212

Provisions: The Amended Act clearly states that film performers as well as the authors of certain underlying works used in cinematograph films and sound recordings have a (largely non-assignable) right to continuing royalties (for the commercial use of their performances) for the use of their works or live performances in certain circumstances regardless of the fact that they may have assigned the copyright in those works or the fact that they may not be entitled to the enjoyment of a performer's right (sections 18, 19(8), (9),(10) and 38(A)). This specifically ensures the rights of the authors of the literary or musical work in cinematograph film or sound recording to receive royalties, which would be shared on an equal basis with the assignee of copyright, for the use of the work in any form other than for communication to the public along with the cinematograph film. It has been clearly indicated that such a right to receive royalties can neither be assigned or waived through contract or otherwise.

The Amended Act has been well received by the broadcasting sector, specifically in the light of the amendments pertaining to the statutory license for broadcasting of literary and musical works and sound recording (section 31 D of the Amended Act). This provision permits any broadcasting organization to communicate to the public any literary or musical work and sound recording which has already been published by way of a broadcast or performance on a prior notice of five days, as determined by the new rules, and subject to the payment of royalties to be determined by the copyright board.

Piracy: Despite the provisions of the Amended Act, the problem of piracy of copyrighted products in India continues. Piracy problems and lack of a paying audience led to the closure of several companies: i) the Indian music streaming startup Dhingana had to close after raising funds from international investors; and ii) Flyte, Flipkart's music download service which also shut down after a year. It is estimated that music piracy costs Indian media and entertainment industry an annual loss of about US$ 4 billion which has also been noted internationally. US Trade Representatives have identified Nehru Place, Gaffar Market in New Delhi along with Manish Market, Lamington Road in Mumbai as "notorious markets" in global piracy and violation of intellectual property rights.

The Amended Act has introduced measures to fight piracy such as making circumvention of technological protection a punishable offence (65A) and removal of rights management information and its distribution without authorization illegal (65B).

Conclusion: Although artists have been pleased by the Amended Act, Indian music companies and movie producers have challenged the new provisions of the Amended Act as being unconstitutional. One of the prime concerns of the music companies has been with statutory licensing for broadcasting of literary works, musical works and sound recordings. Their argument is that the Amended Act ensures royalties for authors but it restricts revenues for filmmakers and authors by imposing statutory licensing to the broadcasting sector.

In the international context, it is being deliberated in the US whether copyright holders should be allowed to decide without legal constraint to whom they will license their content and on what terms. In Pandora Media, Inc. v. American Society of Composers, Authors & Publishers, an antitrust case currently pending in federal court in New York, the streaming company has sued ASCAP (American Society of Composers, Authors and Publishers) and some of the major record labels for "withdrawing" their content from the ASCAP joint licensing venture, thus forcing individualized negotiations. This is a leading-edge dispute which may help address the question of whether and if so to what extent owners of copyrighted digital content are permitted to refuse to deal with competing distribution channels on dramatically different commercial terms.

Shantanu was assisted in this article by Nisha Mallik, Senior Associate at Sand Hill Counsel

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

The Copyright Act has undergone profound changes but lacks a Preamble that states the purpose, reason and legal justification of copyright. Instead of clarifying the underlying theory of copyright, several controversial court decisions have led to the present chaos. What we see today is a struggle for supremacy between various concepts of copyright.

The impact of the Amendments will largely depend on three factors: an authoritative Copyright Board, an efficient, non-partisan IPRS and, last but not least, a judiciary with a historical perspective on copyright. Till date, the report card on all three is zero.

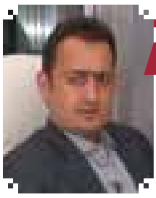
- Achille Forler
Managing Director,
Universal Music Publishing Ltd.

High acquisition costs of film music

Acquisition costs of film music, Bollywood music in particular, remain high, in the range of INR70-100 million for A+ films with superstar casts, and INR40-60 million for the next tier of films.[115] It is increasingly challenging to maintain profitability at these levels. For example, T Series is reported to have paid INR70 million for the music of Shah Rukh Khan's Chennai Express, INR120 million for Salman Khan's movies, Kick and Mental, INR50 million for Hrithik Roshan's Krrish3 and another Rs 50 million for Ranbir Kapoor's Besharam.[116]

This is one of the key reasons that we are seeing examples of both forward and backward integration in the industry. For example, T Series, Venus and Tips through film production, could get the music rights for a fraction of the cost mentioned above, and would have greater control over the same. Conversely, film production labels like UTV, Eros, Rajshri and Yash Raj Films have created their own music labels.

115. Industry discussions by KPMG in India
116. 'After Tips and Venus, T- Series abstains from purchasing music rights', 23 Oct 2013, Mumbai Mirror

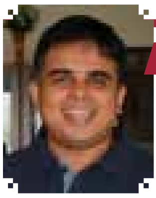


The cost of content acquisition is high due to rapidly increasing rates of intellectual property. Currently the cost of acquiring a music rights for a big budget movie has increased by nearly 50 per cent and double in some big ticket films with A list actors over the last year. Given the lifecycle of music album which is about 3-4 years, the challenge is around cost recovery/ break-even as it takes approximately 3-5 years to cover the cost incurred on acquisition and promotion of a particular album.

- **Vinod Bhanushali**
President, Marketing, Media and Publishing (TV)
Super Cassettes Industry Ltd

Payment mechanism

With less than 2 per cent penetration of credit cards in India,[117] absence of easy payment systems has been an obstacle to growth. Most transactions for music would be in the sub INR100 category. Integration with telecom billing becomes one alternative. There are some startups in India which are looking at alternate payment models, which are offline or SMS based, ad integrated with telco billing – developing robust and easy mechanisms for the same could be key.



Digital music currently faces challenges around many issues like availability (not many digital stores or streaming sites), awareness (that digital content is affordable and easily accessible) and payment (lack of smooth payment mechanisms for purchase of digital goods). The Indian consumer is slowly exhibiting the propensity to spend on digital music since the affordability & convenience of legitimate music is being preferred to the pain of looking for pirated content.

- **Vijay Basrur**
Founder, OK Listen

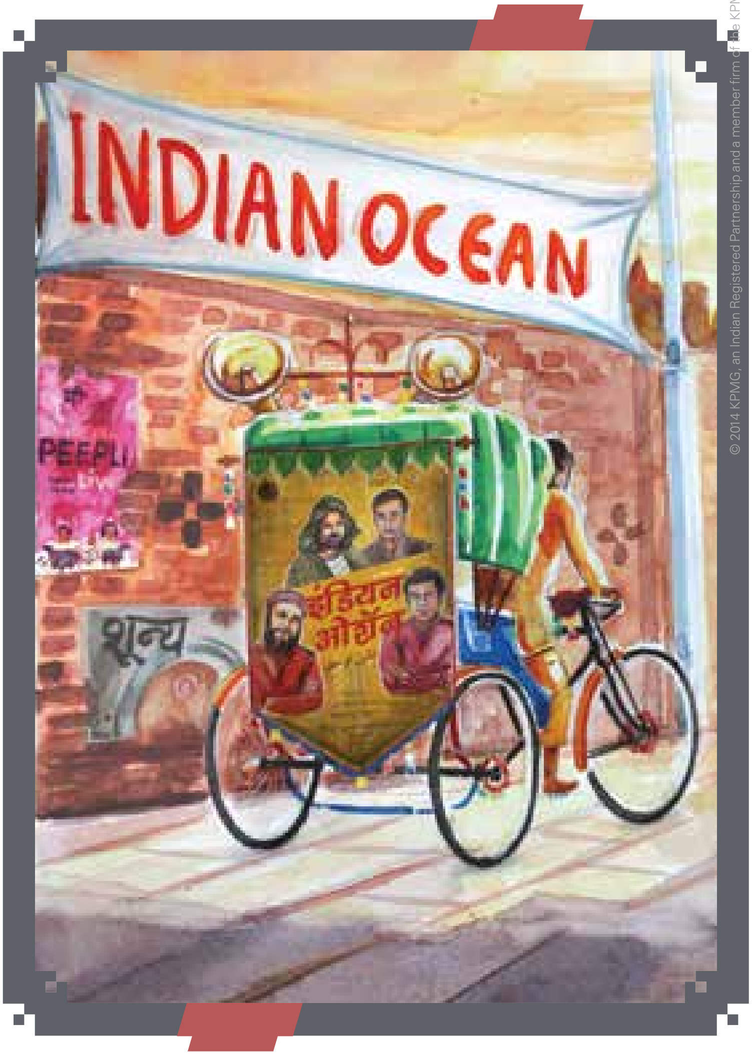
Critical Success Factors

Getting "value" of music from a digital consumer

There is an increased danger, of the digital generation getting habituated to free music in an ecosystem propped up by advertisers, telecom operators and device manufacturers. The challenge then, is how to shift to a more subscription based ecosystem.

When given unlimited access to millions of songs at a click, experience has now become the product for most consumers. This then calls for different capabilities from the music industry –with a focus on convenience to customers, social media integration, and simplicity and flexibility across the lifecycle. In particular, the leanback customer, (looking for a more passive experience in an environment with multiple gadgets and media competing for attention), needs to be addressed through curated content, and recommendations based on usage patterns and intuitive/current themes.

This also requires the right investments in background systems for content digitization and meta tags, and for gathering intelligence and building that into product design. Digital platforms enable discovery of the 'long tail' of content, but it requires proper tagging and intelligent search for building up rich meta data. For example, the Indian consumer searches for songs by actor not just artist; further there is high potential for phonetic misspelling when searching for songs not in English, this had to be borne in mind by online music services here. In the physical sales context, this is also an area requiring special attention, where retail employee knowledge and capability to source and recommend, based on user profile and requests is increasingly difficult in large format stores. The model below offers an illustration of the key requirements across the customer lifecycle.



117. http://www.paymentsjournal.com/Content/Featured_Stories/16443/

Critical success factors across the customer lifecycle

Discover	Purchase	Listen/experience	Share	Store	Repeat purchase
Finding the music I want • Ease of activation of services • Collaborations to build depth and relevance of repertoire • Simple design for minimal clicks • Proper meta tagging • Intelligent search systems • Making customized offers • Alerts	**Ease of payment** • Flexible/ hybrid package options • Segmented pricing	**On the go** • Access across devices	**Talking about experiences and discoveries, recommendations** • Integration with social networks • Reviews	**Develop and organizing library** • Playlists • Cloud Integration	**Repeat purchase** • Loyalty programs • Upgrading through value packs • Ongoing communication • Customer service
Discovering music I didn't know I wanted • Offer sampling opportunities • Recommendations based on music preferences and usage based on intelligent technology • Grow alternate discovery channels • Content curation	**Security of payment**	**Amplified experience** • Access to artists • Value added services • Linkage with events • Collectibles	**Connecting with those with similar musical preferences** • Development of online and offline communities and fan base		
		Leanback experience • Content curation • Recommendations • Product bundling – including RBT, downloads, and other services • Seasonal or popular themes			

Source: KPMG in India analysis

The consumers of today are looking for leanback experiences, which focus on creative curation, intelligent technology to offer relevant recommendations, and value added experiences. For revenues to shift from an OEM or ad supported model towards a greater uptake of consumer paid subscription services, these features will be key.

- Shridhar Subramaniam
President,India and Middle East,
Sony Music Entertainment

Customer segmentation

India is a fragmented market, with several categories of consumers with distinct needs and affordability, ranging from an early adopter urban smartphone user to feature phone user looking for bite sized packages. Defining target segments and adapting products and services becomes key. For example, while youth is a significant driver especially for digital channels, globally, there has also been widespread adoption of streaming services in the age group 35-44, with 28 per cent penetration (vis a vis 38 per cent for the age group 16-24) and given the purchasing power of this segment across digital channels and live events, it is increasingly, a segment of focus.[118]

118. Building the new business case for Bundled Music Services, MiDiA consulting, report commissioned by Universal Music, July 2013

Collaborations

The future of the sector lies to a large extent in how players across the value chain, collaborate within and outside the industry to design, build and offer products and services to the consumer. For example, as discussed earlier, bundling with devices is becoming one key area requiring partnerships. Secondly, collaboration to aggregate and offer a wider and relevant catalogue is another area. Working outside the industry, with brands, with live event organizers, with device and platform owners, can be key to ensuring wider reach for artists.

Discovery of new talent and Marketing

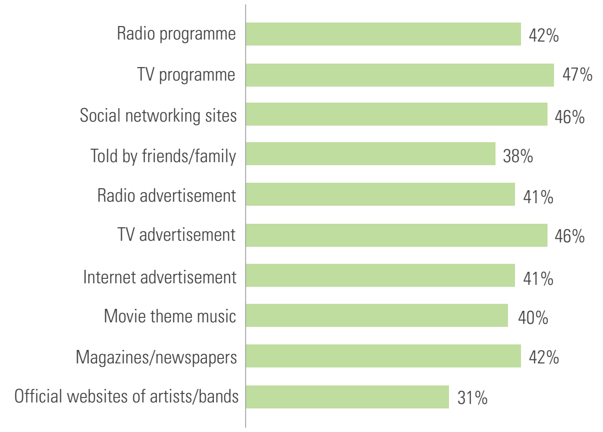
A&R (Artist and Repertoire) is a function integral to the growth of the ecosystem, and reduced dependence on film music. Talent shows and TV music based shows and contests have been a feeder for discovery. Social networks also produce viral hits or indicators of artists fan base, that mostly reduce risks associated with these decisions. Yet a lot more is required for discovery of talent at a grassroot level; exploring new sounds, and then taking the right risks to invest in new faces. With the rising acquisition costs of films, music labels are increasingly looking at non film avenues, and are hence investing more in discovering independent talent. The 1990s saw the birth of a whole crop of Indipop stars, from Baba Sehgal to Alisha Chinai, backed by music labels and snazzy music videos.[119] With growth in avenues for monetizing talent across live events and digital streams, the time may be ripe again for investments in talent across production, video and gig support, promotion and marketing.

With respect to marketing, social media is a powerful tool for referral based marketing. Independent and new artists also rely on social media buzz for album and live event promotion. The youth today is very active across social media, and likes to engage closely with friends, fellow fans, and artists, to chat about music trends, 'share' and 'like' music preferences that might reflect his tastes and profile.

For example, A R Rahman, Sonu Nigam, Shreya Ghoshal, Asha Bhosle and Lata Mangeshkar are among the top Indian celebrities on Facebook and Twitter w.r.t. fan following.[120]

At the same time, traditional media such as television and radio are key sources for discovery of new music in India. Investments in promotion through these channels is still critical. For example, the growth of the Punjabi film and non film music segment is also fuelled by the viewership garnered across multiple Punjabi music TV channels.[121]

Top 10 sources of discovering new music in India



Note: Based on an online survey conducted in April 2012
Source: Ipsos Global @dvisor: Music Matters 2012

The challenge today is marketing of music. The mass media does not support any music outside of film music so all other categories have to find cost effective ways of reaching out to the consumer. Indie music has started attracting more and more sponsorship for concerts and festivals. One hopes that this will translate over time into the media as well so that there is a robust market segment for all categories of music.

- Atul Churamani
Head of Content,
OnMobile Global Limited

Conclusion

The music sector, is a key contributor to the entertainment economy and could in turn, be a driver for growth in areas such as VAS and movie promotion. Digital disruptive changes have brought the sector to the cusp of change. While declining physical sales and CRBT revenues have shrunk revenues; the digital streams open up new possibilities. Royalties from broadcast, and out of home events is also assessed to grow at a rapid pace going forward.

The industry's success is underpinned on its ability to grow the subscription segment, offering customers ease of access and services they seek at flexible price points. Those sites that can engage with the customer to enhance stickiness, could stand out better in the clutter. These are still early days for the digital models – with time and datamining, could come better understanding of consumers, workable business models, and technology that can be leveraged for the same.

119. en.wikipedia.org/wiki/Indian_pop, accessed on 01 Mar 2014
120. http://www.indiancelebsontwitter.com/# and https://www.facebook.com/celebrities.face2face/posts/431943796890688
121. Industry discussion by KPMG in India

08

Animation, VFX and post-production

Creating magic!

Overview

Size of Animation, VFX and post-production industry in India

(Amounts in INR billion)

Segments	2009	2010	2011	2012	2013	CAGR 2009-2013	Growth in 2013
Animation services	5.5	6.2	7.1	7.6	8.0	9.8%	5.3%
Animation production	3.7	3.9	4.2	4.5	4.7	6.2%	4.4%
VFX	3.1	4.5	6.2	7.7	9.3	31.6%	20.8%
Post-production	7.8	9.1	13.5	15.5	17.7	22.7%	14.0%
Total	**20.1**	**23.7**	**31.0**	**35.3**	**39.7**	**18.5%**	**12.4%**

Source: KPMG in India analysis

2013 saw glimpses of what the Indian animation and VFX industry has sought to achieve - the release of probably the most expensive Indian animated movie Mahabharat costing around INR500 million[1] which also saw the highest opening day collection for an animated movie in India[2], introduction of policies by a few state governments to boost the sector and a lot of players venturing into multiple revenue streams with the advent of digitalisation, including 3D conversion, restoration of old classics and the use of IMAX technology. The impetus of visual effects was not only restricted to films; it also found way into some big budget serials and television commercials. These positive developments were partially negated when the underlying struggle in the industry came to the forefront with the fall of big names like Rhythm and Hues and Digital Domain, retrenchment by some big players like Crest, as also the inability of the animated movies to recover costs at the box office. The performance of the animation industry was more flat, whereas VFX and Post-production grew.

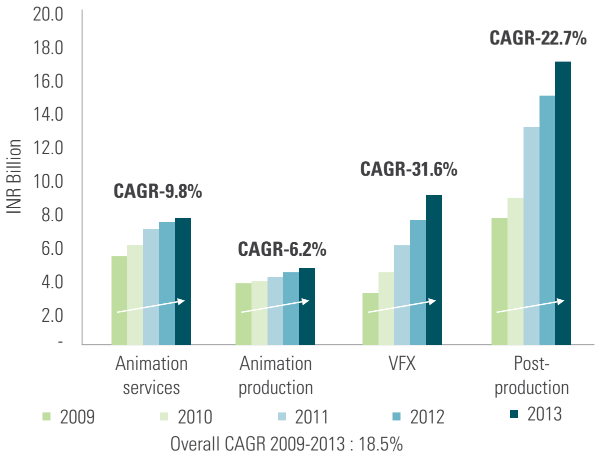
Animation revenues include revenues from work outsourced to India (animation services) and from locally created animation movies and animation in commercials (animation production).

VFX revenues include revenues generated from works/ effects/segments/shots etc. created for producers of domestic and international movies, television serials, advertisements and other mediums.

Animation service models

The animation entertainment service models lie along different parts of the value chain. Depending upon the service model that a player adopts, he can be present across the value chain or in certain specific parts of it. Players also adopt multiple service models, for e.g. the same player may operate on 'service delivery model' and 'co-production model', varying from one deal to the other.

Size of Animation, VFX and Post production industry in India



Source: KPMG in India analysis

Animation service models

Service model	Description
Integrated Studio - Own Content	Units that enable production and development of all aspects of an animated product, from conceptualisation to post-production stage. Full ownership of content, share in collections, royalty for all licensing and merchandising.
Integrated Studio - Offshore Facility	Indian entities provide services for activities outsourced to them.
Co-Production	Animation companies in India are moving up the value chain, from providing piece-meal outsourcing services to exploring the co-production model. Typically, the Indian studios bring the manpower and infrastructure to develop the animated content and the international producer will finance the marketing, distribution, etc.

Source: Industry discussions conducted by KPMG in India

01. www.funrahi.com
02. www.animation-boss.com

The Indian animation industry has come of age and has certainly gone up the value chain. There has been a clear shift from the traditional outsourcing model to that of creating and owning Intellectual Property. The industry is now also churning out content from start to finish – that is from concept/creative to the final product.

- Nina Elavia Jaipuria
EVP and Business Head – Kids Cluster
Viacom18 Media Pvt Ltd

Indian Animation at the cross roads

The year saw fewer number of Indian animation movies release in theatres as compared to the previous year. Also, the box office collections were nowhere near recovering the production cost incurred for making these movies.

Indian animated movies in 2012-13 with production budgets and box office collections

in INR millions

2013 movies	Studio	Budget	Box office collection - net[3]	2012 movies	Studio	Budget[4]	Box office collection - net[3]
Mahabharat	Pen India Pvt. Ltd	500[4]	14	Delhi Safari	Krayon Pictures and People Tree Films	250	15
Chotta Bheem and the Throne of Bali	Green Gold Animation	124[5]	43	Chotta Bheem	Green Gold Animation	40	33
Main Krishna Hoon	J.C.Film Vision	NA	3	Sons of Ram	Amar Chitra Katha	50	2
				Krishna and Kans	Reliance mediaworks	NA	9
				Arjun - The Warrior Prince	UTV motion pictures	300	15

The year also saw a large number of start-ups spring in the country; however, many of the big animation studios reduced their staff to half or less than half. A few studios also called it quits in the current year and the industry professionals estimate that while new ones did come up, their numbers were not necessarily enough to replace the ones that shut down.[6]

03. www.funrahi.com
04. www.beekays.com
05. www.animationxpress.com
06. Industry discussions conducted by KPMG in India

Key trends

Intellectual Property ('IP') creation on the rise

Local IP creation has picked up momentum in the industry, thanks to a few success stories like the 'Chhota Bheem' series. The established studios are also attempting to source local content – for e.g., Nickelodeon, inspired by the success of the mythological serial 'Little Krishna', is looking to expand its local content library. Growth in original local animation content is expected to get a further boost from Indian comics players who are looking to monetise their content libraries by creating market presence in TV programs. A key driver for this is the rising number of hand-held devices like tablets, smartphones and consoles that have opened avenues for interactive content, and maturity in the relationship between the telecom companies and content developers.

> Today, India has the third largest TV households globally. The world of children's entertainment in India has been experiencing nothing short of a historic breakthrough. After decades of unparalleled dominance by International characters, it is the Indian animated characters like 'Chhota Bheem', 'Roll no.21', 'Little Krishna', 'Mighty Raju', 'Motu Patlu' etc. which are dominating the Indian Television space. But its a different story for Indian Animation movies at the Bollywood box office. Most local animated movies have failed to make an impact. What India needs is consistent efforts in this space.
>
> **- Rajiv Chilaka**
> Founder & Managing Director,
> Green Gold Animation Pvt. Ltd.

Increased use of animation in TV advertisements

The Indian TV advertisement industry size is expected to increase from INR136 billion in 2013 to INR253 billion in 2017 at a CAGR of 13 per cent.[7] As the advertising industry grows, it is expected that the share of animation driven advertisements will also grow. Animated advertisements usually strike a better chord with the target group of children and young adults, it can be easily understood and related to by audiences, irrespective of language and cultural barriers. Some of the recent examples in India are the boy and girl character in the FANTA commercial, Candyman from Crème Lacto and Chinta Mani from the ICICI prudential commercial. Moreover, animation commercials often result in significant cost savings compared to advertisements with celebrities, making another point for their increased usage.

07. KPMG 2013 FICCI report, The power of a billion

Demand for skilled workforce

There is a significant demand for highly skilled and trained workforce that merges technical and artistic capabilities in the field of animation. Drawing skills, design and layout, observation of live-characters, animation techniques, understanding cartoons and caricatures, creating different moods and feelings in characters are some of the skills which can be acquired either through a formal training animation program from reputed institutes or by carefully following the trends and techniques used abroad. The industry has opened up a plethora of opportunities for skilful aspirants. One can work as a character designer, compositor, digital link and paint artist, key frame animator, 3D modeler, layout artist, etc. Not only are there animation jobs available in the motion picture industry, there are several other fields that they are valued in as well-cartoon production, websites and video game manufacturers all use animation artists. There is also the opportunity of freelance work particularly for web animation.

> The content processing industry is extremely talent dependent. Thereby, hiring needs to be an anticipative strategy, not a reactive or even proactive one.
>
> - **Naresh Jhangiani**
> President - Operations, Creative and Media Services
> Reliance MediaWorks

State Governments' and other associations' initiatives for the sector

- **Animation, Visual Effects, Gaming and Comics ('AVGC') policy:**

  Karnataka became the first Indian state in early 2012 to unveil a policy for the AVGC sector, recognising its growth potential. The policy's salient features include focussing on bridging the demand-supply gap for people in the sector, attracting global companies in the field, capturing a larger share of outsourced international AVGC work and facilitating a legal framework for IP creation and protection. In addition, the policy envisages an environment that promotes growth of indigenous digital content, education and entertainment for masses, and the setting up of a center of excellence with state-of-the-art facilities. The policy acts as a catalyst for the industry and for developing AVGC parks similar to a special economic zone model.[8]

State Funding and Assistance[8]

Amount to be raised: INR540 million
Finishing academy and incubation center: INR100 million (State Government contribution 20 per cent)
Post production and DI facility: INR60 million (State Government contribution 20 per cent)
IP creation: INR10 million
Digitisation of 10 art schools: INR0.1 million for each school

- **Gaming, Animation, Media and Entertainment ('GAME') city:**

  Andhra Pradesh is also giving the gaming and animation segment a new thrust, seeking to build a 'GAME City' in Hyderabad on the lines of the Dubai Media City and Media City U.K. in Manchester. It is expected to have several IT offices, academic institutions, an incubation centre and plug-and-play built-up office space for entrepreneurs. With a view to promote local animation films and content, efforts are under way not only to create a venture capital funding mechanism and extend seed capital assistance but also to provide fiscal incentives and subsidies on production cost, lease rental, stamp duty, electricity, staff cost and reimbursement of Input Value Added Tax ('VAT')/Sales tax/Central Sales Tax/Andhra Pradesh General Sales Tax for products/films/ services made in Andhra Pradesh. The companies would also get recruitment assistance for employing a minimum of 100 employees within a year of beginning commercial operations.[9]

- **Annual Graphics and Animation Film Awards ('AGAFA'):**

  AGAFA is a new initiative of the Society for Animation in Delhi ('SAID'), instituted in 2013 with the objective of encouraging quality and creative production of Animation and related arts. The awards are given on the results of an annual competition in the field of thematic Graphic Design, Digital Painting and 'Animation with a purpose'. The Jury is independent and selected from among eminent arts personalities in these fields.[10]

Key challenges

Lack of government initiative in India versus benefits provided by other countries

Overseas animation markets such as Malaysia, China and Philippines are turning out to be more attractive destinations than India for outsourcing work due to the advantage of the many Government driven grants and incentives.

For example, the Malaysian Government provides various incentives such as:[11]

08. www.bangaloreitbt.in
09. abstract of Andhra Pradesh GAME policy 2014-2018, www.aponline.gov.in
10. www.agafa.in
11. www.gcma.tv

- Content funding support which includes support for documentaries and films production (local or co-productions).
- Incentives and financing – through cash rebates, entertainment tax rebates and creation of an investment arm to spur Malaysia's creative industry via strategic and innovative funding in the form of equity or debt investments.
- Market Export Support – In order to assist SMEs to expand to overseas market, the Government of Malaysia through the Market Development Grant ('MDG') provides grants to companies to partially defray the high cost of export promotion.

On similar lines, the Chinese government has announced preferential VAT and Business Tax ('BT') policies beginning retrospectively on January 1, 2013 where animation enterprises are subjected to 17 per cent VAT rate for the domestic sale of self developed and manufactured animation software. The export of animation software is VAT exempted at 3 per cent; BT rate applies to animation enterprises providing certain services.[12] The Indian animation industry could benefit considerably from Government support through measures such as reservation of a certain number of hours of domestically produced content on channels, tax benefits and treaties.

India needs to position itself as a key Asian co-production partner in the AVGC sector in the global market. This will need a few key policies to be implemented on a war footing, such as Co-production treaties, Strong Indian presence at global content markets, Kids Media Development Fund and Kids Public Service Broadcaster (DD-Kids). These overdue policy initiatives will also boost export earnings, generate employment and revitalise the industry.

- Munjal Shroff
Director and CEO,
Graphiti Multimedia Private Limited

Lack of universal storylines

The lack of universally accepted storytelling techniques is further making Indian animation a distant dream. Apart from improving quality of animated films, filmmakers need to create characters that are loved by the Indian audiences, moving probably beyond mythological characters. However, the challenge with the industry is the divide between the storyteller, producer and studio. Indian filmmakers and audiences still may need to mature to become a serious market. India is far behind international standards on the ideation side. Though Indian filmmakers are just beginning to produce content that is finding wide favour with Indian audiences, it is still at a very nascent stage in writing stories that can be understood by the entire world; however it is at par with international standards in production. The content which is consumed by the western world and India are very different, the world does not identify with Indian content as the stories are complex and the story telling also is complex, even though the biggest market for animation is based in India. On the other hand, the stories told by the American studios are simple and universal. Probably use of characters that generation next relate to could help drive more Indian audiences to the theatres.

IP Protection

Rampant piracy within the distribution channel eats into a major share of revenues for the producers and distributors. This along with slack IP laws and weak enforcement serves as a deterrent to animation players in India to produce their own IP.

AVGC dilemma

Ashish S K,
Co-Chairman,
FICCI AVGC Forum

Animation in India began about 15–20 years ago with the production of a commercial 2D cell animation. Since then, India has evolved into one of the most coveted global animation destinations. To ensure sustainable growth, animation education and artistic education on the whole should be restructured in India since this is a creative industry. Scaling up and nurturing talent has so far been an uphill task as most of the career options in India are targeted towards science and commerce streams. Even today we do not have artistic and performing arts as subjects in school curricula. Students and parents find it difficult to choose artistic, creative and performing arts as mainstream career options because of the lack of adequate opportunities in these fields. Even the universities at large found animation difficult to understand and they have always tried to place it among engineering and technical subjects whereas its true place is in the arts, storytelling and film-making divisions. Animation, visual effects, gaming and comics (AVGC) as an industry has the potential to provide valuable career options to talented Indian students; the need of the hour is to alter basic education to make it more artist-friendly and design and promote professional courses in animation and gaming by universities.

Even from a policy perspective, AVGC as a sector has been placed under the IT and ITeS. Hence, India has been positioned as one of the most sought after service providers in animation, gaming and visual effects categories by some of the major American and European studios. Moreover, this sector has been covered

12. www.chinabriefing.com

under STPI and continues to enjoy benefits under the scheme for outsourced work. In the present environment, original IP creation has not received any support either from policymakers or the industry per say in terms of global marketing and distribution. India's animation content buying price points by broadcasters are also not encouraging enough to create original IP. It is important to understand that original IP creation would lend a distinct character to India's animation industry and put India on the globe besides stabilising the animation ecosystem. We need to sincerely address the challenges around building sustainability and workable business models with respect to original IP creation in the country to make the Indian content relevant for the global audience. The lack of co-production treaties with countries that produce animation also serves a roadblock in promoting Indian content and the overall animation industry globally. The signing of the Indo-Canadian audio-visual co-production treaty on 24 February 2014 may mark the beginning of a promising era.

To add to the challenge in a live action-dominated country, animation content has a default position in India as kid's genre, which hampers the building of distribution systems and revenue streams. Moreover, India does not have TAM rating for audience below 4 years, which is a popular pre-school genre worldwide. If we have an opportunity to include this category, we can explore a huge opportunity of cutting edge TV shows, building preschool character brands, licensing and merchandise.

Despite these challenges, we have been able to make significant progress in the past decade by providing university programs and creating a vocational skills assessment and certification process by establishing national occupational standards (NOS) under FICCI Media and Entertainment Skills Council, which is under the National Skills Development Council.

Though a majority of revenue today comes from outsourcing services in the AVGC sector, we have witnessed significant growth in the original IP in the past four years, especially through television broadcasting and mobile gaming. While feature films and console gaming are yet to mature, proper marketing and distribution support and strong national and state-level policies would go a long way toward ensuring growth of the Indian animation industry in outsourcing and original content creation domains

Disclaimer : Unless otherwise noted, all information included in this column/ article was provided by the author – 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.

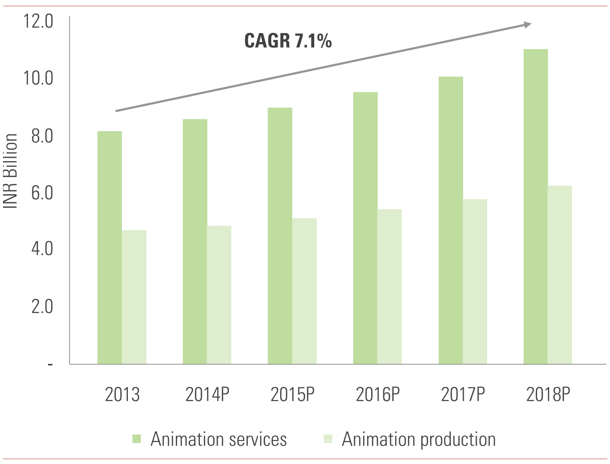
Looking ahead

(Amounts in INR billion)

Segments	2013	2014P	2015P	2016P	2017P	2018P	CAGR% 2013 – 2018P
Animation services	8.0	8.4	9.1	9.8	10.7	11.6	7.8%
Animation production	4.7	4.9	5.1	5.4	5.8	6.3	6.0%
Total	**12.7**	**13.3**	**14.2**	**15.2**	**16.5**	**17.9**	**7.1%**

Source: KPMG in India analysis

Animation industry future projections



Source: KPMG in India analysis

Animation, unlike the IT industry, invloves creativity and technology; it has seen three growth cycles in India. Initially, low-end volume work was what was largely coming to India. Subsequently, many companies came into play, thereby creating employment opportunities and demand for manpower in this space resulting in advent of the animation education and churning out of students.

The animation industry is entering into its third phase where some of the animation companies are also sharing the risk by owning IP as against a pure services play.

Industry professionals believe that if the industry has to grow in a broad based manner, some changes are imperative:

- Promotion of domestic content in television, cinema theatres etc. coupled with specific incentives
- Incentives (tax breaks, subsidies, etc.) for companies in the outsourced services space and also for those involved in local IP creation using local talent
- Setting-up of quality training institutions.

Conclusion

With India losing quality work to Kuala Lumpur, Beijing and Manila and with animation experts blaming it on poor funding and the policy framework, animation companies may have to design different structures to deal with the challenges. With no dedicated governing body, the animation and gaming industry continues to be under the generic National Association for the Software and Services Companies ('NASSCOM'). There is a lot of potential in this industry but a few fundamental problems need to be resolved first, which can go a long way in propelling the industry to the next level.

The Indian animation industry is on a growth trajectory given not just the talent pool and lower costs but also the treasure trove of Indian mythology and folklore that can be retold through a new age medium. We also have to graduate from providing slave labour for international animation product to producing our own content, and that would drive the future of the animation industry.
Even as we are gearing up to open an animation studio in Bangalore by the end of this calendar year, setting up a gaming studio in Hyderabad is also a possibility given the distinct advantages it offers including a large pool of talent.
International TV channels that now have a stronghold in the Indian market have started realising the need for domestic content to reach out to their audience and the demand for local content is growing rapidly vis-a-vis international programming.

- Ketan Mehta
Managing Director,
Maya Digital Studios

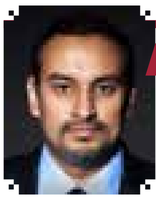
The new era of digital content economy is a reality, our policies have to be in sync with the evolving needs and culture of this digital eco-system. Original Intellectual property creation in Animation, Gaming & Comics in India is proving to be the stabilising factor and consolidating the industry way forward. Emerging modules and understanding of focused Asian Co-production, alongside the other European & North American co-productions in Animation is a welcome sign and an eye opener for most of the stake holders in the Animation, Gaming & Comics sector.
We have to work hard towards bringing co-productions in this space with Latin American, African, Caribbean, Middle Eastern & Australian sub continents also.

- Ashish S K
Co-Chairman,
FICCI – Animation, VFX, Gaming and Comics Forum.

VFX and post production - rise of a new horizon in the Indian media industry

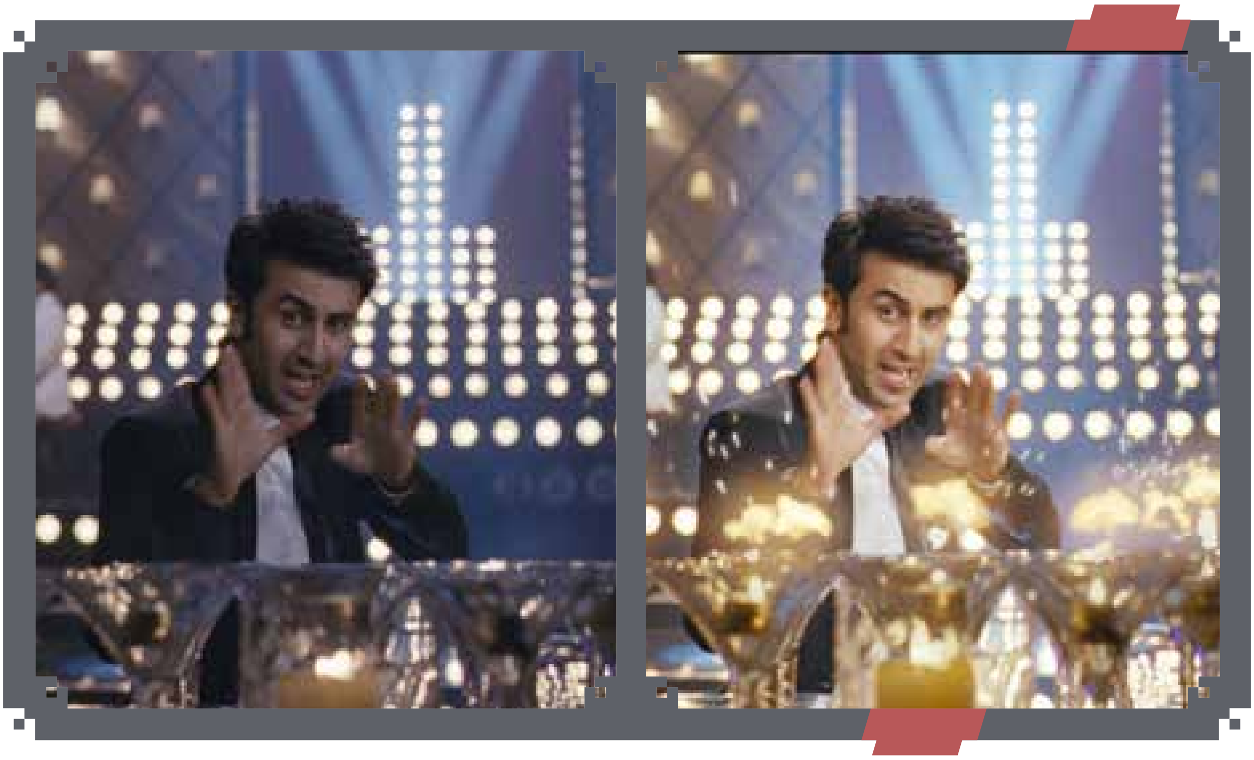
Overview

In recent years, the Indian media and entertainment industry has seen a rapid increase in the use of visual effects ('VFX') in mediums such as films, television and advertisement. The domestic market is seeing bigger budgets for VFX in films, television shows and advertisements in order to provide an enhanced visual experience to viewers.



Filmmakers are increasingly relying on visual effects and stereo 3D for creating compelling movie experiences. In India, as well as overseas, we see this trend catching up as it is hugely box office friendly too. The action genre and super hero obsession are leading to visual effect heavy projects increasingly coming our way. The time may not be far when we may not have to shoot our films anymore. Visual effects and stereo 3D may take care of storytelling completely.

- Namit Malhotra
Founder, Chairman and CEO,
Prime Focus World



2013 was a good year for the VFX industry as almost all top grossers had substantial use of VFX. In Dhoom 3 for example, the digital characters for vehicles and two-wheelers using computer generated imagery ('CGI') were created for various high-octane action scenes to look real, which also included a 3D water jet ski and fast-paced bike riding shots. The movie also became the first Indian movie which was digitally re-mastered into the image and sound quality of the IMAX Experience® with proprietary IMAX DMR ® (Digital Re-mastering) technology.[13]

'Krrish 3' is also a testimony to the increasing use of VFX in Bollywood where a large number of shots in the film utilised VFX such as the entire plane sequence capturing Marine Drive and Wankhede Stadium in Mumbai.

With never seen before effects, KRRISH 3 has become the benchmark Indian film for the VFX Industry. It's one of the most challenging & complex Indian VFX project executed in the Indian cinema.

- Keitan Yadav
Chief Operating Officer,
Red Chilies VFX

13. www.imax.com

Add to this the train sequence of 'Chennai Express' which was mainly shot in the studio with green screen, the train pulling into a station in early morning, to transitions such as the day turning into evening on the mobile phone screen, the train entering into a tunnel in the evening with the headlight of the train transforming into a beautiful full moon revealing the landscape at night etc. were master shots created using visual effects. Similarly for 'Goliyon Ki Raasleela Ram-Leela', the studio ensured with the help of grading technique that the scenes had the right textures and tones throughout with specific contrast and colour set-ups.

The use of VFX is not restricted to big budget action movies like 'Dhoom 3' or 'Krrish 3', even low-budget and non-action oriented movies owe a lot to the magic of VFX. For example, the shot in 'Aashiqui 2' where actor Shraddha Kapoor is shown facing a roaring crowd at a concert, was shot in an empty stadium and similarly, the bridge scene in 'Gori Tere Pyaar Mein' shows a simulated gently flowing river.

Top 10 Bollywood grossers (domestic collection net) of 2013 and 2012 with number of VFX shots

2013 movies	Box office collection INRmillion[14]	VFX partner	Number of VFX shots (approx)	2012 movies	Box office collection INRmillion[14]	VFX partner	Number of VFX shots (approx)
Dhoom 3	2,803	Tata Elxsi[15]	1,500	Ek Tha Tiger	1,980	Tata Elxsi[15]	1,062
Krrish 3	2,405	Red Chillies VFX[19]	3,500	Dabangg 2	1,585	Prime Focus[15]	950
Chennai Express	2,267	Reliance Mediaworks[16]	1,300	Rowdy Rathore	1,310	Reliance Mediaworks[16]	600
Yeh Jawaani Hai Deewani	1,900	Prime Focus[17]	300	Agneepath	1,230	Pixion Studios[15]	1,600
Goliyon Ki Raasleela Ram-Leela	1,100	Reliance Mediaworks[17]	750 plus	Jab Tak Hai Jaan	1,207	Red Chillies	NA
Bhaag Milkha Bhaag	1,035	Pixion Studios[15]	160	Barfi	1,200	Pixion Studios[15]	500
Grand Masti	1,025	Pixion Studios[15]	500	Housefull 2	1,140	Prime Focus[18]	237
Race 2	1,020	NA	NA	Son of Sardar	1,050	Pixion Studios[15]	3,800
Aashiqui 2	854	Prime Focus[15]	107	Bol Bachchan	1,020	Pixion Studios[15]	600
Special Chabbis	700	Imaging Labs	NA	Talaash (14)	930	Pixion Studios[15]	400

14. box office collection from www.koimoi.com;
15. www.animation-boss.com
16. www.animationxpress.com
17. Industry discussion conducted by KPMG in India
18. www.primafocusgroup.com
19. www.entertainment.oneindia.in

The year saw an interesting trend wherein the ratio comparison of VFX shots between small as well as big-budget movies was comparable. Most movies today tend to use VFX in some form or the other.

The VFX in Bollywood movies is generally applied in the post-production phase and except for a few like 'RA.One' or 'Krrish 3', it is not a design element in the narrative process. In contrast to this, the movies produced in the South (of India), and VFX is a creative tool for innovative storytelling as evident from blockbusters such as Kadal, 'Vishwaroopam', 'Eega' (Makkhi), 'Enthiran' and 'Magadheera'. In fact, S S Rajamouli's under production 'Baahubali' is touted as one of the most expensive films ever made in India with never before heard budget for its visual effects, probably in excess of INR800 - 850 million.[20] It is being said that the team is going to create almost two hours of environment for the film. The VFX team will create, extend and enhance the fictional kingdoms, forts and palaces in all their glory, apart from creating beautiful landscapes, several realistic action sequences including those involving animals, for this period extravaganza.

Emerging trends

2D to 3D conversions

In Hollywood, re-release of old classics after conversion into 3D formats is on the rise – for example, 2013 saw the release of 'Jurrasic Park 3D' which opened at fourth place in North America, with USD18.6 million from 2,771 locations, while IMAX showings accounted for over USD 6 million, with the 32 per cent being the highest IMAX share ever for a nationwide release.[21] The international release had its most successful weekend in the last week of August, when it managed to top overseas box office collections with a USD 28.8 million debut in China.[22] The reissue earned USD 45.4 million internationally,[23] making it the 17th film to reach USD 1 billion and ranks as the 13th highest-grossing film of all time.[24] This suggests a strong business case for 3D re-releases of old hits, given the relatively lower conversion costs (<USD10 million-20 million).

"With filmmakers becoming more aware about stereo 3D techniques to achieve their creative vision, visual entertainment services have emerged as an entire game-changing facet of film production. The whole experience of visual entertainment is enhanced with increased demand for content and growing comfort of production houses for conversion of 2D to 3D format."

- Merzin Tavaria
Co-founder and Chief Creative Director, Prime Focus World

20. www.indianexpress.com and www.bollywoodhungama.com
21. Subers, Ray (April 6, 2013). 'Weekend Report: Audiences Thrill to 'Evil Dead,' 'Jurassic Park 3D'. Box Office Mojo. Retrieved May 6, 2013
22. Clintock, Pamela (August 25, 2013). "Global Box Office: 'Jurassic Park 3D' Clobbers the Competition, Huge in China". The Hollywood Reporter. Retrieved August 26, 2013
23. www.boxofficemojo.com
24. White, James (23 August 2013) "Jurassic Park Joins The Billion Dollar Club". Empire. Retrieved August 26, 2013.

The India Story: 2D to 3D conversion for classics begins with most iconic film - 'Sholay'

Maya Digital Studios successfully converted the biggest blockbuster of its time 'Sholay', from 2D to Stereoscopic 3D. It may be pertinent to note that not only was the movie 38 years old, the negatives had faded and had to be restored, it required colour correction, several portions had to be painted and touched-up using various softwares and many manual processes. It was only after this restoration process that the film was ready for 3D conversion. The task on hand of 250 artists involved in the conversion process can be imagined from the fact that one second of filmed footage is 24 frames, and the length of the film is 198 minutes. So essentially, the 2D to 3D conversion of 'Sholay' meant conversion of 285,120 frames converted to transform 'Sholay' to 3D. This was followed by creation of a depth map, which indicates what is near the screen and what is far away. With the help of the depth map, a 3D environment was created, and a third dimension was given to the image. This combined with other processes like adding of colours, placement of objects in frame along with creative insights made for an interactive movie watching experience.[25]

However, re-release of Hindi films in 3D format does not seem to have picked well in the Indian market - 'Sholay' 3D with a cost of conversion and re-release budget of approximately INR220 million[26] could collect only INR110 million[27] at the box office.

Digitalisation and Restoration of old Indian films for re-release

Some years back, the process of digitalisation of and restoration of old hindi movie classics commenced with 'Mughal-e-Azam', followed by 'Hum Dono' and 'Jaane Bhi Do Yaaro'. 2013 saw release of yet another classic, 'Chashme Buddoor'. Hindi cinema is clearly riding a nostalgia wave by re-releasing old classics like 'Raja Harischandra', 'Guide', 'Do Bigha Zameen', 'Pyaasa', 'Kagaz Ke Phool' and 'Agneepath'. These films are either being coloured (if they were black and white to begin with) or having their quality (sound, picture) significantly enhanced.

For many old gems, this trend is a matter of life after celluloid death. Sai Paranjpye's 'Chashme Buddoor' is a good example: a specially remastered edition released 30 years after it first hit screens. Reliance MediaWorks ('RMW'), a studio based in Mumbai, took less than a month to complete the work. At the commencement of restoration work, the entire film was in a bad condition - almost 90 per cent of the film contained heavy stains on it with extremely high level of green stains and fungus along with other errors like dirt, scratches, unsteadiness, flicker, warps, gate hair and static dirt.

25. www.animationxpress.com
26. Indo-Asian news service December 27 2013
27. www.koimoi.com

It took a team of 80 artists with extensive frame-by-frame manual restoration to get the original look and feel. The files were then converted to 2K resolution for further processing including pre grading, picture restoration, image enhancement and final color grading. Audio was simultaneously restored and converted to pseudo 5.1 sound from mono tracks. The restored image and audio files were then processed for making a Digital Cinema Print as per the DCI specifications.[28]

Steps involved in digitalisation and restoration process[28]

- Step 1 - Finding the source material of the film and sound negatives, as well as inter-negatives. Films may also be on tapes, cassettes, etc.
- Step 2 - 'Ultra Cleaning Process', where this source is carefully cleaned
- Step 3 - The material is scanned
- Step 4 - Defects are carefully identified and corrected
- Step 5 - Digital and manual restoration process begins simultaneously, done frame by frame
- Step 6 - Colour correction and grading. At this stage the cinematographer and director of the film get involved in the grading process. They also check the restored film for changes. Sound restoration for the film is done separately.

Once both processes are completed, the picture and sound are matched and transferred to different formats.

The process of restoring original negatives often opens avenues for monetisation of these films. While some argue that the tepid box office response to such digital re-releases militates against the trend, some people believe that restoration is vital to preserving old classics, considering that they are cultural artifacts. And for most film buffs, a re-release is seen as a chance for younger generations to share a special experience on the big screen, with older folk looking to relive fond memories. Many classics have high recall value (which is largely why some get remade) and elicit immediate reactions, always a marketer's delight.

Co-production deals in India on the rise

Co-production has emerged as a popular strategy for studios in many countries as it provides flexibility while working with smaller studios and brings in new and fresh creativity from other countries. As co-production has increased, VFX studios in India have become popular partners of studios in Europe, Japan, and North America. Improved capability and perception of the Indian studios is encouraging for the outsourcing pie of the VFX services in India. Ethyrea Films(California) has successfully concluded negotiations and announced a USD9 million dollar visual effects co-production deal with early this year.[29]

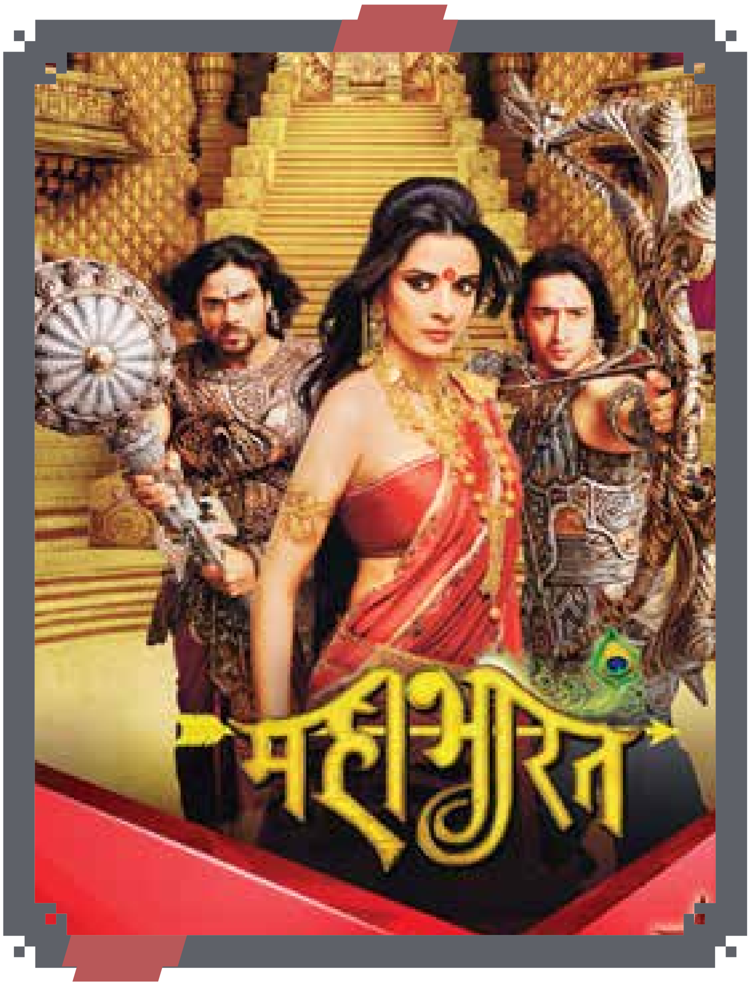
> The per centage increase in India's share of work (for international VFX) should be attributed to the transparency of the operational processes. The immediate derivative of this transparency is that the artist finally gets acknowledged for the good work he is been producing, this then automatically leads to increase in volume of work.
>
> **- Naresh Malik**
> President - Creative & Media Services, Reliance Media Works

Use of VFX in television

Use of VFX in Indian television serials goes back to 1980's where the technology was used in mythological serials such as Ramanand Sagar's 'Ramayan' and B R Chopra's 'Mahabharat'. Today, VFX is becoming an integral part of storytelling on television. Increased used of VFX in television content, whether it is in continuing serials like 'Devon Ke Dev...Mahadev' or the new ones like 'Mahabharat', '24', 'The Adventures of Hatim', etc., is a paradigm shift as Television as a medium is getting bigger and better. For example, 'Devon Ke Dev...Mahadev' (DKD) has a separate graphic department comprising 90 people which is a large number for a television serial.[30]

28. Industry discussion conducted by KPMG in India
29. www.animation-boss.com
30. www.articles.timesofindia.indiatimes.com

Similarly, the newly launched TV series 'Mahabharat' is being made on a budget of INR1,000 million[31] - a number generally associated only with budget of movies in India.



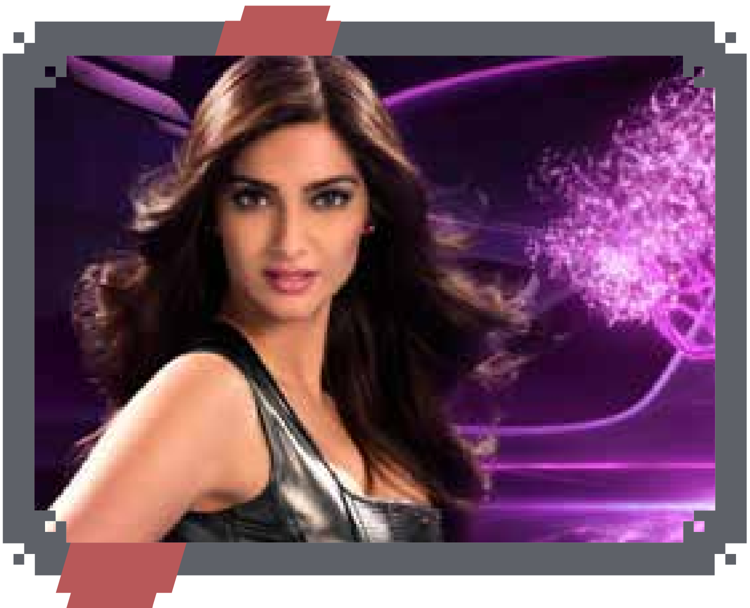
Vertex Volt, a Mumbai based studio, has delivered 1500 VFX shots[32] for the serial 'The Adventures of Hatim' - there are some interesting VFX shots that have been undertaken for this serial for creation of Ashquar City, Zarghaam's Den and the Yaman City, to create lava, fire, smoke and destroyed structures, multiplication of 3D dragons for Zarghaam's evil army force, etc. The show uses many computer graphic elements such as rotoscopy, matte paintings, varied set extensions, 3D props and characters, composition and colour correction for the adventurous feel of the episodes.[32]

Contrary to popular belief that VFX on television is restricted to mythological / period dramas, increasingly, certain fiction shows with higher budgets – such as '24', have used VFX for pre and post production. This show used a dedicated team of 30 specialists from Prime Focus.[33]

The Studio working on a short format show for the first time made use of the 'Baselight' color grading system to achieve the look and mood detail that a show of this nature, required.

Use of VFX in advertisements

With the plethora of channels available at the flip of a button, one of the key challenge for advertisers is to hold the attention span of potential customers and prevent them from changing the channel when an advertisement appears. A key weapon therefore, is VFX, which not only enhances the content but also adds fun and interest, elements necessary to hold the viewers attention. Visual effects also help shape a viewer's feelings about the product or service in the ad. For example, if an ad shows the giant bug retreating and finally dying after being sprayed with a bug spray, the viewer might feel confident that the product can get rid of any insect.



31. www.indiatellytalkies.com
32. www.animationxpress.com
33. Industry discussion conducted by KPMG in India

Increasing use of VFX in television commercials (TVCs) is mainly attributable to factors such as accessibility, affordability and quality of output. Advertising creative can be created on many media — real life (shoot), animation, computer graphics and claymation. In a high budget advertisement, there is a scope to allocate a larger pie to packaging (VFX, animation). Today, technology is no longer a means to save costs as companies are willing to pay more to get the right look and feel for an advertisement; this could mean using a combination of film stars, animation characters and VFX.[34]

Challenges

It is often misunderstood that visual effects is a part of post-production when it is actually a part of filmmaking in general. VFX has always been a margin challenged business and intense competition is now adding to industry pressure and is inhibiting investment. Also, there is a feeling that Indian companies need to work on design, quality and execution. In the future, wider use of technological innovations such as performance capture and cloud computing could be differentiators and such tools could help tell bigger stories, as well as keep costs under control.

What the future holds

Most believe that VFX will only see growth in the Indian film industry. One of the main reasons for increasing use of VFX in Indian films is that writers, producers and directors are increasingly touching upon new genres and stories which are impossible to make without extensive involvement of VFX professionals. With the help of a talent pool, at a fraction of Hollywood budgets, Indian films are bound to use it extensively. What can also help is that studios have commenced getting involved in the project right from the script stage. This has enabled studios to use some of the most cutting edge and path-breaking VFX technology for e.g. recent projects such as 'Dhoom 3', 'Bhaag Milkha Bhaag' and 'Ek Tha Tiger'. Despite the endless possibilities ahead, the rise of VFX is a noteworthy change in Hindi cinema. But going by the experts in the field, it requires the combined mastery of mind and art and should be treated like just another step in the assembly line of filmmaking.

'It is a good time for Indian VFX industry. Individual ticket sizes of VFX budgets are going up to as high as INR25 million to INR40 million, and even regional films are going big on VFX.

- Krishna Shetty
President - Post Production Services,
Reliance Media Works

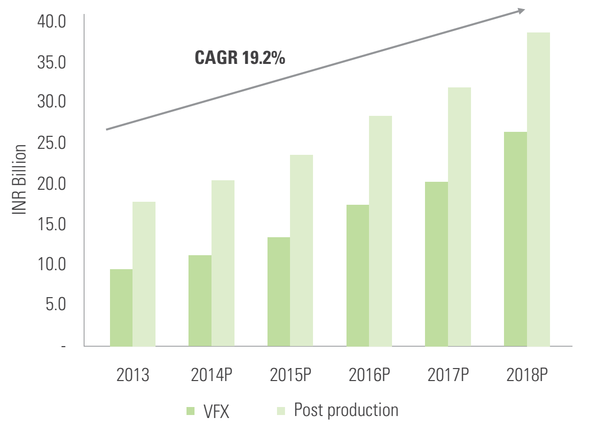
The road ahead

(Amounts in INRbillion)

	VFX	Post-production	Total
2013	9.3	17.7	27.0
2014P	11.3	20.4	31.7
2015P	14.0	23.6	37.6
2016P	17.2	27.6	44.8
2017P	21.5	32.3	53.8
2018P	26.8	38.1	64.9
CAGR% 2013-18P	23.6%	16.6%	19.2%

Source: KPMG in India analysis

VFX and Post-production future projections



Source: KPMG in India analysis

The VFX business in India has great long term potential due to a robust Indian Film and Television Industry as well as international work for hire. The animation business in India on the other hand is struggling with government supported foreign studios and will not survive without broadcaster support for local IP.

- Gaurav Jain
Producer,
Illusion Interactive

34. Industry discussion conducted by KPMG in India

India VFX participates in a slew of award winning global projects

Biren Ghose
Country Head,
Technicolor India

VFX is one of those content creation technologies that is doing India proud on the global entertainment and advertising communications stage. The country now needs to build scale and this will only become a reality when there is a much higher management of and investment into human and infrastructure resources. Apart from this, the Indian CG industry needs to build tools to ensure disruptive technology to produce quality even where content creation budgets are not as extravagant as big Hollywood levels. The next step is to develop a keen art and development aesthetic which makes it possible to take care of the technology pipelines that will still give the Director the same ability but at a lower cost! This will herald a new paradigm of opportunities for production houses to cater to a market and turbo power regional and domestic content to achieve contemporary "big picture" polish!

There is, beyond a doubt, a real and swift transformation happening in content 'packaging', as digital production becomes an even greater part of the creation and distribution dynamic. This revolution is seen in motion pictures; broadcasting; computer gaming and even in mobile/tablet devices which are all part of the evolving media paradigm.

The 'pain point' for a film maker has always been the difficulty in portraying 'that' which is beyond the scope of the camera – many devices were employed to make this happen [this was the "special effects" world as it existed in a rapidly vanishing era]. Cinema history has legions of materials deployed by way of clever effects, stunts and moving backdrops among other 'antics' used to make the production 'larger than life' or resemble reality as the case may be. The advent of motion graphics, computer graphics and animation, now makes all this possible through 3D image manipulation by artists and technicians ["VFX"].

The past 15 years have been spent in translating the 'idea' of VFX [Visual Effects] to the fine art and science it is today – a mature industry - with a prime position in content creation with methodologies, routines, tools and protocols that are well established as the 21st century 'way' to making films, commercials, video games and even TV productions. The world majors use this to mount the biggest movies and after the payment to top stars the largest line item in a movie budget is the VFX expenditure. Given its strategic importance many movie makers from George Lucas to Sony Pictures all started to create in house units so that they could harness the power of CG and technology innovation on a proprietary basis but today this has become an item they prefer to "partner" with specialist organizations such as MPC; Framestore; Digital Domain; etc.

In India this is becoming a major "new wave" influencing productions to leverage the benefits of CG in producing the Dhoom 3 type – larger than life – titles.

Some of the questions around VFX that often gets asked helps to understand the basics, and so I am addressing them them mostly in the context of the India industry.

- Is it cheaper to do VFX than to shoot scenes on location with a camera?

  Working high quality VFX is both time consuming and expensive. It must be 'employed' where a new world/ environment has to be created [movies like Aliens, Prometheus, etc could not be created without it!]; where one has to create environments – lakes, rivers, canyons, mountains with snow caps; etc that may not be easy to access at the right time or because it needed a period look of a time bygone or in the future; - climatic changes – thunder, hail, snow, storms, etc; creatures including those imaginary, extinct and real – and those that cannot be made to act to a script! Look at Gravity - the 2014 Oscar VFX winner – it truly was a game changing movie - you truly are in the zero gravity outer space environment and if you were at an IMAX with the stereo glasses – no movie experience in recent time comes close! In most of these it is pointless to make direct cost comparisons. However, in say the climax of a Bond movie where things are exploding all around, it seems 'wasteful' or environmentally destructive to do that in a real environment. Skyfall being a case in point! [Here, the climactic Scotland sequences are the handy work of specialist CG artists and technicians!].

- Given the expenses in hardware, software and skills development is this industry viable for the local industry?

  Making VFX for Indian cinema is indeed a challenge – the efforts may be very similar to international productions in number of man days/ number of shots, etc. however, the budgets are relatively low. The software /hardware and infrastructure costs for rendering and storage etc are all very expensive. Service providers in such economies as India are therefore every challenged to survive on voluminous work that has low or no margins. We are speaking to a few state governments to create some common facilities to bring the cost down as a shared resource. Karnataka has been the most proactive in its response to this technology and have issues a policy to help develop education and facilities.

- Do expensive VFX driven movies increase the budget and therefore the risk to the filmmaker/studio/producer?

  VFX driven movies are still in an early experimental stage and Raa.One and Krish 3 and ROBOT etc. are all evidence of the 1st attempts at integrating this technology seamlessly in the Indian context. Producers have to learn how to 'mount' big budget movies, powered by plenty of VFX shots, so that it achieves the desired outcome. Their goal is to make a movie of "epic proportions" / "impossible action" and that 'larger than life" ambition is where the deployment of CG is an imperative to give it a disruptive edge.

  Many acclaimed Indian filmmakers are experimenting with the VFX syndrome and beginning to learn of how to harness and integrate its potential. I believe that Indian cinema, over the next 5 years, will have figured the VFX syndrome as it starts to scale heights of bigger and bigger productions in the quest for the INR1000 crore blockbusters.

  This will inevitably happen – in this space history has shown - "Only with bigger risks will there be a bigger return!"

- Do the audiences see the value created? If they do, does that mean the VFX is poor or overdone?

VFX in Indian movies tends to be overdone and too "in your face." They will, in time, become more seamlessly integrated into the story. It's a paradox as to whether "showing off" this magic is going to create more audience support or vice versa. It is the Director's job to decide on the intensity and aesthetic at which to execute a particular shot! The new breed of VFX Supervisors will assist in making this a tasteful and seamless process. The new emerging VFX Supervisor, a position that has become very much a key part of today's Hollywood films, will come into their own in India as well.

- Is VFX just a simple labour-intensive task or is there any creativity involved?

  As a testimony to great work being done in India I will quote the achievements of the MPC Bangalore team for their work in 2013:

  "VFX Oscar 2014 nomination for Disney's The Lone Ranger; VES shortlists for Superman – Man of Steel, Brad Pitt's World War Zee besides the Oscar nominee title. In advertising the Shots Awards-2013; Best Overall VFX Company, Europe & US, Ciclope International Festival of Craft; the British Arrows Craft Awards Gold, Best VFX and CGI - 2013 London International Awards - Silver - Visual Effects; ; for Assassin's Creed IV Black Flag trailer won the British Arrows Craft Awards Silver, Best VFX – 2013 ; for Dell 'Thomas' AICP Winner, Visual Effects – 2013 "

  Besides MPC, there are studios such as Prime Focus; Prasad Labs; Visual Computing Labs [Tata]; Future Works; Makuta [Hyderabad]; Firefly Studios; Anibrain; Red Chillies; MRT Studios and many others are blazing new trails. This is serious recognition of the world-class quality Indian VFX studios aspire to and are beginning to garner.

  The CG pipeline for VFX has many different components that need to harmonize into a final product. Depending on the project - from the development phase to the production of an animatic to the management of "how the live action shot is taken" to the references for the artistic process – all this sets the objective after which the process of creating CG assets - Modeling, Surfacing, Rigging and then the animation, lighting, compositing are all a part and parcel of the VFX studio's world and expertise. These disciplines are similar in skills but have different dynamics and detail with fully animated production processes. India can also do a lot to develop next gen tools and technologies in the trade.

- Does VFX work with other elements of the film making process to devise something which the end customer values? Is it like 3D stereo, just a gimmick? Is the jury on this still out?

  The modalities of VFX and how it can be used need to be understood by all members of the team. Writers; visualizers, storyboard artists, directors, cinematographers, must all understand what VFX will do so they seamlessly integrate this in their scenario building; planning the shoot [angles, etc] and use VFX as a tool for enhancement rather than just for environment filling, replication of crowds, corrections; etc. It is certain to be more than a computer aided gimmick!

  2014 and 2015 are going to be defining years as the industry strives to grow exponentially and this will be driven by the rush of projects from other countries that will come to India to leverage our talent and technology savvy. This will develop the base of talent, which will then work for many local projects as the domestic market matures in understanding both the potential and the cost required to properly deploy this technology.

  VFX is becoming an active agent in the 'fermentation of ideas' towards making bigger box office hits for high-end and big-budget content. India will need to leverage all the experience of the India VFX 1.0 phase and collectively take this to another level of performance and efficiency.

  Meanwhile, we will see an explosion of domestic talent and studios, migrating teams that have experience in the VFX production industry, having worked on international projects, who will begin to figure out how to support the domestic film and TV market, and the high end advertising films

  This sector will experience the highest growth rate of any vertical in the M&E industry. I predict the next 5 years to have over 30% CAGR at the least!

[Note: The views in this article are personal and not official comments by Technicolor or MPC]

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

Future is Present!

Venkatesh Roddam
CEO,
Reliance MediaWorks

The future is present, and so is the past, in the current present of technology-enabled visual effects. Technology continues to be fascinating as it always keeps evolving. Who would've thought a couple of decades ago that words like anachronistic would disappear from production lexicons worldwide only thanks to digital visual effects technology, but would simultaneously continue to haunt the R&D executives of VFX studios.

The fascinating aspect of visual effects and technology, as the world knows, is that the creation of 'nothing' is impossible today, and the only impediment toward creating something would perhaps be one's imagination, if at all. But then, there is also the other side that worries the businessmen among the artists in this highly evolved techno-creative space — that a renowned studio that flourished for decades, files for bankruptcy and receives the highest recognition in terms of awards at the same time. It is a reality that we as business heads need to deal with while juggling between the boundaries of creativity and business. Creativity needs no yardstick for measurement, but bottom-lines come with myriad analytical tools. There is bench time, optimisation of resources, anticipative human resource allocation strategy, constant upgrade of technology, balancing of skill-sets and many more yardsticks, solutions, optimisation tools, and yet, there are issues that continue to fundamentally persist.

Diversification is the key, as they say. Even from a business standpoint, I don't think any other industry offers such a variety of backward, forward and lateral integration, all at the same time. This is perhaps why, purely from a business perspective, the industry continues to be fascinating. The ability to create and creatively distinguish oneself then becomes the cherry on the cake.

That the Indian visual effects industry is slated to grow at a CAGR of 20–25 percent and double its size almost every five years is an encouraging fact. What is contributing to this growth and what will continue to foster the growth from a domestic market perspective is mainly the awareness of the possibilities that visual effects can open up, cinematically. An average Indian film these days has about 400 VFX shots. What's great is that VFX is now seen as an integral function of the production process. Then there are super-hero films. Even romantic comedies these days have an intensive 750–1,000 VFX shots, which contributes significantly to the increase in the individual ticket sizes for orders. What this also creates in terms of business opportunity is the trend that a number of small-budget films are also getting more aggressive on the VFX front, as they too move up in the pecking order. To add to that, there is increase in visual technology work in the proliferating regional cinema, which is also driving the growth.

Aside from bringing down the costs, one of the key advantages that we bring in through visual effects is convenience. Let's assume that we need to recreate the 1980s' Mumbai, with all the fancy props of that era, or a peacock sitting atop a tree branch, or beautify the frames of Gujarat. It's no effort. VFX can get that done with the click of a few buttons. Given the number of logistical issues that one faces to create an era or use animals in a film shoot, many would just drop the idea if it weren't for VFX. So, that past, this future — all is the present. And that is where we belong, continue to grow and are eventually headed towards, all at the same time. That is the beauty of technology.

Technology is such a great enabler that it not only helps us preserve important incidents in human history, but also empowers the professionals of this industry to create new chapters, to write history. Like for example, at RMW, we have restored and digitised Neil Armstrong's walk on the moon. Speaking closer home about the Indian industry, I think life came full circle for Indian cinema in a strange sort of way, when Raja Harishchandra, the film that marked the birth of Indian cinema, was reborn through digitisation in its and the Indian cinema's 100th year. ,

The pace of the technology's evolution has thankfully increased the pace of our thought processes. Transnational business operations or even the realms of space are a click away. When I watch a film like Gravity in IMAX 3D, I am spellbound. Back home, India has a Krrish 3. It is indeed encouraging to know that visual treats like these are being created in our industry.

The third dimension in the viewing experience is already a driver globally. While our arch rival China has 80 percent of its cinema screens already 3D capable, we in India are still catching up. And then there are the 3D TVs and other audio-visual devices that are adding market numbers; not on the global levels in India as of now, but we should be there soon. That opens up yet another avenue for serving visual delights for players like us. R&D cannot be a support function for an industry like ours. It has to be a key business function.

From realism in depiction, there is now a trend in presenting realism in fictional experience that all visual techniques, including 3D, are trying to provide. One such area is that of the high-frame-rate technology, from the traditional 24 FPS to a whopping 60 FPS. Through this technique, pace, clarity, detailing and experience, etc., will be enhanced to delight the viewers. The possibilities are truly endless as one continues with the collective might of the techno-creative geniuses.

What will continue to stay a problem for India, however, are budget constraints. Today, the ticket-size VFX work for an one-hour episode of a Hollywood series like Black Sails is way bigger than the entire VFX budget of a mainstream VFX-driven Indian film. So, while we evolve here, we evolve further over there and it is important that on the quality front at least, the Indian market catches up soon with its delivery potential. That will re-write the growth story of this business, and the CAGR numbers will then shoot through the roofs.

Disclaimer : Unless otherwise noted, all information included in this column/ article was provided by the author – Venkatesh Roddam. 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

Out of Home

Displaying resilience

Outlook for the year

Year	OOH industry size (INR billion)
2007	14.0
2008	16.1
2009	13.7
2010	16.5
2011	17.8
2012	18.2
2013	19.3
CAGR (2007-2013)	5.5%

Source: KPMG in India analysis

2013 saw muted growth for the Indian outdoor advertising industry ('OOH'), primarily due to the tough economic environment. Brand owners spent approximately INR19.3 billion in 2013 on Out-of-home advertising which approximates 5 per cent of advertisement spends.[01]

Though metros continue to garner a larger share of the OOH pie (in excess of 50 per cent), in line with the trend witnessed in the last couple of years, the Tier II and III cities continued to outperform the larger metros. A large number of campaigns are being done in Tier II and Tier III cities, but since the cost of media is lower, the percentage contribution is lower. Regionally, north and west contributed upwards of 60 percent of the advertisement spend in OOH.[02]

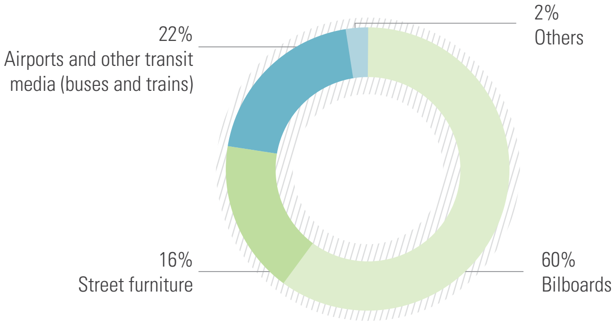
Key Sectors

The healthy trend of 2012 which saw a mix of contribution from varied sectors, continued in 2013. The top contributing sectors were Real estate, BFSI, Media and events and Personal accessories. While Real estate and BFSI were the leading sectors, Auto underperformed. Government spends also saw an increase in 2013 as compared to 2012.

OOH Formats

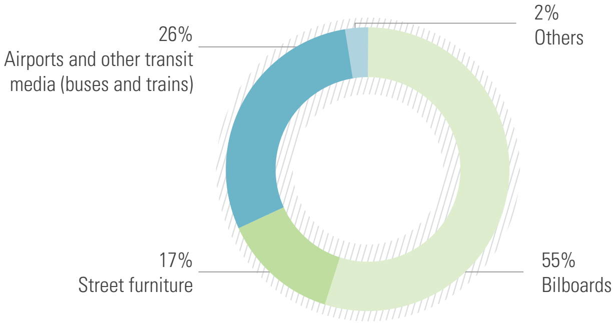
Billboards continue as the medium of choice – approximately 55 per cent of the OOH advertisers used this format in 2013. Industry players saw some corrections in pricing and/or renegotiation of inventory sites. The transit OOH business in India, especially in airports, continued to experience accelerated growth. With various airport modernization and new metro projects in the pipeline, this format is expected to continue to outpace other segments. Performance of new channels such as bus shelters, LED billboards and street furniture continued to be below expectation. This segment continues to be plagued by poor infrastructure, absence of a secure environment (fear of theft or vandalism) and limited customisation of content.

Revenue split by various formats in 2009



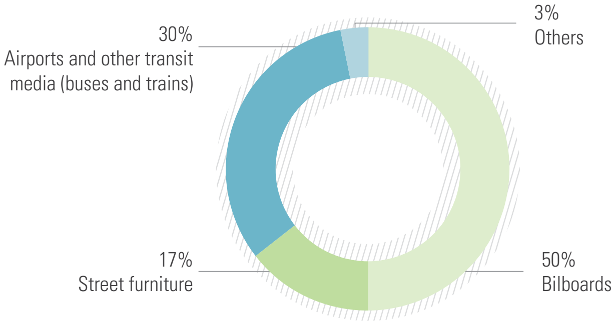
Source: Industry discussions conducted by KPMG in India

Revenue split by various formats in 2010



Source: Industry discussions conducted by KPMG in India

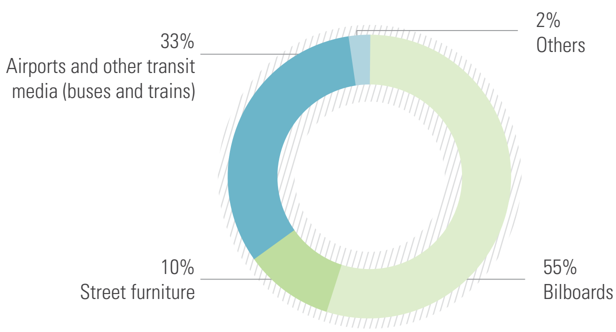
Revenue split by various formats in 2011



Source: Industry discussions conducted by KPMG in India

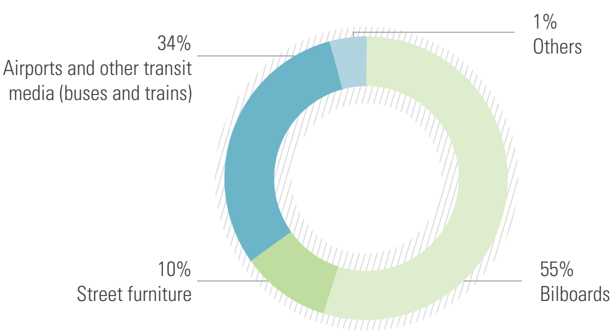
01. KPMG in India analysis
02. Industry discussions conducted by KPMG in India

Revenue split by various formats in 2012



Source: Industry discussions conducted by KPMG in India

Revenue split by various formats in 2013



Source: Industry discussions conducted by KPMG in India

Key challenges

As the industry by definition is outdoor and is mostly spread across the city and country, all large geographies will likely have their own challenges. Developed markets have some advantages by having uniform sizes, formats and have been quicker to adopt new technology. However, that could be an opportunity as well, since India can leapfrog and adapt newer technologies and provide a robust platform for planners.

Reliable research is key for the OOH industry, but the measurement system has not taken off as intended. Industry experts believe that this is primarily due to lack of adequate sponsorship for the program. There are some measurement agencies which are gaining traction in this space and this may be a positive sign; for example, an agency has been capturing data across 30 cities on a monthly basis with geocoded and time stamped videos, processed by a proprietary software with an intent to improve visibility duration measurement.

While the industry saw steps towards consolidation or unified approach, as was witnessed for example in some pockets in the North and in Pune, there is likely still a lot of fragmentation. Industry players believe that advertisers may want a package of assets spread over the geography and this can be effectively achieved only through consolidation.

Other factors like lack of clarity on regulations, absence of a uniform system of measurement and resistance to audit to improve transparency, could continue to hamper growth.

Looking ahead...

It is expected that amongst other factors, Transit media can propel the industry to the next level. Airports, highways, corridors and metro rail projects are typically controlled environments that could encourage OOH adoption and help solve at least one major part of the measurement conundrum: effective circulation or opportunity to see. Digital OOH distributed across place-based networks in venues including cafes, bars, restaurants and public spaces, typically featuring screens, kiosks, jukeboxes, etc. is a story waiting to happen and this struggling medium appears to be slowly creeping back. Once this unfolds, it is expected that the OOH industry will move up the value chain and will no longer be seen as a mere residual category.

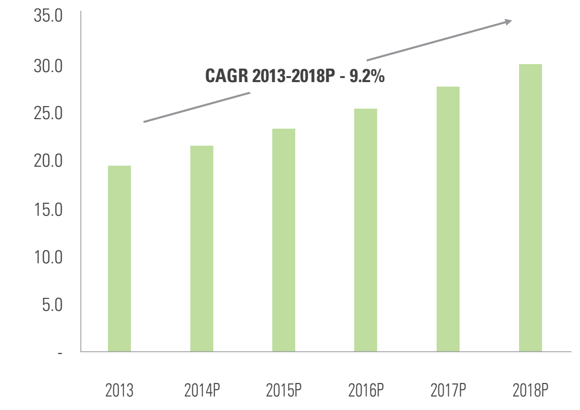
An improved ecosystem and measurement effectiveness can provide the necessary impetus that the industry desperately seeks.

Projected size of OOH industry

Year	OOH industry size (INR billion)
2013	19.3
2014P	21.2
2015P	23.1
2016P	25.2
2017P	27.5
2018P	30.0
CAGR (2013-2018P)	9.2%

Source: KPMG in India analysis

Projected size of OOH industry



Source: KPMG in India analysis

OOH is difficult to miss. You can switch the channel, turn the page or surf away. A campaign with a good reach and an optimal frequency will demonstrate it's effectiveness. The audience may miss the message on a particular day or at a particular location, but will get exposed to it on another day or in a different part of the city. There has been a lot of interest in DOOH and investments will continue to happen in the metro cities. OOH is gearing to have measurement that is not a sample but an effective census of the audience and the powerful data will encourage Advertisers to invest more in the medium.

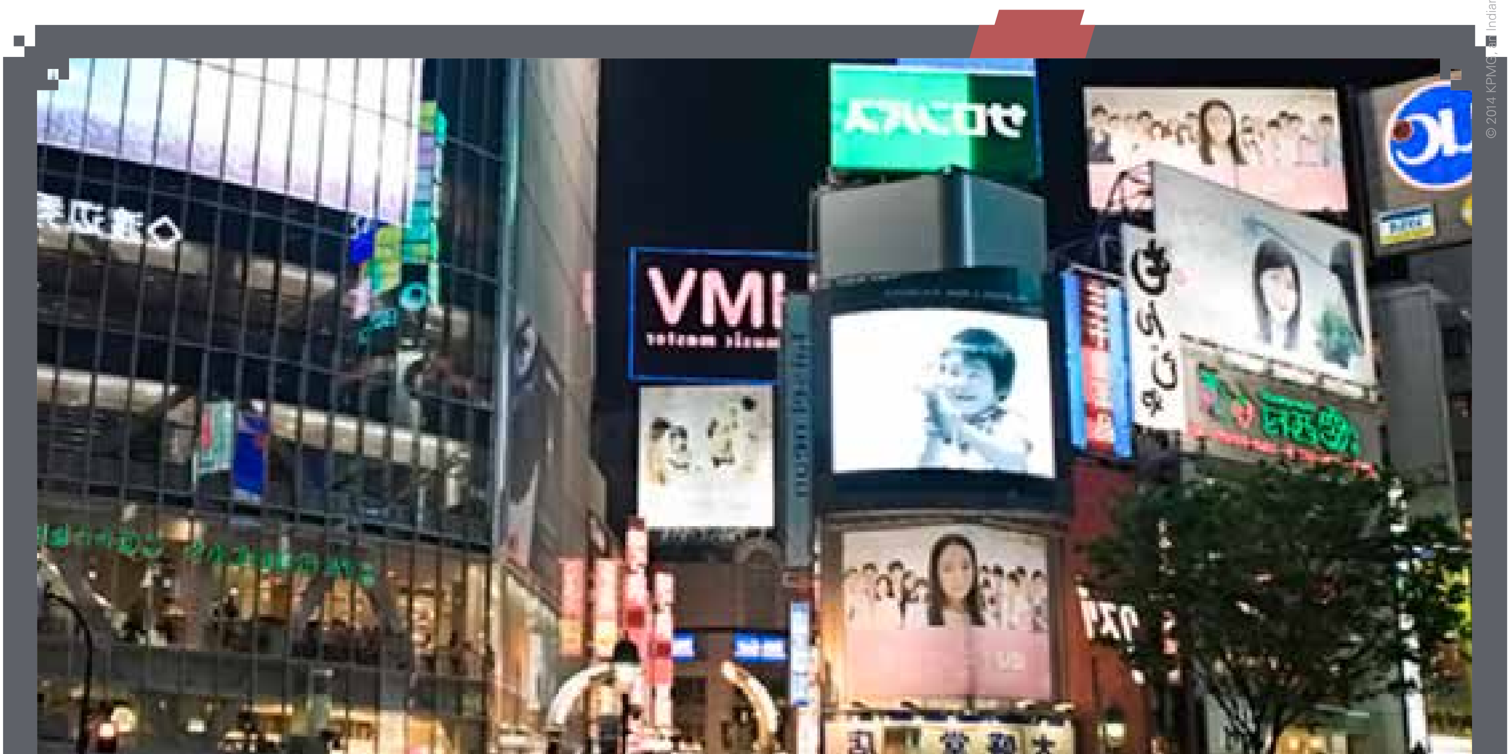
- Harjaap Singh Mann
Managing Director,
Proof of Performance Data Services Pvt Ltd

Thanks to national elections, OOH will see another year of decent growth. However, slippage in share of all media spends continues to be of grave concern. The impending IOAA & AAAI mou for regulating transactions between agencies and media in the OOH space will definitely create a very positive business environment. Regulations continue to have an overall negative effect. There's an ADEX in the offing as well as measurements. So – lets see – a positive scenario appears to be on the cards. The digital mess was created because of 3 issues :

- lack of appreciation of extent to which creative affected and lack of investment in content creation
- wifi connectivity that could create networks with live feed or at least live controls and, finally
- abundant alternatives at hugely competitive prices.

Now – with all 3 of these factors coming under control of new entrepreneurs and those who managed to survive the worst of times, the future appears to be much more assured – especially in spaces like malls, large stores, transit locations.

- Indrajit Sen
Executive Director - IOAA,
Promoter-Director - Media, Analytics and Design P Limited



10

Advertising

Paused for growth

Advertising market outlook: 2013

The advertising industry faced a rough year in 2012 and there were expectations for a better performance in 2013. But the continued economic slowdown, depreciation of the rupee and low GDP growth resulted in persistent negative sentiment leading to a muted growth rate for the industry in 2013.

The advertising spends were relatively healthy in the first half of the year backed by strong spending from the FMCG sector, state assembly elections and better performance of IPL6 compared to the last two seasons. Post July, there was a sudden slowdown due to depreciation of rupee and other macro-economic factors due to which advertisers held back their money[1]. A minor blip was observed towards the end of the year due to elections and rupee getting stabilised with the industry reporting an overall growth rate of 10.9 per cent[2].

2014 is expected to be a promising year due to the impending national elections and high expectations from sectors like FMCG, automobile (multiple new launches planned) and financial services, with an overall growth of the advertising market projected at 13.1 per cent[2].

We still have a lot of headroom for growth across all media channels in India, be it TV, Print, Radio, Cinema, Out of Home or Digital. Apart from mobile, many interesting technology solutions are emerging in the broadcast space. This can fuel the growth of advertising amongst SMEs and local brands.

- CVL Srinivas
CEO,
GroupM, South Asia

In 2013, the total advertising spend from various sectors across all media was estimated at INR362.5 billion[2]. Among various media, Print and Television continued to be the primary media platforms, claiming nearly 82 per cent of total revenue and could continue to be the most dominant media for the next five years. The buzzword this year however was 'Digital' (medium) whose advertising revenue grew by 38.7 per cent occupying a market share of 8.3 per cent and the trend is expected to continue in 2014[2].

Advertising revenue (INR billion)

Overall industry size (INR billion) (For Calendar Years)	2008	2009	2010	2011	2012	2013	Growth in 2013 over 2012	2014p	2015p	2016p	2017p	2018p	CAGR (2013-2018)
TV	82.0	88.0	103.0	116.0	124.8	135.9	8.9%	152.0	172.0	195.0	221.0	253.0	13.2%
Print	108.0	110.4	126.0	139.4	149.6	162.6	8.7%	179.0	199.0	222.0	248.0	275.0	11.1%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	15.0%	16.6	19.0	23.0	27.8	33.6	18.1%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	6.0%	21.2	23.1	25.2	27.5	30.0	9.2%
Digital advertising	6.0	8.0	10.0	15.4	21.7	30.1	38.7%	41.2	55.1	69.7	88.1	102.2	27.7%
Total	**221**	**228**	**266**	**300**	**327**	**363**	**10.9%**	**410**	**468**	**535**	**613**	**694**	**13.9%**

Source: KPMG in India analysis

As per the analysis, the market share of TV (37.5 per cent), Print (44.9 per cent) and OOH (5.3 per cent) reduced compared to 2012 which was substituted by digital (8.3 per cent) and Radio (4 per cent). Overall, advertising market is expected to reach INR694 billion in 2018 at a compounded annual growth rate (CAGR) of 13.9 per cent.

01. Industry discussions conducted by KPMG in India
02. KPMG in India analysis

Summary of different media platforms

• Television

The television advertising market reported a moderate growth of an estimated 8.9 per cent in 2013, which was higher compared to 8 per cent in 2012 largely due to increase in ad spend by FMCG companies, state assembly elections and a successful IPL season. TV broadcasting market generated INR136 billion as advertisement revenue which was 67 per cent of the total revenue generated by the broadcasting industry[3]. The share of advertising revenue is projected to decrease over the coming years due to an expected surge in subscription revenues owing to digitisation[3].

Industries such as real estate, consumer durables, automobiles, financial services, travel and hospitality scaled down their ad spends due to tough economic conditions. FMCG continued to push their advertising and sales promotion spend in pursuit of volume growth[4].

In terms of genres, Hindi GEC which accounts for highest viewership share of close to 30 per cent, showed an estimated ad revenue growth between 13 to 15 per cent while the News genre with a viewership share of approximately 7 per cent suffered with flat advertising growth in 2013[4]. The Regional channels had weaker ad revenue growth than the Hindi speaking market (HSM) channels on account of higher ad inventory decline due to 12 minutes ad cap[4].

• Print

Print media reported a sluggish growth of 8.7 per cent in 2013 clocking in approximately INR163 billion which is 67 per cent of the total revenue generated by the medium, while the rest coming from circulation[3]. The Hindi print market saw 11.3 per cent growth in advertisement revenues while Vernacular market saw 10.8 per cent growth, with English print reporting a sluggish growth of 5.2 per cent[3].

Sectors which spent heavily on print were FMCG (12.3 per cent), automobiles (11.7 per cent), education (9.7 per cent) and real estate (8.7 per cent). FMCG, telecom and automobile have significantly increased their ad spend in 2013, from 2012, in print media[5].

• Radio

Radio continued to show double digit growth estimated at 15.0 per cent over the previous year[3] as advertisers preferred this media due to its cost effectiveness coupled with more local, focussed promotion. The growth in radio in calender year 2013 was primarily due to volume enhancements in Tier II and Tier III cities and an increase in ad effective rates. Overall revenues of listed radio players exhibited double digit growth rate over the previous year, approximately 12 to 14 per cent. Ad spends of radio to the total advertising pie grew slightly to 4 per cent from 3.9 per cent with industry revenues estimated at INR14.6 billion[3].

Radio emerged as the go-to medium for sectors like Real estate and retail and sectors like FMCG and Government also contributed significantly to the ad revenues in 2013.

Radio advertisements are usually more targeted and can be localised at comparatively lower cost. They are widely used for rural marketing as their penetration is higher in rural areas compared to other media.

• OOH

2013 was a muted year for OOH Industry, primarily due to tough economic conditions. Total ad spend was approximately INR19.3 billion with a year on year growth rate of 5.5 per cent[3]. Considering the local and direct nature of Outdoor advertising, sectors like Real estate, BFSI, media and events and personal accessories were the top advertisers.

Earlier a very high percentage of Out of Home media consumption was concentrated among 2-3 industry sectors. Upto 2011, 76 per cent of OOH media was consumed by 4 industry sectors viz. media and entertainment, FMCG, telecom and financial services[6]. Over the last two years several sectors like automobile, retail, white goods, and real estate have increased their presence . Among OOH formats, b illboards continue to be the preferred medium of choice generating 55 per cent of the advertising revenue[4]. Transit OOH business continued to experience accelerated growth, especially in airports[4].

• Digital

The digital advertising market continued the growth trajectory clocking in estimated revenues of INR30.1 billion with growth rate of 38.7 per cent over the last year[3]. The digital domain is attracting advertising budgets due to traction of social and mobile media, its ability to monitor online campaigns in real time and its cost effectiveness. The total market share of digital media was 8.3 per cent[4] of the total advertising spend in 2013 compared to 6.7 per cent[6] in 2012.

03. KPMG in India analysis
04. Industry discussions conducted by KPMG in India
05. Pitch Madison media Advertising Outlook 2014
06. FICCI KPMG India M&E Report 2013

Percentage of contribution to digital ad revenues

Source: IAMAI: Digital Advertising in India, 2013

All the major sectors have established a presence on the digital platform and rising spends will likely continue to expand the digital pie. Digital advertising is mainly dominated by online Search and display ads having a combined market share of 67 per cent followed by mobile, social media, emails and videos[7]. In today's scenario the power of E-commerce companies cannot be overlooked. These companies strongly help in targeted advertising with the amount of user data they control. By using right analytical tools, ecommerce websites can help brands in establishing relationships with their target customers through consistent tracking of their shopping and purchase behaviour.

Performance of industry sectors

The performance of the advertising industry or the quantum of ad spends is directly proportional to the performance of the different sectors as high growth sectors typically have generous advertising budgets whereas slow growth sectors have a more cautious approach towards ad budgets.

Some of the high spending sectors in 2013 were FMCG, E-commerce, Media companies and Education owing to their growth trajectories and targeting of new markets and audiences. We present qualitative analysis of industry sector's performance in 2013 and the way forward in the table below.

Sr. No	Sector	Performance update in 2013
1	Automobiles	Moderate growth in 2013; Expected to pick up in the first half of 2014 as many new launches are lined up
2	Banking and Financial Services	Growth was muted in 2013; Increase in interest rates, erratic behavior of stock markets, issues of Insurance companies with IRDA have held back the sector; though Health Insurance is picking up; Second half looks promising due to expected change in policies due to foreseen formation of new government
3	Consumer Durables	Remained flat in 2013, first half was sluggish but it made up in the second half during the festive season reporting a flat market growth rate
4	E-commerce / Travel websites	Grew fast in 2013; Combined AdEx of E-commerce and travel websites constituted substantial portion of total AdEx and was amongst the top ten spending sectors
5	Education	One of the fastest growing sectors in 2013; Spending is mainly in the unorganised ad market
6	Entertainment	Reported growth; Promotion of Television channels, shows, movies have increased
7	FMCG	Garnered double digit growth (upto 15% in some categories); Spent heavily in the first half of 2013, in the second half advertising budgets were cut down; due to increase in input costs, macro-economic factors like depreciating rupee; Sector revived towards the end of the year
8	Luxury / Fashion brands	Growing at a fast pace; As Luxury market is in the nascent stage in India its growth rate is very high but its overall contribution to the AdEx is still low
9	Real Estate	Growing steadily; More supply leading to companies spending in advertisements to lure people to shift from one property to another
10	Telecom	Flat, hit due to scams; Was giving double digit growth before the slowdown in the last 24 months

Source: Industry discussions conducted by KPMG in India

07. 'Digital Advertising in India' Report by Internet and Mobile Association of India (IAMAI), March 2013

Round up of the key trends and themes for growth

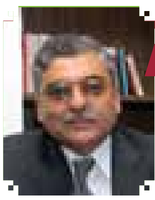
Regional advertising

Regional media provides tremendous value for money for advertisers due to its farfetched reach and its cost-effectiveness. In the print space, advertisers sustained their spends on Hindi and Vernacular print media, due to their rising volumes because of increasing literacy rates and deeper penetration into the Tier 2 and Tier 3 markets. As a result of this, the segment reported an (early) double digit growth[8] in 2013. Sectors like automobile, education, FMCG, retail and finance were the largest spenders in the regional print category[8]. Vernacular had an overall revenue share of 31 per cent in 2013 (with the four South Indian states generating a healthy percentage of the total vernacular print advertising revenues in 2013) and witnessed an annual growth rate of 10.8 per cent[8]. West Bengal contributes INR6 billion to the Indian vernacular print advertising revenues with annual growth rate of 10 per cent[9]. West Bengal and Maharashtra are also strong hold for regional print media.

In the television space, regional channels comprising regional GECs, news and movies account for second largest portion of viewership after Hindi GECs in India. National advertisers account for 70 per cent of advertisement volumes on regional channels due to their deep Tier 2 and Tier 3 reach[8].

Year 2014 looks promising as the government spend on regional TV channels and vernacular papers is expected to see significant growth owing to the general elections.

Rural marketing – an upcoming trend



Rural marketing is an absolute need owing to the surge in rural consumption due to many factors such as good monsoon, government schemes like NREGA etc. Consumer durables demand grew 1.5 times more in rural areas compared to urban markets in the last year. But it is difficult to predict whether media agencies will get a significant share of the pie as most of the activities are BTL where few big organised agencies are present.

- Ashish Bhasin
Chairman and CEO South Asia,
Dentsu Aegis Network

A large number of companies are looking at simple and inexpensive ways of marketing to connect and engage directly with their rural consumers like melas, posters, wall paintings, mobile vans, boat branding, road theatre, 'haats', funding religious fairs and festivals etc. These mediums of reaching out to rural customers have proved to be very effective along with being affordable. Apart from these BTL activities, Cable and Satellite penetration has helped spread more information about products in rural India. Radio is one of the most widely used medium in rural markets because of its reach.

Some of the marketing strategies adopted in rural areas by advertisers are direct Marketing, influencer marketing (focus on individuals with influence over potential buyers rather than target market as a whole), targeting herd mentality (focussing on groups where people are influenced by their peers) and Corporate Social Responsibility (CSR) activities.

Top companies like HUL, Coke, Marico, Godrej, and Pepsi among many others clocked a healthy percentage of their overall sales from rural markets. FMCG and Automobile companies were the biggest advertisers in rural markets as they looked for sales growth in rural areas[10]. Approximately 80 per cent of the rural marketing efforts by FMCG players comprise of 'Below the line' (BTL) activities[10]. Other marketing activities include rural marketing initiatives like 'Khushiyon ki Doli'(a campaign designed to inculcate good personal hygiene habits amongst the rural masses thereby creating greater preference for the company's brands) by Hindustan Unilever which was initiated in 2010 to reach out to media dark villages and connect with the direct users (women)[11]. Similar initiatives have been carried out by Colgate to promote oral hygiene in the past[12].

Mobile advertising

Mobile advertising has emerged as the fastest growing digital medium reporting a growth of 70 per cent in 2013. It outperformed the industry's expectations with estimated collections of INR3.4 billion in 2013 as mobile internet users dominated the total internet user base capturing an overall share of 61 per cent [8]. Market is expected to grow at 50 per cent and reach INR5.1 billion in revenue by end of 2014 due to increasing penetration of internet and setting up of 3G and 4G infrastructure[8]. FMCG companies increased their advertising spend on the mobile platform significantly in 2013. According to InMobi, this sector increased ad spends by 175 per cent on its mobile advertising network. Giants like ITC, Reckitt Benckiser, Hindustan Unilever, Mondelez and Nestle ran more than 30 campaigns and used mobile marketing very effectively[13]. Travel and financial services were amongst the other growing sectors. The digital classifieds companies have also increased their mobile presence in areas like restaurants (Zomato and JustEat), automobiles (Zigwheels, Cardekho, Carwale), and real estate (99acres, Magicbricks and Commonfloor) etc.

08. Industry discussions conducted by KPMG in India, KPMG in India analysis
09. 'Print special' August 2013, www.afaqs.com
10. Don't flirt with rural marketing', www.bestmediainfo.com, 8 October 2013
11. HUL contacts 25 million rural consumers through Khushiyon ki Doli, www.hul.co.in, accessed on 7 March 2014
12. Rural initiative, www.colgate.co.in, accessed on 7 March 2014
13. 'FMCG mobile ad spends grow', Times of India, 21 January 2014

Social media

Social media has grown 37.4 per cent [14] in user base over the last year with a share of 13 per cent of the total digital adspend. Facebook has emerged as a very important platform for marketers in India which has approximately 60 million unique visitors in India, followed by Twitter, YouTube and blogging. Advertisers are now experimenting with other properties like Instagram, Tumblr etc. In 2013, nearly 2 out of every 5 ad impressions were generated on social media websites[15].

In 2013, Ad conversion ratio has been highest for email ads, ads in social networking sites and mobile ads[16].

14. eMarketer newsletter, 19 November 2013 'India's Online display ad landscape', www.comscore.com, 4 December 2013
15. 'Digital Advertising in India' Report by Internet and Mobile Association of India (IAMAI), March 2013

Percentage share of impressions by publisher

Publisher	Share (per cent)
Social Media	39
Portals	15
Services	14
Entertainment	9
News/Info	7
Business/Finance	2
Search/Navigation	2
Lifestyles	1
Directories	1
Retail	1
Sports	1
Others	3

Source: 'India's online display ad landscape', www.comscore.com, 4 December 2013

**Ad impressions: In context of online advertising, an impression is a measure of number of times an ad is seen whether it is clicked or not.*

Emergence of Digital Media and the way forward

Article by CVL Srinivas, CEO, GroupM, South Asia

The internet population in India recently crossed the 200 million mark. By the time you read this article we should be touching close to 250 million, with over 60 per cent of these users accessing the net on their mobile devices. By next year, most of the TV households would have got digitised. Smart TVs are gaining in popularity, changing the way consumers interact with content.

Ad spends on digital media (internet and mobile) have been growing at 30 to 40 per cent year on year. As per the latest GroupM TYNY estimates, digital media in India will attract approximately INR34 billion in advertising revenue which is nearly 8 per cent of the total ad pie in 2014. Within the next two years, we are likely to see nearly 50 per cent of India connected to the internet, a large majority of them through their mobile devices.

From the early days of search campaigns, when categories like travel, financial services and auto were the first movers, today digital media is being used lot more creatively by advertisers across the board. The emergence of video is making digital an extension of TV plans in many cases. TV heavy FMCG clients are increasing spends on digital. Multi screen planning is becoming the order of the day, with media planners evaluating video channels on the internet alongside TV channels.

Digital media is also helping advertisers integrate campaigns across multiple touch points in a far more seamless manner. Brands that create activation platforms find digital to be a convenient channel to seed, capture and measure interactions with consumers.

Since digital offers a two way communication channel to the advertiser, campaigns on digital can be devised so as to provide utility value to the consumer thus increasing levels of engagement with the brand. Mobile apps are being used creatively by brands to provide information, beauty tips, recipes and the likes to consumers on the go. These apps provide high levels of engagement by getting consumers to talk, ask, react and share.

Thanks to the availability of data in real time, digital media is helping create a new paradigm of media planning, which is audience planning. Instead of contextual targeting with poor ROI, audience planning helps fine focus media plans to reach the more relevant audiences.

Going forward we will need to adopt digital not just as a medium but as a mindset. The biggest challenge for a marketer today is to be able to adapt to the spread and speed of his consumers' interactions and opinions, which are increasingly moving to the virtual world. Many organizations are setting up digital data centers which capture consumer interactions with and opinions about the brand in real time, to be able to move marketing from a reactive to a proactive function. Most marketers feel they are losing control over their brands in the digital era. Investing in a digital data center helps get back control.

The future growth drivers of digital are: better infrastructure i.e. more bandwidth, development of language content, growth of video content and wearable technology. Ultimately, digital will become all encompassing: be it connected TVs, online radio or wearable devices. Media brands will need to become format neutral. Current models of measurement will give way to real time data. There will be an explosion of content. Technology, Data and Content are the three pillars on which our industry will grow.

Disclaimer : Unless otherwise noted, all information included in this column/article was provided by the author CVL Srinivas, CEO, GroupM, South Asia. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of KPMG in India.

Upcoming advertising trends across media

Digital media is taking advertising to a whole new level where customers interact with brands and products virtually through their campaigns. New forms of interactive and immersive campaigns done by leading automobile companies like Mahindra (display of a virtual cheetah during the launch of their XUV series) and Food & Beverages companies like KFC and McDonalds are some of the campaigns that stood out[17].

- **Campaigns using Augmented Reality -** Concept of Augmented Reality is recently gaining popularity among advertisers in India. In such campaigns, reality is augmented by enhancing what we see, hear, feel and smell. Digital agencies are developing Augmented Reality enabled applications for mobile, tablets etc. which can link physical images to a catalogue of online videos, 3D models, animations etc. It provides new and interesting ways to engage and interact with customers. Agencies like Blink, Adstuck, Xenium, Hungama, Gamozz etc. are providing Augmented Reality solutions to the advertisers[18]. Companies like DLF, Pepsi, HP, Axe, Toyota Innova etc. have augmented their logos which appear on newspapers and billboards[19]. This helps their customers get connected to their videos, brands, online catalogues etc through the cameras on their smart phones and tablets. Aditya Birla Group, Samsung and Sony are some of the other companies using Augmented Reality techniques[20].

- **Adversioning -** Like the Internet, it is now possible to carry out targeted ads on the same TV channel in different regions at the same time. This has been made possible by patented Adversioning technology. Amagi and Vubites are the early entrants in this field which are making this smart advertising possible[21]. It is now possible to do targeted ads on channels like Times Now, CNN IBN, Ten Sports, UTV movies etc[22]. Amagi has has covered more than 100 cities[23] while Vubites is present in more than 11 states[24], helping advertisers to minimize wastage through target advertisements on TV.

- **Interactive and Immersive ad campaigns -** These campaigns prompt viewers to interact with the advertisement by selecting onscreen options like different product categories, gender etc. and based on the selection customised content is displayed. E.g. KFC India Krusher's campaign where viewer selects Krusher flavour and gender and based on the selection different moods of the character are displayed on screen[25].

- **Branded content -** Three years ago, beverages giant Coca-Cola took an innovative step to promote its brand among youth by tying up with broadcaster MTV to create Coke Studio which has created an immense brand value for the company among youth. In January 2014, PepsiCo India has collaborated with MTV to form Pepsi MTV Indies channel which will be a platform to showcase cultural music with an investment of INR400 million[26]. Thus, branded content is gaining popularity in the recent years.

  Nowadays, producers are attempting to integrate brands with the show at the stage of script writing itself. Tata motors promoted their SUV range of vehicles through the espionage drama '24' which was aired on Viacom 18's colors channel last year. The script required the protagonist to drive an SUV, and hence it was decided to collaborate with an SUV manufacturer for the promotion through the show. Thus, if the collaboration is successful, it becomes a win-win situation for the advertisers as they get enormous publicity on a successful show and the producers get early sponsorships[26].

17. Hungama launches augmented reality campaign for Mahindra, www.afaqs.com, accessed on 7 March 2014
18. Industry discussions conducted by KPMG in India
19. Latest Campaigns, www.adstuck.com, accessed on 7 March 2014
20. The Economic Times, 22 October 2013
21. The Financial Express, 18 February 2014
22. www.amagi.com, accessed on 7 March 2014
23. www.yourstory.com, 20 August 2013
24. Coverage, www.vubites.com, accessed on 7 March 2014
25. KFC India Krusher, www.blinksolution.com, accessed on 7 March 2014
26. 'Smart selling on the Idiot Box', Business Today, 4 March 2014

2014: Top 10 trends that will inspire brands to help consumers discover ways to express themselves

Article by Anupriya Acharya, Group CEO, ZenithOptimedia India

ZenithOptimedia has identified six macro trends globally in its 2038 futures project. The project sought to look at how the world might change over the next 25 years and to consider the implications for marketers. From those six macro trends here are the 10 specific changes in consumer behaviours – fuelled by technological developments - that we believe will emerge and develop during 2014:

Experience Quest: The Journey to Self-Discovery

Instead of indulging in material things, consumers choose to hunt for new experiences to explore the unknown, discover possibilities and face with surprising encounters. The amalgamation of these experiences is what makes the individual unique and form building blocks of a highly individual story to be shared.

The Goal Wrist: Measuring Personal Success

Wrist devices to measure health and fitness are set to increase in popularity this year. Harnessing the power of data, brands are well placed to offer rewards for fitness achievements.

Community Consumption: Rooted in Self Interest

With ongoing economic pressures, more consumers will join together to negotiate discounts and to share advice. Peer-to-peer technology companies are facilitating this and brands can play a role.

Photographic Timeline: The Smart Showcase of Self

The emergence of a variety of user-friendly photography apps in recent years help unleash our creativity to tell interesting stories with photographs. We can expect a more mindful, selective smart sharer and photographer where more attention goes to who to share with, what to eternalise and the focus on meaningful value exchange.

Creative Collaborators: Unleashing Unique Talent

There is a significant increase in the number of individuals who have created content that stand should to shoulder with professionally produced news and entertainment. In 2014, we anticipate more of these 'everyday producers' to collaborate with mainstream content publishers, distributors and brands to create content.

Death of Piracy: Rise of on-demand content

Many consumers expect digital content should be free, however, this is now changing as the demand for better quality, relevant and exclusive content are key considerations encouraging consumers to pay for content. With the possibility of cutting out advertising especially in online streaming channels, brands will need to find new and engaging ways to provide content experiences that people value and trust.

The Immersive Theatre: Multi-faceted Screens

Although we may migrate to different devices, the TV screen in our living room is taking helm once again. The converged living room is converted into a powerful entertainment hub where all play and social life come together - thanks to new forms of gaming, new forms of audience participation and rich social experiences.

Biometric Pursuit: Making Sense of Emotions

2014 will see biometric technology move into the mainstream. By identifying even the subtlest nuances of our body language, brands will be able to match relevant content with our moods.

Intimate Ads: Opting-in to Shop

In 2014, digital ads will improve as our mobiles get to know us better, eg the surge of apps that can anticipate our daily needs. Push messaging will become more intimate and less disruptive.

High street to iStreet: Reinventing the In-Store Experience

In 2014 and beyond, the high street will become the i-street as digital technology step into the 'real' retail space to provide personalised and unique experiences. We can expect the retail space becoming a dramatic hub of exploration, interactivity and creativity.

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

Challenges

- **Measurement –** The uncertainty around the TV measurement is expected to continue until the launch of BARC, later in 2014, with the I&B ministry and the industry broadly adopting the new measurement system, some companies are now relying on media agencies for data on media consumption[27]. The recent objections around the latest IRS survey and subsequent withdrawal of the survey has also put some uncertainly in the print media market.
- **Digital tracking and privacy –** The tug of war between protecting customer privacy and tracking to gather data is increasingly a debate with media companies. There is huge demand for customer data. Online tracking in the form of tracking cookies has increased over the years, as websites track an individuals' browsing history, clicks, attention span, and how much time they spend on a particular website to build up a surprisingly detailed profile of a customer. This data is then used to serve up targeted ads. Consumers have become more aware and are making an effort to remove or block tracking cookies[28].

27. 'Brands fret over ratings-darkness', Business Standard, 23 January 2014

28. 'Challenges faced by the online advertising industry', www.contentcrossroads.com, 11 March 2013

- **New media and new models -** As digital media grows and advertising on digital media increases, advertisers and agencies are trying to dynamically learn how to leverage this medium. Optimising their presence around social media, display, search, SEO could require new set of skills and understanding.
- **OOH –** A key requirement of OOH medium is a standardised measuring tool to justify spending in terms of ROI. Regulating a universal measurement system could help in the growth of the industry, as well as it could add confidence in the media. The out of home sector is structurally exposed to a downturn, as it is a high fixed-cost business reliant upon long-term commercial contracts. Despite heavy license fees and taxes, permissions from various authorities and lack of clarity on regulations it continues to create operational challenges for the industry[29].
- **Changing media habits –** As consumers especially in SEC A segments increasingly use DVRs, reduce their engagement with print and increase use of video on demand and new media, advertisers may have to innovate on creating awareness whether through in programme brand presence, co-branding with shows, presence on social media and sponsorship and BTL activities. All this could make it a more complex and innovative task for agencies and advertisers.

The agency business

Media and advertising agencies act as a link between advertisers and media owners by providing services like developing advertising content, planning and buying media space across various platforms, PR services etc. to advertisers. There are broadly the following types of advertising agencies:

Creative agencies

Creative agencies ideate, conceptualise and develop content to market clients' products and brands which is communicated to audiences at large through various media. Leo Burnett, Ogilvy, Taproot, etc. are some of the well known creative agencies in India. Creative agencies could charge a commission between 7 to 9 per cent of the total ad spend. There has been a shift observed in the remuneration model from commission based to fixed fee based. Almost 50 per cent of the revenues on the creative front were fixed fee based in 2013[30]. Creative work usually commands 75 per cent of the total ad agency revenue[30].

Media buying agencies

Media buying agencies plan and buy media space for clients, across multiple platforms. These agencies purchase large amounts of ad inventory in terms of television time and print space and hence are able to command good rates from media owners. Mindshare, Maxus, IPG Mediabrands, Havas Media Group, Starcom MediaVest Group, Vivaki etc. are some of the largest media buying agencies in the country. Commissions charged by media buying agencies range between 1 to 3 per cent of the total media spend[30].

Full service agencies

Full service agencies offer their clients a full range of services such as creative, planning and media buying. Other services offered include media research, event management, trade shows, publicity, public relations etc. Fulcrum media was the first full service agency set up in 1995 for HUL in India. Commission rates for full service agencies are between 8 to 10 per cent of the total media spent by the advertisers[30].

In-house agencies

In-house agencies, which are owned and operated by the company itself, does creative work, PR and brand building for the company. Coca-Cola's Content Factory, Best Buy's Yellow Tag Productions, Fidelity investments' Fidelity Communications and Advertising are some of the in-house agencies set up in order to reduce cost[32]. However, the media buying services are generally outsourced to professional media buying agencies as they get better deals due to bulk buying.

Specialised agencies

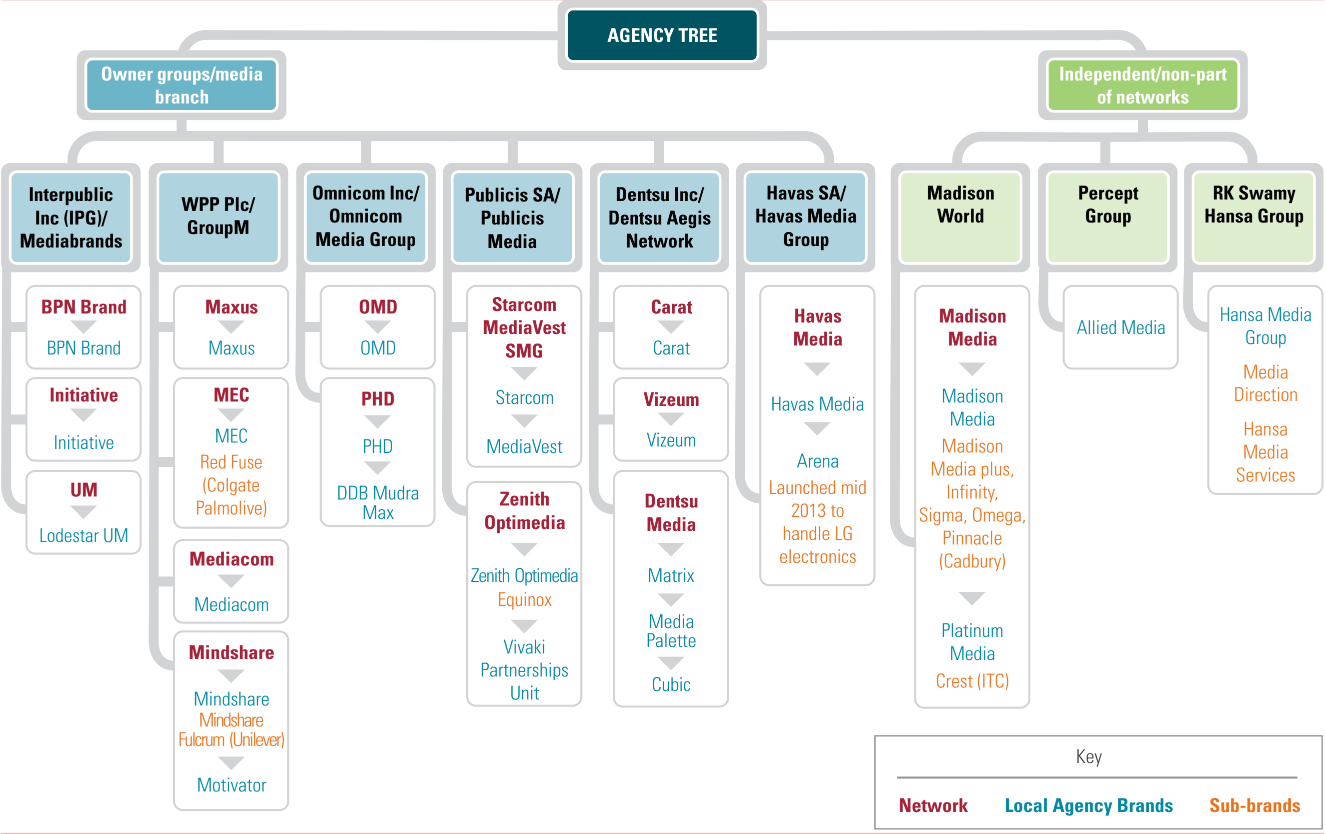
Specialised agencies are generally started by first generation entrepreneurs offering specialised services in new media, mobile advertising, social media or services in specialised segments like rural marketing, digital marketing etc. Advertisers prefer specialised agencies in specific niche areas as they bring subject matter expertise and are less expensive compared to full service agencies. Agency size can vary from 5 to 200 employees. Social Samosa, Social Wavelength, are some of specialised agencies in social media space [30]. Vserv.mobi, InMobi and Vuclip provides platforms for advertisers to advertise on mobile[31].

Media buying industry structure

Mindshare, Maxus, Starcom MediaVest, DDB MudraMax, Dentsu Media are some of the largest media networks operating in India. These media networks operate as part of large owner groups like WPP, Publicis, Omnicom, IPG, Dentsu, Havas Media, etc. These groups also have various creative brands under their fold. The market size of the media buying and creative agency business is estimated at ~10 per cent of the overall AdEx, which was INR362.5 billion in 2013[32].

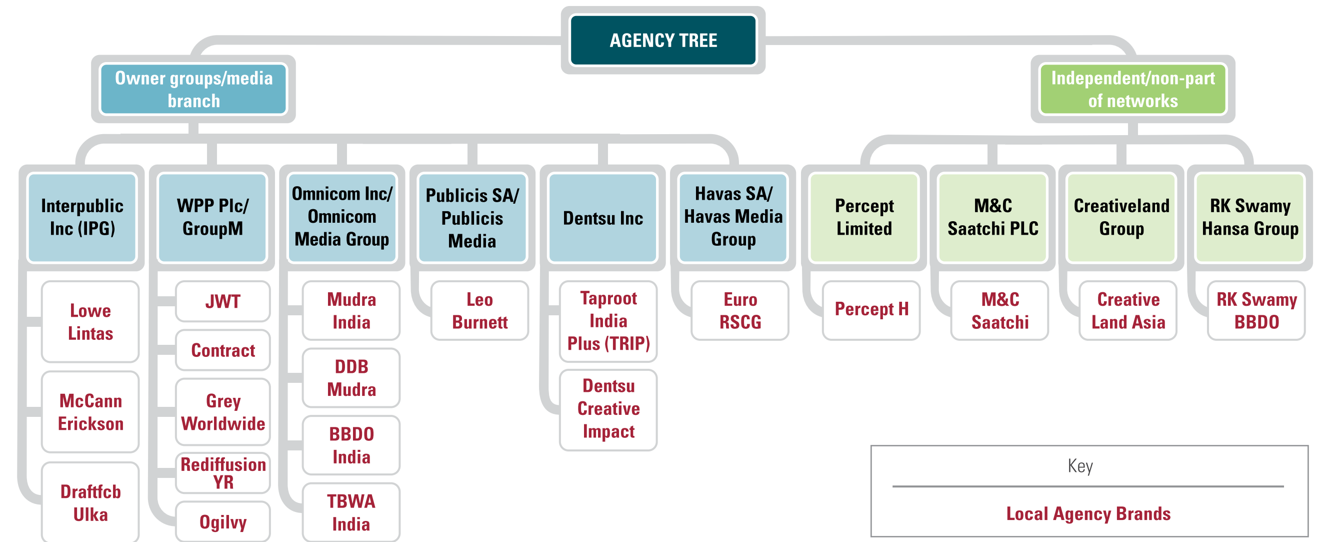
29. 'Challenges faced by the online advertising industry', www.contentcrossroads.com, 11 March 2013
30. KPMG in India analysis, Industry discussions conducted by KPMG in India
31. The Times of India, 21 January, 2014
32. Adage.com, 25 April 2011

Media buying agency tree



Source: KPMG in India analysis

Creative agency tree



Source: KPMG in India analysis

Omnicom is a global marketing and corporate communications company which had announced its merger with Publicis Group to create the world's biggest marketing Communication Company in July 2013. The proposed merger will be effective worldwide over the next 12-18 months[33].

33. Industry discussions conducted by KPMG in India

The 10 per cent commission rate is a combination of fee charged for creative and media buying. ~70 per cent of the market share is dominated by 5 network groups followed by a long tail of smaller unorganised boutiques/specialised agencies [34].

Performance of media buying agencies in 2012*

Sr. No	Local agency brand	Owner Group	Industry share 2012	Growth rate 12/11 %	Overall activity[21] 2012 rounded (USD mn)	Buying and planning share
1	Mindshare	GroupM	18.2 %	15.0 %	1035	81 %
2	Madison Media	Independent	11.5 %	15.0 %	655	80 %
3	Lodestar UM	Mediabrands	9.6 %	19.0 %	545	78 %
4	Maxus	GroupM	9.1 %	11.0 %	515	80 %
5	MediaCom	51 % Madison W. 49 % Group M	6.3 %	10.0 %	355	65 %
6	ZenithOptimedia	Publicis Media	6.0 %	18.0 %	340	83 %
7	StarcomMediaVest	Publicis Media	5.5 %	27.0 %	310	79 %
8	OMD	Omnicom media group	5.3 %	16.0 %	300	80 %
9	MEC	GroupM	5.3 %	13.0 %	300	79 %
10	Havas Media	Havas Media Group	4.1 %	43.0 %	235	79 %
11	Initiative	Mediabrands	4.1 %	-27.0 %	230	90 %
12	Allied Media	Independent	4.0 %	5.0 %	226	71 %
13	DDB MudraMax	Omnicom Media Group	3.1 %	31.0 %	175	69 %
14	Carat	Dentsu Aegis Network	1.7 %	5.0 %	95	58 %
15	Dentsu Media	Dentsu Aegis Network	1.4 %	0.0 %	80	90 %
16	Motivator	GroupM	1.4 %	10.0 %	80	90 %
17	Media Direction	Independent	1.4 %	10.0 %	80	90 %
18	BPN Brand	Mediabrands	1.4 %	25.0 %	80	88 %
19	Vizeum	Dentsu Aegis Network	0.6 %	30.0 %	35	60 %
Total 19 Agencies			**100 %**	**13.0 %**	**5671**	**79 %**

Source: RECMA India report, August 2013

* As per the latest data available from RECMA India report released in August 2013

According to RECMA, GroupM has 37 per cent market share, making it the largest group of ad networks in India followed by Mediabrands 15.1%, Madison 14.7%, Publicis 11.5% Omnicom media group 8.4% and others. In terms of growth Havas Media, DDB MudraMax, Starcom MediaVest, Vizeum, BPN Brand were the fastest growing network companies in 2012 over 2011. Of the overall billings of USD5671 million, media buying and planning constituted 79 per cent of the spend whereas Digital[35] and Diversified services[36] constituted remaining 21 per cent. Local agency brands like Carat, Vizeum, DDB MudraMax, MediaCom, and Allied Media have major portion of their billings coming from the non media buying and planning work[37].

34. Industry Discussions conducted by KPMG in India
35. Overall Activity is now the unique metric retained by RECMA for ranking media agencies. It includes buying and planning billings as well as three other categories of services: 1- Digital services (six segments from display to web production); 2- Diversified Services (Branded Content/ Events/ Sponsoring/ Sports marketing; Local/ retail /multi-cultural/ Econometrics/ ad hoc research; Marketing consulting/ Bartering etc); 3- International Account Coordination. Therefore Overall Activity (OA) volume is larger than Billings which represents from 90% to 50% of a media agency OA.
36. Constitutes 6 segments from display to web production as per RECMA report August 2013
37. RECMA India report, August 2013

Out of 19 agency brands mentioned in the table above, 12 agencies are active in the digital space whose billings are mentioned in the table below:

Digital and diversified services billings

Sr. No	Local agency brand	Owner Group	Digital +DS Billings 2012 rounded (USD mn)	Digital Billings 2012 rounded (USD mn)	Digital Billings (% of Digital +DS Billings)
1	Mindshare	GroupM	197	8	4%
2	Madison Media	Independent	131	7	5%
3	Maxus	GroupM	103	9	9%
4	MediaCom	51% Madison W. 49% GroupM	124	40	32%
5	ZenithOptimedia	Publicis Media	58	17	30%
6	StarcomMediaVest	Publicis Media	65	16	24%
7	OMD	Omnicom Media Group	60	9	15%
8	MEC	GroupM	63	8	13%
9	Havas Media	Havas Media Group	49	10	21%
10	DDB MudraMax	Omnicom Media Group	54	3	6%
11	Carat	Dentsu Aegis Network	40	2	4%
12	Vizeum	Dentsu Aegis Network	14	6	40%
Total digital billings				**USD134 million**	

Source: RECMA India Report, August 2013

Digital billings were 11 per cent of digital and diversified billings combined and 2 per cent of the overall billings of USD1201 million. GroupM reported the highest digital billings of USD45 million followed by Publicis media and Madison World. A large part of the digital spend also happens through specialised agencies which are not a part of these network groups.

Evolution of the ad agency business

Ad agency business has evolved over two decades in India in terms of service offerings, remuneration model and market structure mainly due to economical and technological factors. We represent five trends in the next table which highlights the evolution of the ad agency business.

Evolution over the years

Trends	Late 1990's	2010 onwards
Market fragmentation	Top five group of networks had a market share of 95 per cent	Top five groups of networks have a market share of less than 79 per cent
Unbundling of full service agencies	Full service agencies used to fulfill all the needs of advertisers from creative content development to media planning and buying	Full service agencies unbundled to offer 'creative and planning services' and 'media buying services' separately; industry further restructured to offer media buying and planning services under one roof while creative agencies only focused on the creative work. Today, there is a consolidation wave prevailing in the industry as Media buying and planning agencies acquire digital agencies to strengthen their position and offer multiple services.
Change in the Remuneration model	Full service agencies commanded a strict remuneration of 15 per cent percent from clients	After unbundling, creative and media planning agencies took a commission of 12.5 per cent while media buying agencies got 2.5 per cent as commission; today Media buying and planning agencies get between 1 to 3 per cent as commission while Creative agencies usually charge a fixed fee or 7 to 9 per cent commission.
Emergence of specialised agencies	Hardly any specialised agency	Surge in the number of specialised agencies due to advent of technology and opening up of market in Tier 2 and Tier 3 cities. Agencies have come up in the areas like analytics, social media, mobile, rural marketing, CSR etc.
Client interaction has changed from Single agency to multiple agencies	Advertiser dealt with not more than 1 or 2 ad agencies for a campaign	At least 4 to 5 agencies to carry out online campaign along with creative and media buying and planning agencies; today in certain cases almost 10 to 12 agencies are appointed to carry out cross platform integrated campaign across various media like mobile, social media etc. across rural and urban areas.

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

• Market fragmentation

The industry structure has changed over the last two decades with more and more fragmentation which is likely due to emergence of new media, the emergence of specialised boutiques, increase in customer touch points, and opening up of the market in Tier 2 and Tier 3 cities. New advertising agencies have come up to cater to the increasing needs of advertisers to reach out to their audiences in urban as well as rural areas. Some of these touch points include online, social media, mobile, restaurants, airlines, in transit OOH like airport terminals, railway terminals, cinemas, information kiosks etc. Regional print media is getting traction as advertisers are focussing on Tier 2 and Tier 3 cities to push sales. Thus, the market has become highly fragmented, which is evident from the fact that the top five groups of networks constitute less than 79 per cent of the market share in terms of overall billings[38], with the rest occupied by independent networks and a long tail of specialised ad agencies. This is in contrast with the market structure two decades ago when top 5 groups commanded about 95 per cent of the market [39].

• Unbundling of full service agencies

In late 1990's and early 2000's, many agencies which focussed on the creative part of advertisements did not have the throughput or the expertise to buy media efficiently. Thus, some full service agencies experienced in media buying set up Agency of Record (AOR) department within their agency to buy media space for advertisers whose creative work was not handled by the agency, giving agencies the width to work with more clients and increase its revenues. Realising the economies of scale involved, agencies branded their media departments and hived them off as separate units[40].

Today, it is likely that industry is heading towards consolidation as media buying networks are acquiring digital companies to offer digital services to their clients and develop proprietary research tools to increase client's return on investment.

Media agencies have gone through a full circle of evolution starting from unbundling of bundled agencies in late 1990's to evolution of specialised agencies in late 2000's and finally consolidation of agencies in 2013.

- Ashish Bhasin
Chairman and CEO South Asia,
Dentsu Aegis Network

38. RECMA India Report, August 2013
39. Industry Discussions conducted by KPMG in India
40. Media planning and buying, by Arpita Menon, Released in 2010

- ## Remuneration model

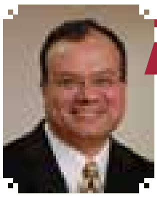
Along with the evolution of the agency structure, their remuneration model has also changed compared to earlier times when there were full service agencies charging close to 15 per cent commission on the total billings. With the hiving off of the media planning agencies, commission was split between creative and planning agencies and media buying agencies with former getting 12.5 per cent and latter getting 2.5 per cent of the total billings. Again, the service offering was restructured and planning merged with media buying as inherently, media buying and planning is interlinked. However, with rising cost of media buying, trimming of marketing budgets and increased commoditization of advertising services, there has been a sharp fall in the agency commissions. Some genres such as the creative agencies moved to a fee based model, relatively unscathed by the media spend cuts of the advertiser. Even if they are paid via the commission model, they manage to get 7 to 9 per cent of the total billings in their kitty[41].

Media buying has been a fundamentally challenged industry where large agencies have been playing volume game. However over a period of time, rates have started becoming hygiene and its smart buying tactics which are making all the difference. Clients' preference for large agencies (with commoditised buying) seems to be changing with time - essentially establishing that size does not matter anymore.

- Anita Nayyar
CEO Indian and South Asia,
Havas Media Group

Emergence of specialised agencies

Emergence of new media like social media, mobile and new avenues like rural marketing have prompted entrepreneurs to come up with specialised solutions to cater to the growing needs of advertisers to reach a larger audience base through multiple touch points.



In the creative business today, the commission-based model has become a thing of the past. Clients have started to understand and appreciate the contribution made by their communication partners and hence have moved to a fee-based system predominantly.

- Pratap Bose
Chief Operating Officer,
DDB Mudra Group

The advertising agency business in India has gone through intense entrepreneurial phases followed by consolidation. This is almost cyclical and currently we are seeing the entrepreneurial phase in full bloom. Consolidation is soon to follow.

- Dr. MG Parameswaran
Advisor,
Draftfcb + Ulka

However, the media buying agencies were forced to accept low commission rates. Agencies which have relatively lower billings demand a 2.5 to 3 per cent as commission, whereas large agencies could get anything between 1 to 3 per cent. This is on account of the total billings of large agencies being relatively higher, and hence they make up in absolute terms. Media buying and planning agencies are increasingly looking to widen their expertise in the fields of social media, activation and below the line advertising, where commissions tend to be higher. Social media for instance, commands 10 to 15 per cent commission. Overall, advertisers pay 7 to 10 per cent of their total billings to agencies out of which 2 to 3 per cent is spent on media buying and planning agencies [41].

Many digital agencies have come up offering specialised services like Search Engine Optimization (SEO), Content Management Systems (CMS), Social Media marketing, marketing through emails, banners etc., developing mobile apps, mobile websites and websites etc. Specialised agencies like Social Samosa and Social Wavelength offer social media services[41]; Agencies like InMobi, Vserv.mobi and Vuclip are some of the specialised agencies in Mobile space providing mobile advertising platform[42].

2013 saw a series of acquisitions of these specialised agencies by the media groups, in order to strengthen their digital service offerings. For instance, Publicis acquired full service digital agency Indigo Consulting[43] and technology service provider Neev[44] among many others and aligned it with Leo Burnett and Razorfish respectively. Dentsu's Aegis media acquired Communicate 2 to offer wide range of digital services to their clients[45].

41. Industry Discussions conducted by KPMG in India
42. The Times of India, 21 January, 2014
43. The Economic Times, 25 April 2012
44. www.afaqs.com, 19 April 2013
45. www.medianama.com, 13 August 2012

More recently, DDB Mudra, part of the Omnicom Group has acquired Bangalore based digital agency 22feet merging the latter with Tribal Worldwide India creating a new entity under the Omnicom banner known as 22feet Tribal Worldwide. The new entity will continue to offer the same services as 22feet which include end-to-end digital and mobile branding and marketing solutions[46].

Media agencies have evolved from offering media planning and buying services to providing integrated communication solutions for brands. The media agency (if such a term exists) of the future will be built on technology, data and content.

- **CVL Srinivas**
CEO,
GroupM South Asia

Rural marketing is becoming the next frontier of growth as existing media houses are developing in-house capabilities and specialised agencies have come up to serve the needs of advertisers to reach audiences in rural areas. Aegis Media has launched Carat Fresh rural, a rural communications agency, which is the rural division of Carat Fresh Integrated. It provides services like rural planning, implementing outreach campaigns in rural areas, monitoring, 'Haat' and 'Mandi' contact programs, 'Melas' and other marketing communication activities etc [47]. Anugrah Madison is another agency having expertise in the rural markets which is a tie-up between Anugrah Marketing and Madison media[48].

- Client interaction has changed from single agencies to multiple agencies

In today's fast changing world, advertisers are more than willing to experiment with different ideas and communicate to customers through different channels. Many advertisers appoint multiple agencies for carrying out campaigns through various platforms like mobile, social media, OOH and in tier 2 and tier 3 cities where larger agencies might not have enough reach. Many advertisers are interacting with multiple agencies rather than depending on a full service agency for all the services. There are advantages and disadvantages attached to both.

The days of a full-service-agency got seriously stressed when media got pulled out into a separate vertical. Currently we are seeing several other specializations like PR, Activation, Digital, Design also getting their due. But in the long term we may see some level of harmonising of these eight - ten agents into a more manageable set of three- four.

- **Dr. MG Parameswaran**
Advisor,
Draftfcb + Ulka

Dealing with fewer agencies v/s multiple agencies

Dealing with 1 to 2 agencies	Dealing with multiple agencies
High dependency on one agency	Reduce the dependence of advertisers on one agency
Multiple services from a single agency come at an increased cost	Advertisers have high bargaining powers so their services come at a relatively lesser cost
Involves lesser fixed operating cost	Managing multiple agencies increases fixed operating cost
Ideas and expertise available might be limited	Exposure to more ideas and expertise
Ad agencies are treated as business partners	Ad agencies are treated as vendors
Handling 1 to 2 agencies is easier	Handling multiple agencies can be chaotic and difficult to produce a homogeneous integrated campaign across multiple platforms

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

46. The Economic Times, 24 February 2014
47. The Hindu Business Line, 17 December 2013
48. Industry Discussions conducted by KPMG in India

Regulation

A significant section of the society is influenced by advertisements appearing on Television, Print and Radio which drive their purchasing behaviour. Internet is also influencing the buying behaviour of the customer making him more aware about brands and products available in the market. Due to competition among the national and international brands in the market, advertisers are trying to break the clutter by luring customers with attractive offering. This might result in advertisers making false claims and providing misleading information to the customers. Misleading advertisements result in unfair competition, litigation and increased dissatisfaction amongst consumers. The industry is currently self-regulated. There has been an ongoing debate over whether there is need for more stringent regulations. The responsibility for regulating advertisements comes under the purview of Advertising Standards Council of India (ASCI) in India, which acts as an independent self-regulatory body. However, due to the lack of law enforcement powers, ensuring compliance tends to be a challenge for ASCI. There were concerns raised by the Department of Consumer Affairs (DCA), a Government body, challenging ASCI's effectiveness. Discussions about government intervention in the form of legislative control are still underway[49].

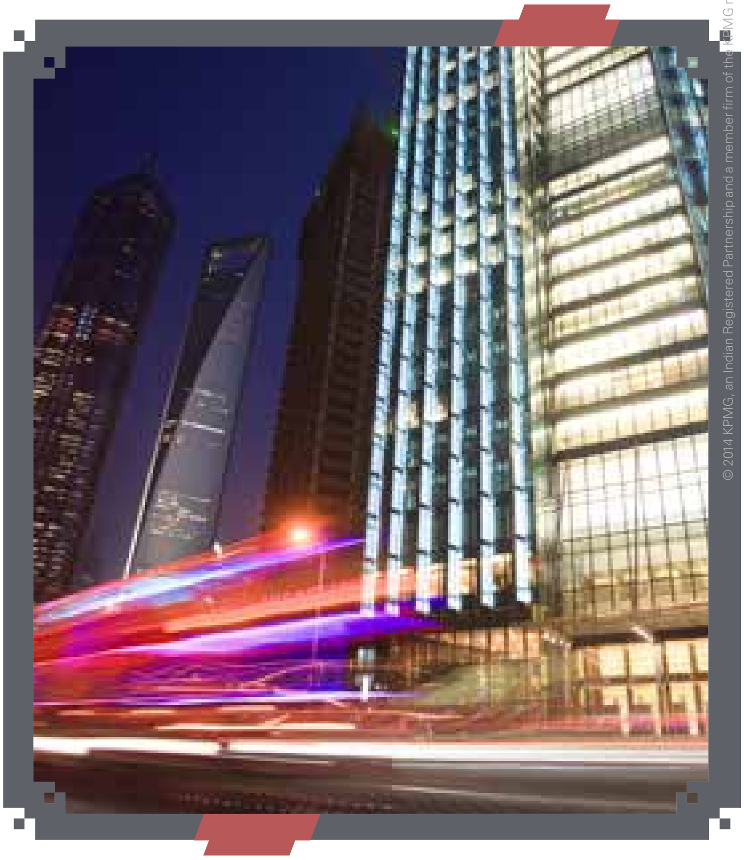
Strengths, initiatives and challenges

Strengths and initiatives	Challenges faced
ASCI has a balanced organizational structure representatives from advertisers, agencies, media etc belonging to the industry and civil society	ASCI is restricted in its enforcement powers due to lack of legal backing
ASCI codes are based on international codes such as the International Chamber of Commerce's Code of Advertising and Marketing Communication Practice and European Advertising Standards Alliance	Awareness about ASCI on a wider scale needs to be created. ASCI also needs to create awareness among rural consumers who are more vulnerable than the educated class
Copy Advice: it comprises of non-binding advice provided to the member before the launch of an advertisement stating whether or not the advertisement complies with ASCI code and government rules	Exposure to more ideas and expertise The process of intimation and retribution in the ASCI needs to be more structured and transparent
Fast track system is established to cater to intra-industry cases or member-to-member complaints. Decision making time takes around 7 working days as opposed to 30 days in normal cases	The ASCI does not seem to have a clear cut strategy for monitoring the digital platforms. With the digital wave hitting every aspect of the industry, it is imperative that ASCI broadens its horizons to cover the digital aspect

Source: Advertising Standards Council of India, www.ascionline.org

Conclusion

Year 2014 is expected to perform better than 2013 with an expected advertising revenue growth rate of 13.1 per cent[50] Significant amount of growth in ADEx is expected to come from General assembly elections alone. Other areas to look for would be automobiles as the sector is lined up with couple of new launches this year and BFSI which is expected to grow in the second half due to expected change in policies post election. Digital media is expected to continue its growth trajectory with projected growth rate of 36.9 per cent in 2014[50]. TV, Print, Radio and OOH are also expected to perform better in 2014 with projected growth rate of 11.9 per cent, 10.1 per cent, 13.7 per cent and 10 per cent respectively[50]. ATL: BTL ratio is expected to reach 50:50 by 2015, as companies are expected to spend on marketing activities in rural areas (dominated by BTL activities) to push their sales[51]. Technology is already taking advertising to a whole new level as advertisers are integrating Augmented Reality (AR) solutions with their campaigns to enhance customer interaction with their brands. On the agency side, media agencies are moving towards consolidation phase where media buying and planning agencies are acquiring full service digital agencies to help clients carry out cross platform integrated campaigns to reach their audiences through multiple touchpoints.



49. Advertising Standards Council of India, www.ascionline.org
50. KPMG in India analysis
51. Industry Discussions conducted by KPMG in India

12

Live Events

Taking centre stage

From its origins in stage construction, artist management and event coordination to the 'business of experiences', the live events sector in India has come a long way. It is a unique vertical within the media and entertainment industry; an industry in its own right that has emerged out of a confluence of different verticals such as music, television, broadcasting, advertising, print and radio. With growing importance on experiential channels to connect with audiences and target groups, live events in India has thrived in the recent years.

For the purpose of this report, live events has been defined to include corporate events and brand activation, Meeting, Incentives, Conference and Exhibitions (MICE) and trade shows, and IP-driven events such as festivals and live performances including televised stage performances; however, this report excludes the 'social events' sub sector – weddings, birth and marriage anniversaries, personal events and sports events but we have carried an external point of view on wedding space in this report. Though very large in terms of industry size and market activity, the social events sub sector is highly fragmented and unorganised. Sports events – such as the Indian Premier League, Mumbai Marathon, Hockey India League and Indian Badminton League – are mostly still emerging and primarily TV driven and have been excluded due to unavailability of consistent data.

2013 marked a clear slowdown for the live events sector. Coming on the back of a slowing economy in 2012, CY 2013 witnessed growth of a mere 8-10 per cent over the previous year[01]. For an industry which exhibited growth rates of more than 20 per cent YoY between 2008 and 2012[01], the past two years have indeed been a time for consolidation, renewal and fresh thinking. The primary reasons for this slowdown have been the rupee depreciation (thereby affecting outbound MICE), general economic stagnation (therefore lower corporate and advertising spends), rapidly rising artist and talent costs, and continuing lack of infrastructure in the country (inbound MICE could not take advantage of the Rupee depreciation). However the emergence and ongoing strength of serious and credible IP-events such as Jaipur Litfest, NH7, Sunburn, IIFA and the Filmfare Awards showed promise and generally uplifted the sector.

The sector has experienced some defining changes in recent times: IP-events, brand and community building through experiential initiatives and niche event management capability are a few of them. While it remains a fairly unorganised and fragmented business – with many small and new operators continuing to mushroom – there are around eight to ten emerging players of national scale. Growth, despite the short-term slowdown, does not seem to be a challenge at the moment; and this should attract more strategic and financial investors to this segment.

The industry maturity model

Maturity Metrics	Indian Live Events
Performance measurement	Poor
Corporate governance	Somewhat defined
Topline	Fair
Scalability	Good
Spend on innovation	Moderate
Clientele	Sustainable
Focus on cost reduction	Good
Focus on cost removal	Poor
Risk management	Somewhat defined
Skill building and retention	Poor
Fragmentation	High
Growth	High

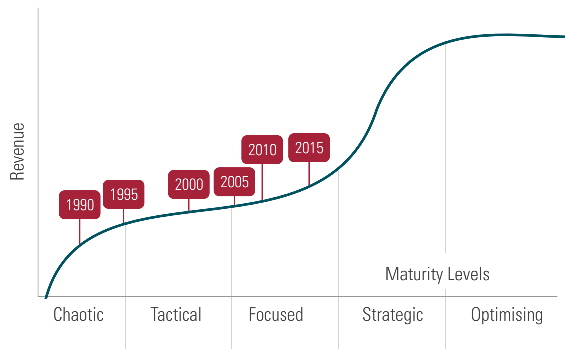
Source: Industry discussions conducted by KPMG in India

The industry has made a lot of progress in developing processes, intellectual properties and workforce capabilities. Major industry players have developed their own areas of operation. However, the industry is still young and very fragmented - far from maturity – but we are confident that we would see a major spurt of growth in future.

- Sameer Tobaccowala
CEO,
Shobiz Experiential Communications

01. Industry discussions conducted by KPMG in India

Industry evolution



Source: Industry discussions conducted by KPMG in India

Industry evolution

1990: Mainly venue management, artist coordination and equipment sourcing

1995: Managed events pick up (led by organisation of large-scale social events)

2000: Emergence of a few 'organised players' (consolidation of mom-n-pop shops into partnerships and privately-held companies)

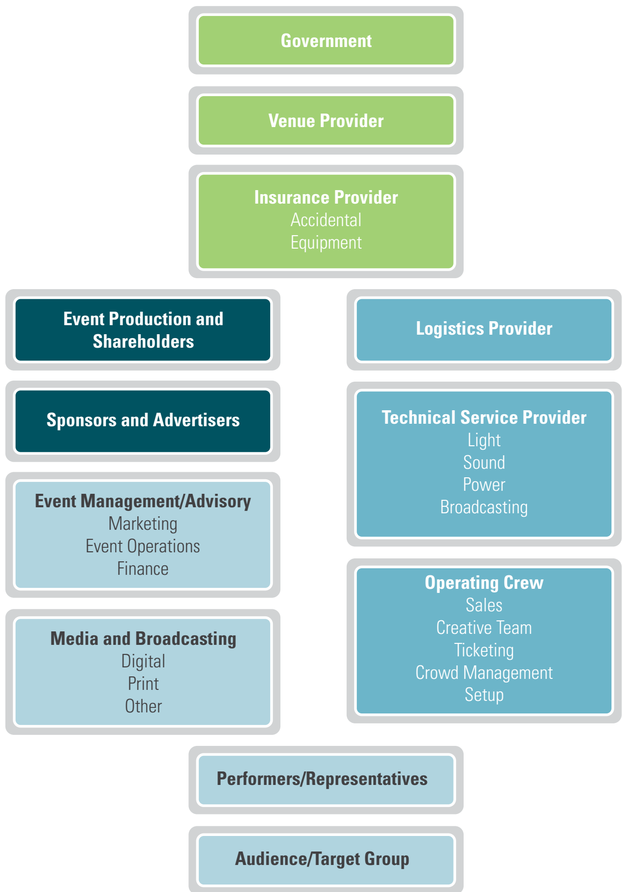
2005: Corporate events pick up pace leading to six years of high growth

2008: Increased importance of IP and formation of the first 'event properties' from within the live events community

2013: Corporate slowdown leading to churn, diversification and skill renewal

2015: Could see niche capability building, major consolidation, strategic partnership and revenue sharing leading to robust and sustainable growth.

Major stakeholders in the ecosystem



Source: Industry discussions conducted by KPMG in India

The lack of a scientific measurement system is certainly hurting the experiential marketing industry. But there seems to be no global precedence either. No wonder live events - especially Bollywood performances and award shows - backed by TV broadcasters are growing in flavour with advertisers.

- Sabbas Joseph
Director,
Wizcraft International Entertainment Pvt Ltd

One of the key characteristics of the sector continues to be collaborative partnerships. The typical value chain involves more than five partners working on specific areas of the event. While some event management companies have developed their own in-house skills, others have joined hands with specialised service providers and vendors. This has helped companies to leverage on certain unique benefits.

Decoupled business processes	Separation of different functions of an event such as venue management, logistics, obtaining regulatory clearances, etc.
Lower capital investments	Event management companies may not need to invest in auxiliary services such as logistics and venue management.
Niche skill development	In a collaborative partnership, every partner brings certain niche skills to the table. Hence, they stand to gain expertise in respective areas of operation.
Improved cash flow	Outsourcing to third party vendors help in reducing expenditure in non-core activities such as venue setup, waste management, etc.
Lower entry barriers	Power of collaboration helps new companies venture into this business with low upfront capital investment.
Lower cost of human resources	It becomes easy for the event management firm as they do not have to maintain a big crew in their payroll.

Source: Industry discussions conducted by KPMG in India

However, partnerships may often increase complexities of the events. Some of the major drawbacks being;

Increased coordination	Coordination is essential to make the whole collaborative set up work, and it takes up most of the time of event managers.
Quality concerns	Local vendors do not always live up to the quality standards of the event firm or client.
Limited control over procurement	Procurement function may be outsourced to a third party vendor and the event firm may not have direct control over it.
Concern of inconsistent experience	Due to the difference in the vendors across the country, quality and consistency may change across venues and locations.
Non-homogeneous safety standards	Safety standards also vary between different stakeholders in the collaboration.
Legal issues	Legal issues, contracts and paperwork, and subsequent litigation between different stakeholders may also incur additional cost.

Source: Industry discussions conducted by KPMG in India

Our industry discussions indicate no major changes in the co-operative model in the near future, while **niche capability building** would continue to evolve as a priority. Some sector players are even positive about revenue sharing models with the service providers and stakeholders in the value chain. The industry would continue to see more collaboration and major consolidation among service providers in the future.

We like to define the business we are in as the business of branded content for communities. The three key elements are a strong brand, expert and niche content and strong relationships with communities. Live events are becoming an important focus area for magazines as they combine a strong brand with community relationships to produce distinctive and differentiated events that other media are unable to produce. These events help us increase our audience and also allow the sponsor brands to interact with their target audiences. We amplify these events through social media, coverage on television channels and of course, through our magazines.

- Tarun Rai
CEO,
Worldwide Media

Segments of the live events sector

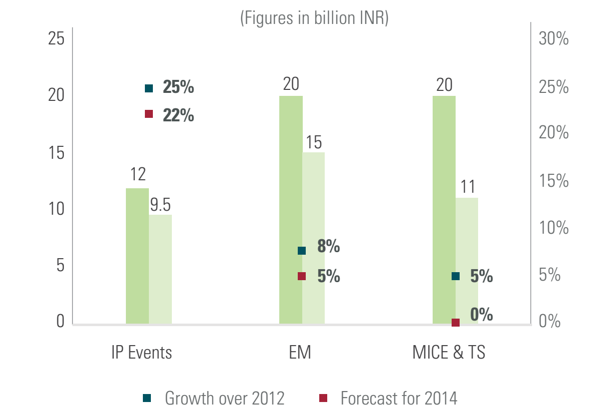
From the business model and type of clients served, the three prominent sub sectors are:

	Business model	Clientele
IP Events	The event management company invests in building a brand around a signature event – mostly around music, literature and art, sports, entertainment, fashion or business.	The defined target audience (B2C) and sponsors and advertisers seeking to connect with that audience.
Experiential marketing	Below the line promotions, advertising campaigns, product or brand or film launches, and personalised experiences designed to drive sales and enhance brand experience. The rural segment is large.	Product, service and experiential brands in FMCG, telecom, film, TV shows, auto, foods, healthcare, technology, etc.
MICE and Trade shows	Corporate and industry trade shows, meetings, incentives, conferences and exhibitions in bound or out bound or domestic – covering business tourism.	Companies, divisions and brands of companies, industry bodies and associations.

Source: Industry discussions conducted by KPMG in India

Size of the live events market in India

Size of the live events market in India

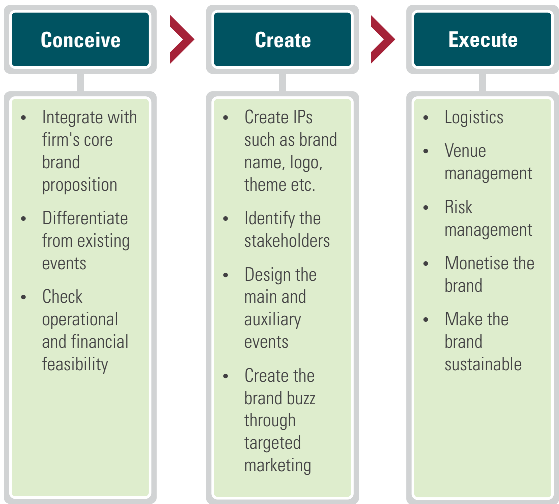


Source: KPMG in India analysis

The intellectual property events business

The business model for IP-events is conceiving and creating a brand around an event. Over a period of time the brand develops an identity, acquires brand value, and becomes a 'pull factor' in its own right. The IP-event business is among the fastest growing segments for many Live Event firms today.

Size of the live events business in India



Source: KPMG in India analysis

The major sources of revenue for an IP-event include: (a) Sponsorship, (b) Gate Receipts and (c) Broadcast Rights. The revenue mix varies for each event and there seems to be no settled formula yet. Many properties thrive on the 'pocket-money economy' to drive ticket sales; for others, sponsorship and broadcast rights are major sources. For example, the main Sunburn event in Goa gets up to 70 per cent of its revenue from gate receipts and 25 per cent from sponsorship, and for NH7 Weekender it is 35 per cent and 65 per cent respectively; while film-related events such as Filmfare Awards and IIFA have a 50-50 split between sponsorship and TV rights.[02]

Events such as the Jaipur Litfest and Kala Ghoda Arts Festivals derive almost 75 per cent of their revenue from sponsorship.[02] Conversely, the Russell Peters Comedy Tour in India collected almost 90 per cent of its revenue through gate receipts. At international festivals, merchandising and concessionaire revenue is often a robust way to monetise the IP, but in India it is a marketing expense to most IP-owners due to availability of pirated, cheap substitutes.

02. Industry discussions conducted by KPMG in India

On the cost side, artists and entertainers make up 50-60 per cent of the total cost, followed by venue management (including stage, art and décor) and marketing at 15 per cent each.[03] Rising artist costs is a major concern (coupled with escalating cost of international acts due to Rupee depreciation), leading to several partnership breakdowns in 2013. Taxation – at the state and customs level – is another major cash flow constraint. Besides that, local permission challenges and restriction on sponsorship by liquor and tobacco companies may also need immediate attention from the government for continued growth.

In 2013 the major Live Event companies, radio stations, newspaper and magazine publications, TV broadcasters and fashion agencies taken together have organised 150-160 IP-events across the country; with live music festivals and programmes accounting for 55-60 of such events. Most of the music events – folk, fusion, rock and EDM – in the past have chased the same audience: 1.5-2 million highly urban, SEC A+ and in the 15-35 age group.[03]

In 2013 IP-events led the growth for the live events sector. Growth was coming from various quarters, which include: (i) more events as a larger number of Live Event companies plunged into the IP-events space and categories expanded from film awards, music, fashion and literature into art, business and real estate, auto and lifestyle; (ii) higher ticket prices. Pricing of tickets in IP-events, especially in music and comedy seemed to support 25-30 per cent increase over 2012[03]; and (iii) entry of 'more serious' and strategic sponsors. After the initial years of experimenting, sponsors seemed to have found their 'event-to-brand' fit and are more seriously investing in these properties. Televised stage performances – especially those that are housed in award shows such as Filmfare, IIFA, Mirchi Music and Life OK Screen Awards – continued to attract bigger sponsors and higher TV revenue for the IP-owner. The use of A-list stars as performers and anchors, and high decibel promotion of these performances as 'tentpole' TV events, kept an increasing TV audience glued to their screens driving TRPs.

In 2014 there seems to be concerted effort to expand the audience through spinoffs and IP-events in Tier II cities, the Northeast, and college-town locations. As the audience grows, many event owners are reaching out successfully to non-traditional advertisers, niche brands and local (real estate, retail and jewelry) brands to support IP-events.

Multiple IPs, all with similar content have only created confusion. Only IPs with a strong brand story and unique, but specific consumer experience will survive and grow.

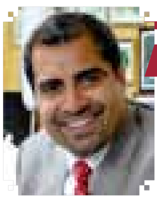
- Karishma Hundalani
Head - Brand and Content,
EVENTFAQS Media Pvt. Ltd.

Some of the prominent events

Event	Property Owner	Date	Location	Details
Sunburn Goa 2013 Festival[04]	Percept	27-29 Dec 2013	Goa, India	Running for the 7th year, this year's event was hosted at the Vagator Beach in Goa. The main sponsor was Hero MotoCorp.
Bacardi NH7 Weekender Pune[05]	OML	18-20 Oct 2013	Pune, India	The Pune chapter of NH7 Weekender was hosted in Laxmi Lawns. Bacardi India was the main sponsor for the event.
Jaipur Litfest[06]	TeamWork	17-21 Jan 2014	Jaipur, India	More than 240 authors participated in the five day event. Zee Entertainment was the main sponsor of the event.
Mahindra Blues Festival[07]	Mahindra/Fountainhead	15-16 Feb 2014	Mumbai, India	This was the 4th edition of Asia's largest blues festival staged at Mehboob Studios, Bandra.
CNBC TV 18 Indian Business Leader Awards[08]	CNBC-TV18	13 Jan 2014	Mumbai, India	The 9th edition of the India Business Leader Awards was hosted in Mumbai. Omkar Realtors and Developers Pvt Ltd. was the main sponsor of the event.

03. Industry discussions conducted by KPMG in India
04. Sunburn Goa 2013 Website
05. Bacardi NH7 Weekender Pune 2013 Website
06. Jaipur Litfest Website
07. Mahindra Blues Festival Website
08. Article on Indian Television Website, 14 January 2014: http://www.indiantelevision.com/television/tv-channels/news-broadcasting/cnbc-tv18-hosted-9th-edition-of-india-business-leader-awards-2013-140114

Event	Property Owner	Date	Location	Details
Filmfare Awards[09]	The Times Group	24 January, 2014	Mumbai, India	The 59th Filmfare Awards has hosted in Yash Raj Studio in Mumbai. Idea was the main sponsor of the event.
IIFA Awards[10]	Wizcraft	4-6 July, 2013	Macau, China	The 14th IIFA awards was hosted at The Venetian Macao in Macau, China. The main sponsor for the event was Tata Motors. The 15th IIFA is all set to be hosted in Tampa Bay, USA.
Forbes India Leadership Awards 2013[11]	Forbes India	16 October, 2013	Mumbai, India	The 2013 edition of the Forbes ILA was hosted at the Trident in Mumbai. Rolex and Dia were the associate sponsors.
Lakmé India Fashion Week Winter 2013[12]	Lakmé and IMG Reliance	23-27 August, 2013	Mumbai, India	The LFW Winter 2013 was organised at The Grand Hyatt Hotel, Mumbai. The event was co-sponsored by Jabong.com and DHL.
EY Entrepreneur Of The Year Award[13]	EY India	20 February, 2014	New Delhi, India	The 15th EY Entrepreneur of the Year award was hosted at the Taj Palace in New Delhi.
India Bike Week[14]	70 EMG	17-18 January, 2014	Goa, India	IBW is built around bikes and biker communities in India. The 2nd edition was held in Goa in association with Harley-Davidson.
Kala Ghoda Arts Festival[15]	Kala Ghoda Association	1-9 February, 2014	Mumbai, India	The 9-day long, 16th KGAF was held in Mumbai - in partnership with Hindustan Times.



Sunburn currently has over 6.2 million fans globally with over 120 events in just one year making Sunburn Asia's largest music festival brand. I truly believe that Sunburn is of the fans, by the fans and for the fans. It's time for all of us to live love and dance.

- **Shailendra Singh**
Joint MD,
Percept Ltd.

09. Filmfare Website
10. IIFA Website
11. Forbes India Leadership Awards Website
12. Lakme Fashion Week Website
13. EY Website
14. India Bike Week Website
15. Kala Ghoda Association Website

Key advertisers and sponsors

National advertisers across categories such as FMCG, consumer durables, mobile services and automobile dominated the sector, followed by liquor companies, financial services and traditional media organisations. Traditional high spenders also dominated the live events list of spenders: among them were Hero MotoCorp, Micromax, Nokia, Airtel, Vodafone, Tata Motors, General Motors and Hindustan Unilever (HUL). Banks and insurance companies emerged as a major source of sponsorships for IP-events, especially those organised by TV broadcasters with business themes. Due to government regulations, liquor brands took to IP-events – primarily music and fashion – in a big way. This is expected to accelerate as both client and event firm find a perfect fit. Automotive brands stepped up their involvement in live events, particularly film and music awards shows and in experiential marketing, in the wake of the severe slowdown in auto sales in 2013. Rural oriented IP-events were driven by FMCG and consumer durables.

Below is an illustration of two shows – the IIFA and the Oscars – to add some global perspective. The table below is to exhibit different aspects of IP-events in terms of scale and its various metrics.

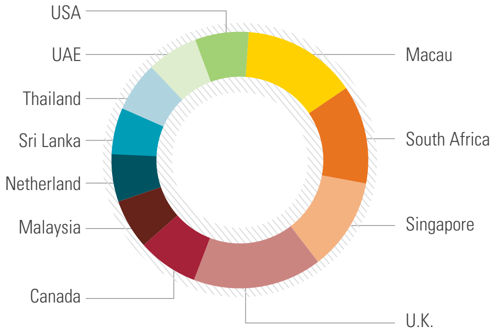
A look at the shows – IIFA and Oscars

	The Oscars	IIFA
First Award	1929	2000
Awarded By	Academy of Motion Picture Arts and Sciences (AMPAS)	International Indian Film Academy
Event IP Owner	AMPAS	Wizcraft International Entertainment Pvt. Ltd.
Current Number of Award Categories	24 and 5 Special Categories	28 and 11 Special Categories
Ticket Price Range	By Invitation Only	USD350 - USD3300
TV Rights	ABC	STAR TV in India
Average TV Viewership	Around 40.3 million in USA and almost 1 billion estimated worldwide[16]	Around 700 million worldwide[17]
Destination Pie	Only in USA	Only foreign locations
Related Events	Sci-Tech Awards, Governors Awards	IIFA Stomp, IIFA Film Workshop, IIFA Magic of the Movies and Technical Awards, FICCI - IIFA Global Business Forum
Prominent Sponsors	Hyundai, JC Penny, Samsung, Coca-Cola, American Express, and McDonald's[18]	Tata Motors, Videocon, PVR Cinemas, 93.5 Red FM, and Star Plus [19]
Key Trends	• Viewership is stagnating, grew by only 3 per cent in 2013 after declining in 2012, however young viewership has increased from 2012 [20] • New production team has been hired • The name of the event is now only 'The Oscars'	• The Global Viewership grew by 22 per cent compared to last year[21] • IIFA has set foot in USA for the first time • The events have expanded from one day to three day event • There has been constant addition of categories over the years • Showcasing Indian culture and tradition through dance performance has been a prominent theme for this show

According to Wizcraft sources, the organisers and owners of the IIFA property, IIFA has grown into an INR 1.1 billion plus annual business with margins of 22 per cent; and estimated to grow to INR 1.5 billion by 2015 with margins of 25 per cent.

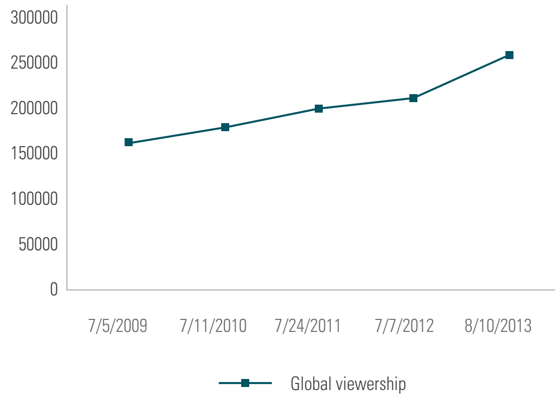
16. Neisen Data for Oscars, 17 December 2013
17. IIFA viewership estimate published in StarPlus Website. http://www.starplus.in/iifa-2012/iifalogins.aspx
18. Article on Broadcasting and Cable Website, 15 February 2012: http://www.broadcastingcable.com/news/advertising-and-marketing/abc-reveals-oscar-sponsors/52819
19. IIFA Website
20. Article on The New York Times Website, 25 February 2013: http://www.nytimes.com/2013/02/26/movies/awardsseason/higher-ratings-and-controversy-for-seth-macfarlane-at-oscars.html?pagewanted=2&_r=0
21. Statistics by TAM Media Research Pvt. Ltd

IIFA Destinations



Source: IIFA Website

IIFA Global viewership



Source: TAM Media Research* (*Disclaimer: Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.)

Experiential Marketing (EM)

Experiential marketing has grown in importance for most Indian corporates and advertisers. Be it Coca Cola's 'Small World Machines' or 'Mahindra Monastery Escape', businesses and brands across different verticals are recognising the power of below the line marketing. By creating an experience for the target consumers, experiential marketing aims to deliver high levels of engagement and customisation. This has been highly effective in breaking through to the rural consumer – millions of new users that like to see, touch and feel a product – in the past decade.

Experiential marketing is typically effective - (i) in case of products requiring higher degree of customer involvement, and (ii) to supplement print, outdoor and television advertising. The use of a captive environment to create a brand experience for the customer is the USP of this channel. Experiential marketing is closely integrated with brand activation and engagement. This is one of the most dynamic channels for the live events sector with new engagement properties being created continuously, especially in the rural segment.

Some of the prominent EM events in 2013

Event	Date	Location	Details
Coca-Cola Small World Machines[22]	May 2013	New Delhi	'Small world' vending machines with touchscreens were installed at malls in India and Pakistan – providing a live communication platform.
Maybelline Stay 14 Hour[23]	February 2013	Mumbai	Maybelline's Super Stay 14 Hour campaign concluded in Phoenix mall, Mumbai with a product launch.
Mahindra Monastery Escape[24]	August 2013	New Delhi to Leh	Convoy of 20 vehicles were driven from Delhi to Leh
Colorbar – Pop up beauty zone[25]	November 2013	New Delhi	Colorbar created installations for free makeover and makeup consultation
Nick Junior – Kid Town Fair[26]	December 2013	Mumbai	Nick Junior celebrated Children's day at World Trade Center in Mumbai. Footfalls estimated to be 25,000 across 2 days.
Puma - 'Race Off With Nico' with Cream Events[27]	October 2013	New Delhi	Fan meeting and F1 simulator racing with Formula 1 driver Nico Rosberg. The event was held at Blue Frog in New Delhi.
Tupperware 'Care4Food Day'[28]	April 2013	28 cities across India	Tupperware's campaign on reducing food wastage through promotion of food storage habits.
Old Spice 'Mantastic Man' Campaign[29]	Nov 2013	Mumbai	P&G brand Old Spice celebrated International Men's Day with their 'Smell Mantastic' campaign.

22. Coca-Cola Website
23. Article on Eventfaqs Website, 26 February 2013: http://www.eventfaqs.com/eventfaqs/wcms/en/home/news/Maybelline-India-launches-Supe-1361818744627.html
24. Mahindra Adventure Website
25. Article on Eventfaqs Website, 27 November 2013: http://www.eventfaqs.com/eventfaqs/wcms/en/home/news/Colorbar-creates-pop-up-Beauty-1385525411295.html
26. Article on Eventfaqs Website, 2 December 2013: http://www.eventfaqs.com/eventfaqs/wcms/en/home/news/Nick-Junior-engages-about-25-0-1385927908922.html
27. Article on Eventfaqs Website, 29 October 2013: http://www.eventfaqs.com/eventfaqs/wcms/en/home/news/Puma-organizes-interactive-ric-1382993078889.html
28. Tupperware India Website Press Release, 8 Apr 2013
29. Article on Eventfaqs Website, 4 December 2013: http://www.eventfaqs.com/eventfaqs/wcms/en/home/news/Old-Spice-celebrates-Internati-1386097976246.html

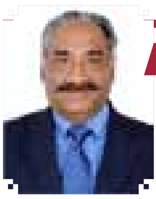
The type of engagements can be classified into three major clusters.

Brand activation: The complex logistics and deep understanding of the brand are the major challenges for an event firm working on an experiential marketing programme. To run a consistent, integrated campaign across the country and to provide similar brand experiences can be difficult for this reason. This applies equally to a product launch or film pre-release activity or services brand activation.

Entertainment and lifestyle: It is often essential to make the brand experience high on entertainment quotient. Various factors like celebrity presence, high level of audience engagement, element of fun, direct and tangible benefits of participation are important.

Stakeholder engagement: If events are poorly managed and 'dry', it could fail to make a mark – and may have the opposite effect on the target audience. Venue, décor, event flow and timing are other factors to look at while designing the event. For corporate conferences, it is all about the quality and quantity of attendees, and time management. Audience acquisition and subsequent sales growth are important new milestones at an event, and some clients are evaluating event firms on these parameters.

With the overall slowdown of the Indian economy, experiential marketing spends of advertisers were hit, and therefore it affected the event firms in 2013. Big spenders in automobile, telecom, cement and steel, consumer durables and infrastructure severely curtailed their budgets; while sectors like financial services, FMCG, healthcare and technology emerged as large clients.[30] With depressed sentiment and the general elections looming, the first half of 2014 is not expected to fare any better. But event firms are hopeful that the latter half of 2014 and the following year can put this sub sector back into high growth.



Rural marketing and election activation would provide the next stimulus for growth of Indian Live Events industry. Growth has already started in Tier II and Tier III cities. With infrastructure development, rural markets would also pick up pace.

- Harjinder Singh
MD,
ShowWorks Eventz Private Limited

Under this scenario – and sensing future growth potential – worldwide advertising and media groups are emerging as buyers and aggregators for local Indian event firms. Recent transactions involving G2/Grey and RC&M and JWT-Encompass, among others, point to an increasing trend.

Below The Line (BTL) has gained considerable importance in communicating a brand's message. Our industry discussions indicate a major change in advertising trends over the past decade. In 2000, the advertising ratio for major advertisers was 80:20 for Above The Line (ATL) over BTL. According to the Rural Marketing Association of India (RMAI) by 2015 this ratio is estimated to become 50:50. 2013 has been a growth year for BTL advertising[31], driven largely by rural spends. According to a book by R V Rajan, BTL accounts for 80 per cent of the rural marketing efforts in India.[32] BTL channels are more effective in rural areas where ATL advertising fail to reach the target segments.

With rapidly rising incomes but much lower levels of consumption and penetration, rural markets will lead the India growth story in the current decade.

- Pradeep Kashyap
CEO,
MART and President, RMAI

Penetration of mobile connections, improvement of road access, and increase in rural TV households has changed rural consumption patterns. Companies such as HUL, Maruti, Hero MotoCorp, Dabur, Ghadi Detergent and LG have – with the assistance of BTL agencies – made deep inroads into the rural market using experiential marketing strategies. 50 per cent of Hero MotoCorp's and 33 per cent of Maruti's sales now come from the rural segment.

The Experiential Marketing Industry is growing quite rapidly. However, to achieve quality results, both Brand and agency need to invest in the effort. This necessitates a 'partnership' approach rather than the current 'client-vendor' approach. A deeper understanding of the Brand and its objectives, budgets, relevant creativity, seamless execution of plans and measurability of effectiveness will result in a 'win win'.

- Brian Tellis
Chairman,
Fountainhead and President, EEMA

30. Industry discussions conducted by KPMG in India
31. KPMG in India analysis
32. Don't Flirt With Rural Marketing by R V Rajan

Meeting, Incentives, Conference and Exhibitions (MICE) and Trade Shows

Business Tourism or MICE is a unique crossover between live events and tourism industries. This is the most globalised of sub sectors within live events. This business is becoming very competitive – both from a destination and peer group perspective – but was growing at over 25 per cent YoY between 2008 and 2012.[33] Fuelled by a competitive Rupee, incentives from international tourist boards, fast globalising Indian companies, and good economic growth, some event firms doubled revenue and profits in a span of four years.

Both 2012 and 2013 saw a sobering of this frenetic pace. But the industry is confident that this is a temporary lull and double-digit growth should be back in 2014-15.

While, the **top five factors** that clients are looking for while choosing an appropriate venue are[33]:

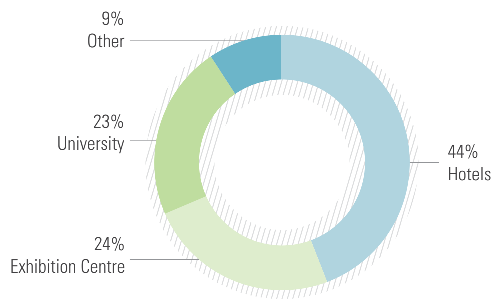
- Proximity to airport and accessibility
- Infrastructure
- Active Tourism Board and Hassle-free VISA Regulations
- Tourist Attractions
- Climate

As per International Congress and Convention Association's (ICCA) statistics, Healthcare is a leading MICE and Trade Show consumer with almost 17 per cent share, followed by Technology (14.5 per cent) and Science (13 per cent). The choice of venue is much skewed towards hotels (44 per cent)[35]:

Number of events

Source: ICCA Website and ICCA Statistics Report 2002-2011

Preferred venue



As per ICCA rankings, the **top ten destinations** for MICE industry are[34]:

1. Vienna
2. Paris
3. Berlin
4. Madrid
5. Barcelona
6. London
7. Singapore
8. Copenhagen
9. Istanbul
10. Amsterdam

33. Industry discussions conducted by KPMG in India
34. ICCA Website
35. ICCA Press Release 19 September 2013, 'A Modern History of International Association Meetings'

Key trends

- meetings are getting shorter with average length of events decreasing
- frequency of meetings is increasing year on year
- the average fee per guest is increasing steadily.

The United States, Germany, Spain, United Kingdom and France continue to be the preferred host countries with more than 25 per cent combined market share.[36] The MICE industry also has a direct impact on the travel and tourism industry of a country; and hence governments across the globe are trying to promote this industry by providing investments in infrastructure and hospitality. In most parts of the world, MICE and trade show venues were primarily tourist venues that eventually built conference capabilities. Unfortunately in India, the lack of infrastructure, lack of plug-and-play venues, shortage of hotel rooms and perceived lack of government support could be hampering the growth of this lucrative business.

The MICE business is growing rapidly in **Asia and Middle East**, outperforming all other markets. As per ICCA rankings, the top five Asian destinations[36] are Singapore, Beijing, Seoul, Taipei and Kuala Lumpur. Singapore has made it to the global top ten MICE destinations with an impressive list of big events such as The Singapore Airshow (Asia's largest, Feb 2014[37]), World Gourmet Summit (Apr 2014[38]), World Cities Summit (June 2014[39]), World Architecture Festival (Oct 2014[40]), Asian SEA Games (2015[41]) and many more.

MICE in India is still at a very early stage compared to its Asian or BRIC peers. According to a recent publication, out of 400,000 events worth USD280 billion, India only accounts for USD4.8 billion in the MICE market.[42] As per ICCA statistics, India is set to host more than 5,300 meetings this year.[43] The India Convention Promotion Bureau (ICPB) was set up in 1988 by the Ministry of Tourism, Government of India, to promote India as an attractive MICE destination. ICPB supports its members with free information and infrastructural assistance to host conventions and other MICE events. ICPB also acts as the ambassador of Indian MICE industry. The 'Incredible India' campaign[44] designed by ICPB and recent visa relaxation regime are laudable steps in that direction.

As per ICCA statistics, the top four MICE destinations in India are NCR, followed by Mumbai, Bengaluru and Hyderabad.[36] Political instabilities have affected Hyderabad; as Hyderabad International Convention Centre (HICC) slipped two positions due to the talks of proposed bifurcation of Andhra Pradesh.[45] The lack of direct international flights, except to Mumbai and Delhi, is also restricting the growth of other cities and tourist centers as MICE destination.

The outbound MICE segment is growing rapidly in India, despite the comparative slowdown in 2012-13. With 1.5-1.8 million outbound MICE travelers every year Germany, Singapore and Thailand are among the top destinations for outbound travelers.[42] However, the outbound MICE market continues to be fragmented, with tour operators and travel agencies sometimes doubling up as event firms. A key challenge remains in the skill front with lack of professional education in hospitality and event management specialisations, and the inability of smaller event firms to scale up and manage large, complex, multi-location MICE activity.

The recent Rupee depreciation may also have impacted outbound MICE events. Some key players have reported to have lost a few outbound events or have been forced to convert into domestic events. Another limiting factor for outbound MICE could be the unavailability of Indian food for Indian delegates. Finding good quality Indian food in global destinations is a challenge. Finally, the tax regime of 12.5 per cent luxury tax, wherever applicable, and 12.36 per cent service tax on banquet halls, 13.5 per cent VAT and 8.65 per cent service tax on F&B is making the business uncompetitive. All this at a time when direct corporate spending on MICE and trade shows have fallen by 15 per cent between 2012 and 2013. The Live Event firms are facing cash flow constraints arising out of longer payment cycles from clients, lower operating margins, and higher tax outflows.

> Most of the MICE event firms have witnessed increased pressure on cash flows in 2013 as corporate margins came down due to financial crisis and employee cost kept climbing. Dollar appreciation also caused a few outbound events to convert into domestic ones. The growth in MICE segment is low at the moment but 2014 looks slightly better than 2013.
>
> **- Harish Babu**
> MD,
> Impresario Event Management India Ltd

Venue infrastructure is the biggest challenge for MICE and trade shows in India. There are only a few world class venues in India – HICC in Hyderabad, Vigyan Bhawan in New Delhi, Renaissance Hotel in Mumbai, etc – but these fall woefully short during the peak winter months. Some hotel chains such as Taj, ITC, Hyatt, Oberoi and Marriott also provide convention facilities. However hotel chains prefer the high margin wedding market and these venues are often not available for large MICE or trade show events. Pragati Maidan in New Delhi, MMRDA Grounds and Bombay Convention and Exhibition Centre in Mumbai and Palace Grounds in Bengaluru have become de facto open-air exhibition centers. With few good permanent and plug-and-play venues available, the event firm has to spend considerable effort on non-value added activity such as logistics, venue set up and dismantling.

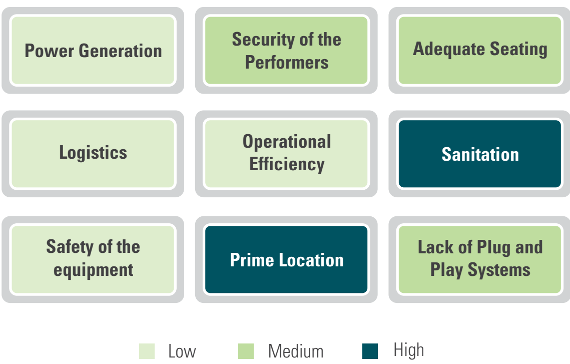
36. ICCA Press Release 19 September 2013, 'A Modern History of International Association Meetings'
37. Singapore Airshow Website
38. World Gourmet Summit Website
39. World Cities Summit Website
40. World Architectural Festival Website
41. Olympic Council of Asia Website
42. Article on MICE Tourism, Outlook Business, 1 March 2014 Issue
43. ICCA Asia Pacific Chapter Website
44. ICPB Website
45. 'Bifurcation talk impacts MICE industry', The Hindu, 27 January 2014

Trade shows constitute a significant component of business of most event firms. The Auto Expo 2014 gave the sector a very strong start to the current year. Over 30 automobile companies spent an average of INR120 million each benefitting firms and service providers across the value chain in the live events ecosystem. India hosts an estimated 1,200 trade shows every year of which 100 are of international standard and attract foreign visitors. Primary sectors are Information Technology (IT), real estate and building materials, pharmaceutical, auto and auto components, and plastics and chemicals.

Challenges for the industry

Venue and infrastructure

Target group experience - whether B2B or B2C - can determine the success of any live event; apart from content, the other major quality differentiator is the infrastructure of the event. However, quality of infrastructure in India often leaves a lot to be desired. Our industry interactions suggested that some of the most discussed concerns are:



Source: Industry discussions conducted by KPMG in India

The manpower challenge

Skill – The industry is mostly unorganised and so is the labour force driving it. Finding staff with proper skills – covering ideation, design, production, logistics, technical understanding of sound and light, stage and venue management, artist management and local knowledge and experience – can be very tough. Specialised courses for skill development of event management professionals are rare. On-job training is often most preferred, and possibly the only option for almost all companies.

Employee cost – Employee costs are 30-40 per cent of the total fixed costs[46] of an event firm since success of project execution and management is entirely people driven. The boom years of 2008-2012 saw consistent double-digit pay hikes as event firms scrambled to hire and retain talent. Rampant poaching – by competitors and allied industries such as tourism and television – drove up employee cost and resulted in several firms becoming uncompetitive when the showdown hit in 2012.[46]

Attrition – Attrition is another big concern. Our industry discussions indicates the live events sector has witnessed an attrition rate as high as 15 per cent in the recent years[46] as salaries froze and projects dried up. Live events is still not seen as a viable and sustainable career option; youngsters tend to see it as a steppingstone to careers in advertising, film or television. While some employees switch jobs for pay hikes, some start their own ventures leading to further fragmentation of the sector.

Under the aegis of Event and Entertainment Management Association (EEMA), an initiative – similar to what has been done in the technology sector – to create an employee database, introduce anti-poaching policies, and generally get organised with industry-wide training schemes, promote live events as a career choice, and certification programmes are very necessary to address employee issues.

Compared with industries like Film, TV or Advertising live events is a very nascent industry. However, given that the medium offers everything others do not - direct messaging, targeted audiences, experiential journeys and measurable results, I hope it won't take long for our clients to treat us with as much respect as other established media like advertising. Besides, with IP's taking center stage, Live Events is fast becoming a 360 degree industry by itself. Film and photography, script and creative, advertising, sound, broadcasting - it has footprints in all segments. Hopefully, this will help us attract and retain quality talent in future.

- Oum Pradutt
MD,
Phase1 Events & Entertainment Pvt Ltd

46. Industry discussions conducted by KPMG in India

Taxation bugbear

Entertainment Tax

Entertainment tax is a state tax applicable to live events such as commercial exhibitions, stage shows, sports events, live entertainment, etc. with variable rates across different states:[47]

State	Entertainment Tax
Jharkhand	110%
Uttar Pradesh	60%
Bihar	50%
Maharashtra	45%
Haryana	30%
Karnataka	30%
West Bengal	30%
Kerala	30%
Orissa	25%
Gujarat	20%
Delhi	20%
Andhra Pradesh	20%
Madhya Pradesh	20%
Tamil Nadu	15%
Punjab, Rajasthan, Assam, Uttaranchal, Jammu & Kashmir and Himachal Pradesh	Nil

The varying rates increase the complexity for pan-India event firms. The 2013 central budget has also imposed a 25 per cent entertainment tax on ticketed mega events with a crowd of 2000 or more people; and sports events with entry fee of INR 500 or more will attract a 10 per cent entertainment tax.[48] Recently, the UP Government filed a writ petition to Supreme Court for permission to reverse the waiver of entertainment tax on Jaypee Sports International for Indian F1 Grand Prix event. The withdrawal would cost Jaypee a sum of INR250 million.[49]

Service Tax

An effective rate for service tax of 12.36 per cent is effective since 1 July, 2012. Service tax is applicable on income earned from sponsorship and telecast rights.

Other Indirect Taxes

Apart from these, customs duty is also applicable at 0-150 per cent ad valorem or specific. ATA Carnet allows exemption on customs duty and is applicable only for goods imported for exhibitions on temporary basis. Value added tax is also applicable for sale of merchandise. Stamp duty is paid on the lease of assets, rentals and on grant of television rights.

Direct Taxes

- Revenues from granting live telecast rights
- Event Management Fee
- Sponsorship fee
- Indian and Non-Indian Performers

The plethora of taxes – both at state and central level – make live events uncompetitive in India when compared to destinations such as the UAE, Sri Lanka and Thailand. All three sub segments have called for harmonisation and lowering of taxes; making the argument that tax efficiency could result in higher collections and greater trickle down for other businesses such as logistics, tourism, hospitality, Small and Medium sized Enterprises (SME) and individual contractors, F&B, and airlines.

Multiple taxes and irrational tax structure is hurting the events business. Both state and central government need to urgently review this, and put in place a favorable regime to enable India to be competitive in the world events market.

- **Rajesh Varma**
Managing Director,
CRI Events Pvt Ltd

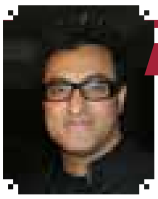
47. http://www.filmtvguildindia.org/entertainment_tax_in_various_states.html, 5 March 2014
48. 'Ahead of EDM fests, govt imposes 25per cent entertainment tax', The Times of India, 27 December 2013
49. 'UP government withdraws entertainment tax exemption to F1', The Times of India, 22 October 2013

Regulatory delays

Obtaining licenses and permissions can take a lot of time and effort in India. The major reasons for this include complexity, uncertainty and inconsistency across various states and districts. Attending issues like political mood, local corruption, cultural habits and moral policing, and freebie demand can make live events a tough business to operate. This could end up adding costs and challenges, and many event firms privately admit that such 'management' issues take away 35-40 per cent of their time and effort.[50]

The regulatory challenges are even higher for a live performance and ticketed events such as Sunburn, Mahindra Blues or NH7 Weekender. A recent event in Goa – an EDM JV between a large studio and prominent VJ – supposedly went through 21 permissions to organise the three day festival. An array of permissions required for events are:

- Music license (PPL)
- Venue license
- Traffic police permission
- Safety and security permission from the police
- Permission from local fire department
- Tax payments
- Customs duties
- Visas and entry-exit permissions of talent
- In many cases environment clearances (for noise, etc.)

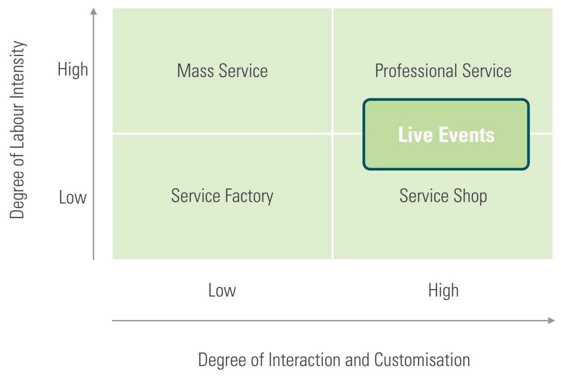


Single window clearance is absolutely essential for the industry today. It helps us plan and manage the events more effectively.

- **Mohammed Morani**
Director,
Cineyug Group of Companies

Fragmented markets, very high competitiveness

By the nature of the sector, it falls between the quadrants of professional service and service shop in the service matrix. This indicates that differentiation and customised solutions are key characteristics of the service provided:



Source: KPMG in India analysis

Low entry barriers and presence of decoupled service providers have likely catalysed fragmentation. With fragmentation can come high degree of competition. EEMA estimates that over 12,000 full time event firms operate in India: ranging from the large and organised, to divisions of larger media agencies, to mom-n-pop shops, to in-house specialists, and right up to one man 'coordinators'. The sector is witnessing fierce price competition in all sub segments. The bright spot in this: niche firms have emerged to offer specialised services or properties in one or two sub segments, thereby leading to greater skill development and client stickiness.

Event firms frequently complain that corporate clients do not value 'the idea' and go with lowest cost providers. It is also common to have breakaway groups from larger firms walk out with a client or project on the basis of lower cost quotations. The 'cost-plus-fee' model may need to evolve towards an 'integrated fee' or monthly retainer model for the sector to realise its creative contribution and economic value.

There is a need for major consolidation and intellectual property development. The industry anticipates, in the next two to three years, the emergence of eight to ten well-capitalised and serious players in each of the three Live Event verticals. This group of about 30 players could form the basis for industry consolidation by 2020 – leading to professional management, and better margins, topline, visibility, bargaining and pricing power – setting the stage for rapid growth in the next decade.

50. Industry discussions conducted by KPMG in India

Trends

2014 could be a slightly better year

All industry players we had interacted with are cautiously positive about 2014. Some firms have added more than 25 per cent business in their pipeline, skewed towards the latter half of the year.[51] The economic slowdown, which compelled some event firms to diversify into social events, especially in last couple of years, seems to be lifting. With higher spending on rural BTL, increasing importance of IP led events, and rebound in outbound MICE, this year looks positive across various segments.

IP-events is the future

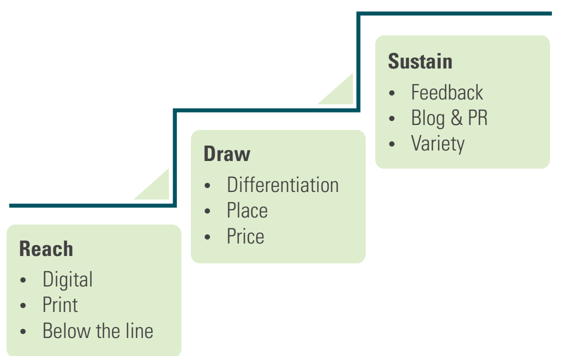
90 per cent of our respondents agreed that IP-events are the future of this industry.[51] Many event firms are investing considerably in building IP and monetising them. While substantial capital investments are required up-front and the gestation period is long, the IP segment has shown the best ROI and profitable growth. Properties such as Sunburn, Filmfare, NH7, Jaipur Litfest, Lakme Fashion Week and IIFA are well established now, and can be seen as role models for other IP-event initiatives.

In experiential marketing and MICE/Trade Show segments, some event firms are moving from self-managed to outsourced models. The "non-value added part" is being outsourced to third party vendors and event service providers while these firms are concentrating on brand-building, enhancing the experience, and client engagement.

IPs are creating a community

Sunburn, India Bike Week, Kala Ghoda Arts Festival, NH7 Weekender, Outlook Traveller Awards, IIFA, Femina Miss India and Filmfare – these are just a few examples of how event management firms are consciously trying to build a community around their event properties – focused on brand, content and experience.

Customer engagement model



Source: Industry discussions conducted by KPMG in India

Community building has two distinct benefits – a. repeat visit, b. self-sustained PR. The community can sustain the gate receipt revenue year on year; providing the foundation for incremental growth. Community building also helps in attracting sponsors or broadcasters as the target audiences become well defined over time.

Reaching out to global destinations

Our industry interactions indicate International events and outbound MICE are going to be the major growth drivers. For big corporate groups with an employee base scattered all over the world global conferences and conventions are essential. Dollar denominated income for some of these corporations somewhat offset the fall in the Rupee. At the same time, Indian events – especially film and music – are looking to explore global venues to increase awareness of Indian culture, tap the South Asian diaspora, and thereby increase the target audience. Some properties have set up permanent event destinations abroad through strategic tie-ups with local authorities and venue providers.

Permanent venues are being set up

Large and serious event firms are making a steady move towards setting up permanent live entertainment venues. While theme park and entertainment center operators are growing at a fast clip – Adalbs Imagica, EsselWorld, KidZania, PVR Blu-O and Comedy Store – music and Broadway-style live entertainment venues are not too far behind. The Wizcraft promoted Kingdom of Dreams in Gurgaon has completed 300 shows over the past six years, and is expected to breakeven in 2014-15; very soon a Mumbai operation is expected to open. A large part of the Live Event business – especially music – is played out at nightclubs every weekend. Consisting of live rock and fusion performances, standup comedy shows, Bollywood DJ-fare and EDM, nightclubs across the Top 20 cities see healthy business weekend after weekend. While difficult to estimate size of this market, it is a major contributor to artist incomes, F&B sales, and tourism.

Profits are likely to grow at a healthy rate

Profit growth is likely to be steady with a good pipeline of events in 2014. IP and MICE segments are expected to be outperforming all other segments in profit growth. The belt tightening during 2012-13, focus on higher margin business, focus on IP-events, return to 'quality consciousness' over 'cost' by the client, and past investments in skill and hardware are all starting to show from this year, especially for the larger players. The Top 20 event firms expect to see profit margin expansion from 13 per cent to 20 per cent over the next two years.[51]

51. Industry discussions conducted by KPMG in India

Digital platforms to impact the way business is done

Digital platforms play a crucial role in customer engagement and are rapidly helping the sector across the value chain.

Ticketing

- e-ticketing has made credit sales easier
- User convenience is greater and less staff required at the gate

Broadcasting

- Many event management firms are looking to explore digital channels such as live streaming, pod casting for broadcasting
- With high speed internet, demand for live content is set to grow

Promotions

- Promotions on digital platforms such as social websites, email, social networks and apps have increased momentum
- Content is more important than frequency

Engagement

- Tweets, Blogs, Vlogs and social media commentary has proved to be effective tool for customer engagement
- Some events have dedicated video handles in video hosting websites

The marriage of digital and events will be the union of the century, its offsprings will in their DNA have the strength of both: ROI, Engagement and Measurability.

- Roshan Abbas
MD,
Encompass Events

Industry wish list

Single window clearance for all regulatory permissions

The industry today may need a single window for obtaining all regulatory clearances for an event. A lot of effort goes into non-value added activities such as obtaining Public Performance License (PPL), import approvals, and NOCs from different authorities. A single window can reduce the complexity, delay and uncertainty.

Increasing number of quality venues

The industry also may need more venues of international standards such as HICC, NSCI and Buddha International Circuit. World class venues help event firms to put up a good show. Venues of world class standard could also help in boosting India's foreign MICE business.

Streamlined tax burdens

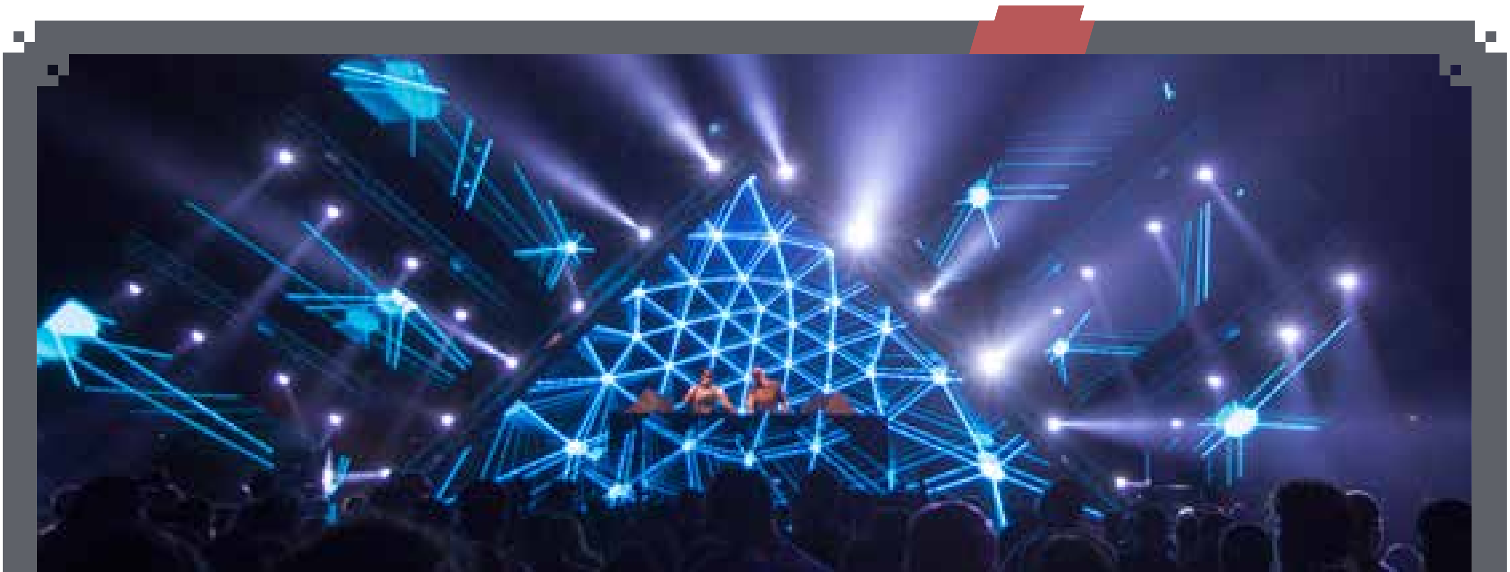
Entertainment tax rates vary across different states of the country. It can add complexity for a national player operating in different states across the country. There could be a need for streamlining the taxation policies for this sector.

Focused skill development

Skilled manpower is mostly a scarcity in this country. There may be a need for setting up university courses specifically targeted towards developing professionals in the event management field.

Industry representation to the Government

The live events sector could need formal representation to the Government. Considering the number of people directly and indirectly employed, a representation may be essential for the benefit of all businesses associated with this sector.



The business of experience – Why I chose this industry?

Brian Tellis
Chairman,
Fountainhead and President, EEMA

I chose to be in the business of experiential marketing, and if I had to choose a hundred times over, I still wouldn't have it any other way. Informally, they'd call me a happy camper in the entertainment business. But, fun, games and vibe aside, there's no mistaking the seriousness of the business.

Experiential marketing is no more the country cousin of advertising. It has long attained full-fledged, standalone status – a reality continuously being reinforced as more and more managers, custodians and drivers of brands appreciate the impact it can have on their numbers.

The industry's own numbers have been more than encouraging. It's been growing at 8-10 per cent year on year, with the estimated growth going forward pegged at 20 per cent for bigger players and 13-15 per cent for others. Primarily, growth that has been fueled by a gradual assimilation of the unorganised sector into the mainstream; as also a shift towards more direct consumer engagement through IP events.

In a sense, the industry's connect with all segments of entities and people is getting deeper and wider. The canvas keeps expanding – even if under the broader genres of events, activations, promotions, MICE, social events and IPs.

Beyond a certain threshold socio-economic status, organisation of personal occasions like weddings, birthdays and anniversaries are now being regularly outsourced to single-window service providers aka events agencies. Likewise, religious and political events. Direct consumer spend, beyond brand promotion, is on an exponential rise.

Yet, despite the realised and potential promise, challenges continue to confront the industry. Challenges that are good – when analysed through the prism of opportunity.

The foremost amongst which is accountability. The industry has long graduated from its sunrise status and into the mainstream. The time has come to develop a mechanism by which to monitor effectiveness – and thereby justify greater spend. Something I'd call a RoI matrix.

The lack of infrastructure is another key concern. It's no good just having venues like, say, hotels that double up as event facilities. We need dedicated and specialised infrastructure that will go a long way in enhancing the event experience.

Bureaucratic and legislative issues represent another formidable challenge. The burden of taxes – be they Service Tax, Entertainment Tax or even aspects like TDS – is potentially crushing for a lot of players. Add to that the endless permissions and licences required for even a small event, and the growth of the industry is really being stifled.

The authorities need to make things easier and less oppressive, because, as with the growth of any sector, everybody ultimately stands to gain from a friendlier regime – industry, consumer and even the exchequer. The need of the hour is clearly a rationalised tax structure, and honest, single window licencing.

However, the industry itself cannot outsource the solution to all its problems. It needs to strengthen its own bonds with clients, consumers and suppliers. The agency must become the glue between brands, supply chains and end consumers.

On a brand level, agencies need to move from a service provider mindset to that of partners – for which a deep understanding of the brand, and its needs, is crucial. We have to also become infinitely more accountable – a case for tangible RoI effectiveness, as mentioned earlier! On the flip side, clients should espouse fair commercial practices. The regime of multi-agency pitching should be supplanted by the AoR relationship.

In the supply chain equation, there should be a more scientific approach to things. We need to remain abreast of relevant technological advances to not only enhance the experience, but also rationalise costs, for the client.

As for our relationship with consumers, engaging and monetising the end-user holds the key to growth. We need to conceptualise and bring to fruition events with the potential to excite broader, as well as niche, audiences. Creating IPs in both, the B2B and B2C space is important.

I am of the firm belief that we live in an entertainment economy. As consumers, no matter who we are, where we live or what we do, we expect to be pampered and entertained. Thankfully there has been a corresponding – even if gradual – shift in perception that entertainment comes at a price. Every consumer must appreciate that entertainment is as much a product as any consumable or service like say eating out. There are costs involved. In moving away from the era of freebies and complimentaries, the quality of entertainment will only improve.

There exist exponential prospects for growth in the experiential space. But to truly unlock value and potential, the entire system and processes will need to be strengthened, even as mindsets will have to evolve. The good news is that we stand at an inflection point. This is the start of bigger things – far bigger than we could have ever visualised a decade ago. As always, the lithe and nimble will profit from it.

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

The big fat Indian weddings

Neelabh Kapoor
Creative Director,
Studio Neelabh

Statistics say, 30,000 couples get married in India every day during a peak season. And the 'recession free' Indian wedding industry is estimated to be a staggering US$ 25.5 billion. To add to this, the growth rate of the industry is 20 to 25 per cent a year.

The average budget for an Indian wedding ceremony in the middle class is estimated to be around Rs.20 - 5 million. The upper-middle and affluent classes are estimated to spend more than Rs.100 million. For the 'A listers' there are no set parameters for budget. This obviously doesn't include gifts and valuables given as part of the Indian traditional ceremonies.

With each passing decade the Indian weddings are getting more lavish. Three decades ago people hardly thought about the lavish wedding function that has now become a trend. Destination weddings have emerged and instead of the usual wedding, a whole itinerary takes formation. The same varies between 1lac to 10 lac per person while planning for a 500-plus person event abroad. The present-day Sangeet has also morphed into full-blown, Bollywood and International performances.

Rising urbanisation has spawned a new class of consumers with more money to spend, and a passion for fashion. In India's high growth retail clothing market, spend on special occasion or wedding-wear tops the charts.

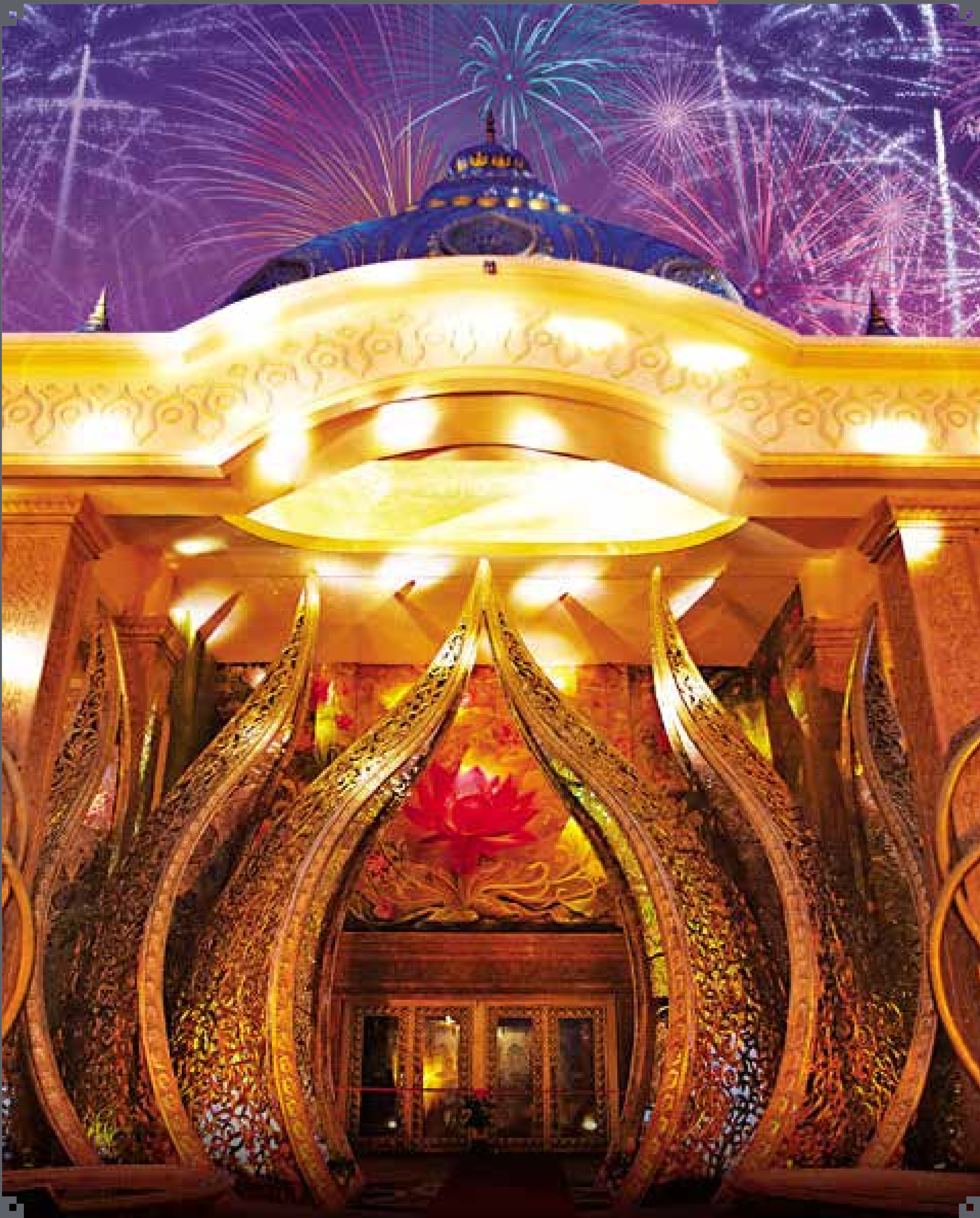
The 'Big Fat Indian Weddings' are, literally, going places - from destination weddings on remote islands in Thailand to royal palaces in France, the options available are infinite. In fact, tourism departments from around the world are offering great incentives to promote more and more destination weddings.

A person in India spends one fifth of the wealth accumulated in a lifetime on a wedding ceremony. That means, a tremendous opportunity for retailers and service providers to capitalise on.

Need of the hour-

- Recognition to goodwill - Increasing professionalism within the event industry via Govt recognised event management professional institutions. Till date 90 per cent of the same is mostly dominated and managed by decorators who are non-recognised and inexperienced in their dealings.
- System - Streamlining the process and system of planning and executing a wedding or social event
- Certification - Implementation of vendor validity certification should be prioritised in order to rule the bad fish out!
- Government support - Government recognition to the wedding industry and the professional players. Creating special platform for the Design and Event industry to take on the world competition and to excel in design, logistics, entertainment and infrastructure etc.
- Infrastructure improvement - Government to facilitate investment opportunities to create large network of infrastructure support which will also increase tourism inflow into different parts of the country. Encourage more Destination Weddings and Social events, benefiting and facilitating the hospitality industry through tax relaxations to attract more and more people to plan their events in India.
- Credit facility - Easy loan facilities and investment policies to enhance the current entertainment-rich industry to empower more strategic growth. Empower a set trust worthy government authority to enable recognised individuals in the given industry to improve the social event lifestyle.
- NGO collaborations - Creating an opportunity for the underprivileged and recognising their talent and skill sets. Event management association to collaborate and set up a non- profit platform to benefit the economically challenged on day to day events.

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



12

Deal volume and value in 2013

Searching for opportunities

The overall mergers and acquisitions (M&A) and private equity (PE) funding activity in India declined in 2013 from approximately 1,000 deals, with a value of USD49 billion, in 2012 to 950 deals with a value of approximately USD39 billion[1].

Deal activity in the media and entertainment industry followed a similar trend in 2013, recording 26 transactions versus 35 transactions in 2012[2]. Deal values were comparatively lower in 2013 as the nine reported deal values totaled approximately USD224 million versus USD1.5 billion in 2012.

The overall investment in the Indian media and entertainment sector grew consistently between 2010 and 2012 on the back of key industry themes such as market consolidation, digitisation, portfolio diversification and the strengthening presence in regional markets and digital media[3]. The total deal value grew from USD693 million in 2010 to USD1.5 billion in 2012. However, amid the economic uncertainty in 2013, strategic and financial investors have adopted a more cautious approach resulting in a slowdown in transaction volume and value.

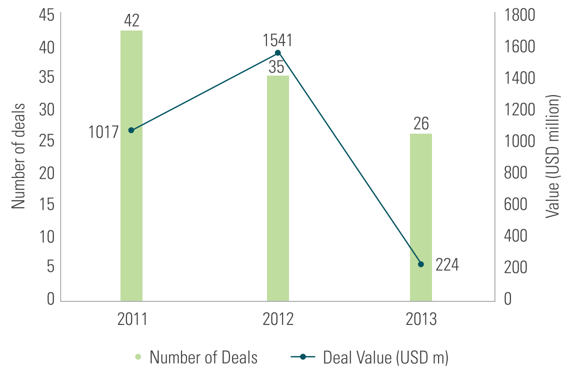
Despite the slowdown, 2013 did experience a number of notable transactions; particularly in the television and digital media space. Marquee transactions in 2013 include:

- Dentsu Media's acquisition of 80 per cent stake in Webchutney[2];
- Network 18 Media's approximately USD14 million investment in HomeShop18[2];
- Publicis Groupe's acquisition of advertising and digital media companies – Beehive Communications, iStrat Software and Market Gate[2];
- Zee Media's acquisition of Maurya TV[2].

Some private equity funds have made investments in the TV distribution sector, with the most notable being:

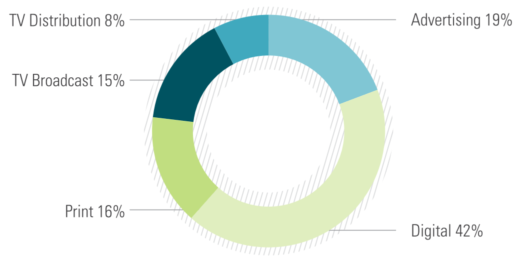
- Goldman Sachs' investment of USD110 million in DEN Networks[2];
- Tata Capital's investment of USD40 million in Tata Sky[2];
- Morpheus Capital's acquisition of 8 per cent equity stake in TVC Skyshop for USD6.25 million[2];
- Providence Equity Partners' acquisition of 50 per cent stake in Star CJ Network[2].

Trend of investments in M&E (Volume and Value)



Source: Mergermarket, Bloomberg accessed on 7 Jan 2014.

Breakdown of Deals in M&E in 2013 (By Volume/ Sector)



Source: Mergermarket, Bloomberg accessed on 7 Jan 2014.
Note: 2013 recorded 26 deals totaling approximately USD 224 million

The digital media space has shown most activity within the industry contributing 42 per cent of the deal volume within the M&E industry. Deal activity within the digital media space has primarily been driven by investment from foreign players for entry and expansion within the digital advertising sector[2].

Going forward, the key themes driving transactions in the media and entertainment sector will likely be consolidation within the industry, particularly with national players entering regional markets and capital raisings through private equity or IPOs, for expansion plans.

Television

Television, one of the largest segments of the Indian media and entertainment industry, continues to constitute a significant portion of the overall deal value, with high levels of interest from private equity players.

01. Grant Thornton Deal Tracker, 2012 and 2013
02. Mergermarket, Bloomberg accessed on 07 Jan 2014
03. KPMG in India analysis

Liberalisation of the media and broadcasting sector; raising the foreign investment cap to 74 per cent[4], has given rise to a number of deals within the space by allowing distributors and broadcasters to raise funds from foreign private equity firms. DEN Networks, one of India's leading cable TV distribution companies reaching an estimated 11 million households[5] across India received an equity infusion of USD 110 million from Goldman Sachs[6]. The funds are to be used for the expansion and digitisation of DENs existing network[7]. Tata Capital invested USD40 million in Tata Sky. Providence Partners acquired a 50 per cent stake in Star CJ Network India from Star Group for an undisclosed amount[6]. Another television shopping channel TVC SkyShop raised approximately USD6 million from Morpheus Capital[6].

Consolidation has continued to drive deal activity within the space especially within regional markets. Zee Media has announced the acquisition of Maurya TV, a regional infotainment channel catering to the Bihar-Jharkhand belt[6].

Going forward, the shift towards digitisation and the relaxation of FDI norms in the sector will most likely continue to drive deals in this industry. As per the Government of India's original plans, all phases of digitisation were to be implemented by December 2014. However, the process of digitisation across all phases i.e. from seeding of boxes, setting up of subscriber management systems, packaging of channels and increase in Average Revenue per User's (ARPU), will not happen by December 2014. Significant increases in ARPU are likely to be seen by 2015 onwards[9] as there is a delay expected in the process. The increase in the FDI cap, however may provide the much needed impetus and accelerate the transition from analogue to digital TV. The additional capital could allow television distributors to upgrade and expand their cable broadband networks to capture larger audiences.

To capitalise on digitisation, broadcasters are expected to enhance their content portfolios. This may further drive consolidation and regional expansion where major broadcasters might shift their focus towards regional growth by launching/acquiring new channels and developing localised content in order to capture larger audiences.

Print

India is one of the few markets where print continues to be a dominant medium garnering nearly 45 per cent of the total advertising spend[9]. Due to the growing literacy rate, diverse vernacular market, low internet penetration, and multiple mediums in which it is available, print media is expected to remain pervasive in India.

In keeping with the overall trends in the media industry however, the print media industry is also witnessing the development of new digital media forms. While newspapers continue to thrive, magazines seem to have faced a difficult year. In general, the circulation of weeklies and monthlies is on the decline prompting a number of divestments in the space. ABP Group sold its Businessworld magazine to a group of private investors for an undisclosed amount[6]. After consecutive losses, Business Standard announced the sale of its magazine BS Motoring to Delhi Press[8].

With a limited number of pan-India players in the market, consolidation and regional expansion are also likely to emerge as a theme in the coming year. 2013 witnessed limited deal activity within the space as smaller players refused to exit. To combat the same, existing large media groups are looking to consolidate multiple media platforms to gain economies of scale, thereby putting pressure on the smaller players. The likelihood of mismatch in pricing expectations could potentially curb deal activity[9].

Radio

Presently, All India Radio has a network comprising 237 stations which provide coverage to 99.14 per cent of the population and there are 242 private FM radio stations that are in operation in 86 cities of the country. Phase III of the FM radio services expansion plan is intended to extend FM radio's reach to 294 cities with additional 839 FM radio stations thereby boosting the regional growth of FM radio stations. The FM Radio coverage is about 40 per cent of the territory of India and is expected to reach 85 per cent after implementation of Phase III of the FM Radio service expansion plan[10].

This growth is expected to be stimulated through new mediums like mobile phones and the internet. The fact that a large proportion of radio listenership is on portable devices and occurs out-of-home, bodes well for the industry growth as it can widen operators' reach and increase their potential to attract national advertisers.

As a part of planned Phase III FM Radio expansion, the government has relaxed the restrictions on ownership of multiple licenses and frequencies in a city[10]. These along with the allowance of cross media ownership and possible permission to air news and current affairs hold the key to the growth of this segment. While the regulatory environment continues to be favorable, there is ambiguity around the completion date for Phase III expansion, and therefore investment in the sector is likely to be slow and tempered.

Advertising agencies and digital media

Deal activity in the advertising space has been dominated by digital media companies with significant interest from international players. Leading industry players like Publicis and Dentsu have made a number of acquisitions within the advertising and digital media space in India[6], in an effort to develop their digital and mobile technology platforms and strengthen their presence in the country.

04. Foreign Direct Investments (FDI) in Broadcasting Sector in India, TRAI, August 2013
05. Den Networks – Press Release, Q1 FY2013-14
06. Mergermarket, Bloomberg accessed 7 Jan 2014
07. I&B Ministry okays Goldman Sachs' $110-million investment in DEN Networks, Economic Times, September 2013
08. Delhi Press's bold gamble, Business Standard, 04 January 2014
09. KPMG in India analysis
10. Consultation Paper on Issues relating to Media Ownership, TRAI, February 2013

- Dentsu acquired 80 per cent stake in Webchutney, a digital marketing company[11];
- Publicis made four acquisitions in the year: iStrat Software - a Digital Media Agency in Delhi offering online Marketing services, Convonix systems – a digital marketing consulting firm, Beehive Communications - a Mumbai-based advertising agency and MarketGate - a brand and business consulting firm[11];
- Peepul Capital's investment of USD30 million in Komli Media[11].

Conventional media such as television and newspapers continue to be the largest contributors to advertising revenue, however the internet has gradually been increasing its share in the pie. Spend on digital advertising is expected to grow by approximately 37 per cent in 2014[12].

The advertising space could continue to see high levels of deal activity in the coming year driven by international strategic players looking to expand their portfolio in India and acquire talent in an attempt to begin to address the digital advertising opportunity.

Outlook

Companies in the Indian media and entertainment industry are currently poised for substantial growth in the coming years. Regulatory interventions have been a key enabler of growth for the sector. Continued cable digitisation, Phase III licensing for radio and 4G rollout, could spur growth in the medium – long term.

Digitisation is expected to improve broadcast economics significantly. To profit from the digitisation of television and films, TV distributors and broadcasters are keen to raise funds for expansion and enhancement of current portfolios. However, the delays in implementation of the DAS schedule are likely to dampen deal activity[12].

Regional markets remain key centers of growth. With regional print and television still being a dominant sector within the industry, media companies are expected to focus on enhancing their regional presence. While large media companies are looking to acquire regional newspapers and television channels, disparity in price expectations could continue to be an impediment to deal activity.

The rapid increase in mobile and wireless connections mostly continues to drive the growth of internet penetration in India. As digital media is still in its nascent stages in India, the industry is likely to witness significant investment within this space in the future.

Key transactions in 2013

Date	Target Name	Target Sector	Acquirer Name
M&A			
March	Convonix Systems	Digital	Publicis Groupe
April	End To End Marketing Solutions	Advertising	McCann Worldgroup India
May	Webchutney Studio	Digital	Dentsu Media & Holdings India
September	Business World Magazine (ABP Group)	Print	Private Investors
October	Maurya TV	TV Broadcast	Zee Media Corporation
October	HomeShop18	TV Broadcast	GS Home Shopping, Network 18 Media
October	Beehive Communications	Advertising	Publicis Groupe
December	iStrat Software, MarketGate	Digital	Publicis Groupe
PE			
March	Star CJ Network India	TV Broadcast	Providence Equity Partners
May	DEN Networks	TV Distribution	Goldman Sachs Capital Partners
August	TVC Skyshop	TV Broadcast	Morpheus Capital Advisors
September	Tata Sky	TV Distribution	Tata Capital
October	Komli Media India	Digital	Peepul Capital

Source: Mergermarket, Bloomberg accessed on 7 Jan 2014.

11. Mergermarket, Bloomberg accessed on 7 Jan 2014
12. KPMG in India Analysis

13

Outward bound

Next frontier for Indian M&E sector players

Outward bound - Next frontier for Indian M&E sector players

After the economic dip in 2008-09, the Media and Entertainment (M&E) markets have been witnessing growth as spending by consumers is on the rise again. The global M&E market has witnessed signs of steady growth over the past three to five years with some markets such as Latin America, Middle East and Africa (MEA) growing faster than the others.[1]

Several multinational M&E players such as Disney, 21st Century Fox and Viacom have expanded their operations across regions. China too, has begun its overseas foray with Wanda buying AMC Theatres in the US in 2012. Indian players such as Zee and Multi-Screen Media (Sony Entertainment Television) have also established a strong presence across the globe, but with their content primarily catering to South Asian consumers. Numerous Indian films also have been filmed across regions and have been screened in film festivals such as Cannes, Toronto, Busan, Dubai etc.

This chapter focusses on the Middle East and Africa (MEA) region, the fastest growing M&E market globally. From the current share of 2.5 per cent in global M&E market, MEA region is expected to grow its share to ~4 per cent by 2018[2]. A large South Asian diaspora market that could provide a base, many common features in terms of culture, high economic growth, good quality infrastructure, and favourable policy roll outs are some of the drivers which could benefit Indian M&E players' business in this region. Indian companies can also find opportunities in providing technology, scale and leading industry practices in production and post production to local companies which are small and not very organised. They can also play a role in talent and skill development in the region.

Global M&E market

Projections

Due to recession, the global M&E market grew at a CAGR of less than 5 per cent from 2008 to 2013. However, the outlook for M&E market looks positive with projected CAGR of 6 to 7 per cent (2014 – 2018) outpacing the existing CAGR.[2]

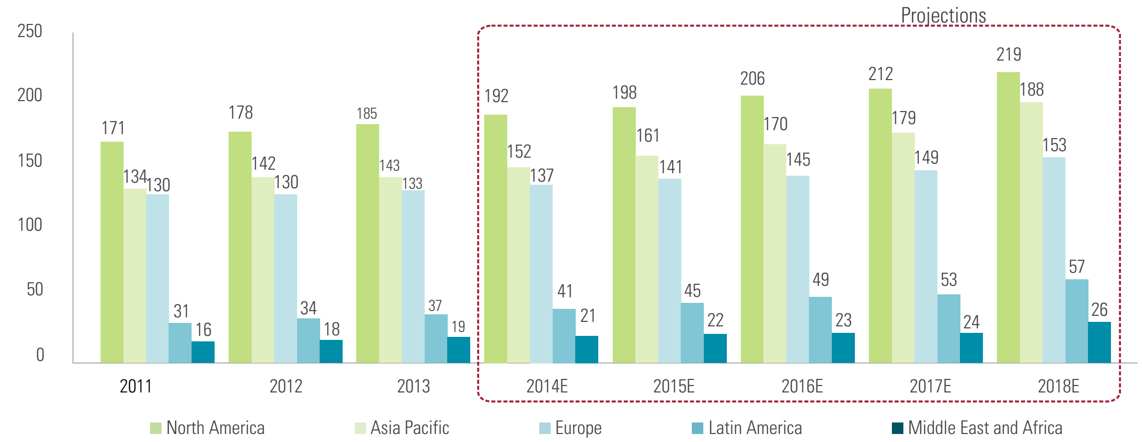
Comparing MEA with mature markets

From 2008 to 2012, the MEA region grew at a CAGR of around 15 per cent (highest among all regions); while mature markets such as North America and European markets grew marginally at a CAGR of around 1 per cent and 2 per cent respectively. For future periods as well, MEA is poised to record amongst the highest CAGR at 12 to 14 per cent among all regions.[2]

Global advertising market

In terms of spending on advertisements, the global market size is expected to reach around USD642 billion in 2018 at a CAGR of just over 4 per cent. Though MEA's contribution to the global media advertising market is currently low compared to other regions, MEA's contribution is expected to grow at a fast clip of around 7 per cent to reach around USD26 billion by 2018.[3]

Total media advertising spending worldwide (in USD billion)

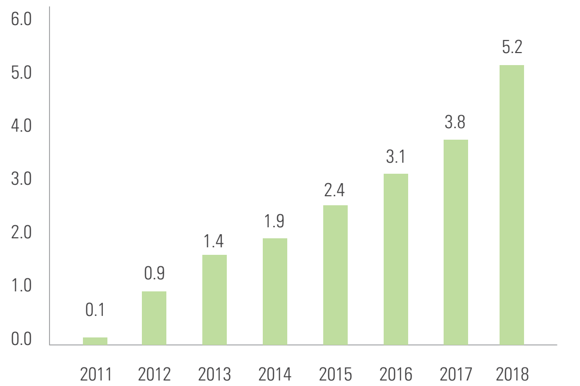


Source: Data gathered by eMarketer, 25 September 2013, KPMG in India analysis

01. Source: Global Media Report 2013 by McKinsey and Company, Inputs from Wilkofsky Gruen Associates
02. Source: KPMG in India analysis
03. Source: Data gathered by eMarketer, 25 September 2013 and KPMG in India analysis (Reference: http://www.emarketer.com/Article/Worldwide-Ad-Growth-Buoyed-by-Digital-Mobile-Adoption/1010244

For the MEA market, the highest year-on-year growth comes from digital advertising. Digital advertising is expected to rise at a CAGR of over 31 per cent from 2013 to 2018 and cross USD5 billion by 2018.[4] Growth of digital advertising is in sync with rapid penetration of broadband and smart phones. The number of smart phone users in the region has grown at an astonishing staggering CAGR of 113 per cent in last 4 years. Due to this, mobile advertising and social media are expected to emerge as the strongest mediums for advertising in the region.

Digital advertising spending in Middle East and Africa (USD billion)



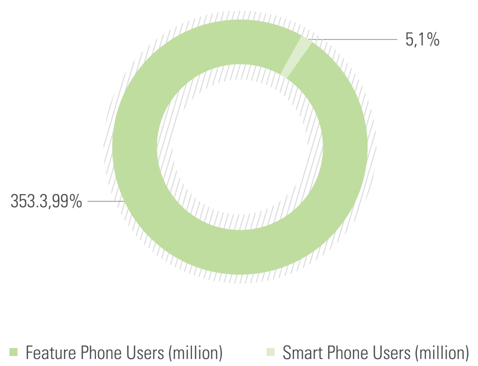
Source: Data gathered by eMarketer, 28 August 2013, KPMG in India analysis(Reference: http://www.emarketer.com/Article/Mobile-Expands-Its-Share-of-Worldwide-Digital-Ad-Spend/1010170)

Key figures on MEA media usage and spending

	2009	2013	CAGR
Internet Users	123 million	260 million	21%
Mobile Phone Users	358.3 million	525.8 million	8%
Smartphone Users	5.4 Million	112 million	113%
Social Network Users	61.9 million	209.8 million	36%

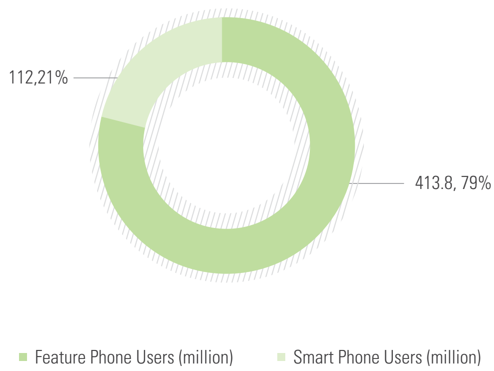
Source: Data gathered by eMarketer, 1 Oct 2013 and KPMG in India analysis(Reference: http://www.emarketer.com/Article/Smartphone-Usage-Nearly-Double-Middle-East-Africa/1010249)

Mobile phone users in MEA in 2009



Source: Data gathered by eMarketer, 1 Oct 2013 and KPMG in India analysis (reference: http://www.emarketer.com/Article/Smartphone-Usage-Nearly-Double-Middle-East-Africa/1010249

Mobile phone users in MEA in 2013



Source: Data gathered by eMarketer, 1 Oct 2013 and KPMG in India analysis (reference: http://www.emarketer.com/Article/Smartphone-Usage-Nearly-Double-Middle-East-Africa/1010249

04. Source: Data gathered by eMarketer, 25 September 2013 and KPMG in India analysis (Reference: http://www.emarketer.com/Article/Worldwide-Ad-Growth-Buoyed-by-Digital-Mobile-Adoption/1010244)

M&E market in Middle East and North Africa (MENA)

Overview

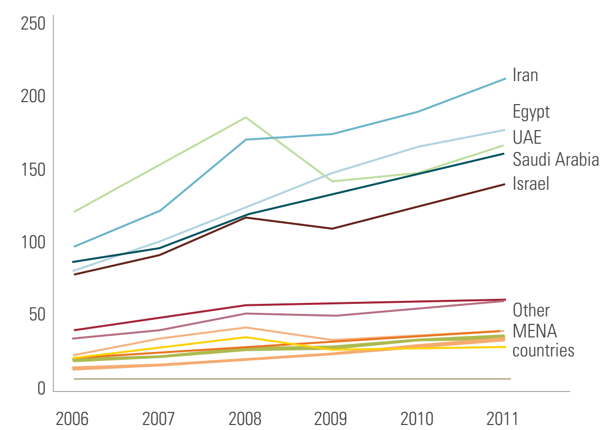
Riding on the growing phenomenon of digital and social media, coupled with rapid ICT infrastructure growth, the M&E industry in MENA is being forecasted to grow at a rate of around 16 per cent by 2018.[5]

With Expo2020 coming to Dubai, the first city in MEA region to host the expo, UAE is set to invest more than USD8.4 billion in building the exhibition infrastructure and on ancillary services. This is expected to include around USD6.8 billion for capital expenditure and around USD1.6 billion for operational expenditure including branding and advertising. This six month long event is estimated to attract more than 25 million visitors in the country.[6]

Another first for the region will be the FIFA World Cup football which will be held in Qatar in 2022. The World Cup is one of the most sought after opportunities for advertisers to showcase their brands in front of millions of viewers. Typically, around 75 per cent of the budget of such events is derived from sponsorships and corporate partnerships. Qatar is expected to spend ~USD200 billion for the World Cup, of which around USD40 billion is expected to be spent on promotional activities including media campaigning and branding over next eight years.[7]

After the economic slowdown in 2009 and recent uprisings in countries such as Egypt, Libya, Syria, Lebanon, expenditure patterns of consumers in MENA region have revealed that UAE and Saudi Arabia are the focus countries in terms of the advertisement market due to high spending coupled with a young population and government support. Qatar is also expected to spend a substantial amount to promote itself as a tourist destination ahead of the World Cup. Even though consumer expenditure of Iran, Israel and Egypt has been on the higher side till 2011, given the current political uncertainty, it may take a few years for M&E markets to stabilise in these countries.

Consumer expenditure in MENA (USD billion)



Source: 6th Edition of Consumer Middle East and North Africa report by Euromonitor International, 2013

In terms of different platforms for advertising, TV was the most preferred medium with a share in excess of 40 per cent. Though the share of print media (including newspapers, business magazines, and consumer magazines) in the global advertisement market has declined heavily over the past few years, it has declined marginally and retained a healthy share in the MENA region of around 35 per cent. Radio is a relatively small segment with a share of around 5 per cent[5].OOH and internet advertising are the upcoming segments for advertising and accounted for around 10 per cent each in the overall advertising market. Online advertising industry in MENA is expected to grow at a CAGR of 28 per cent and is expected to cross USD1 billion mark by 2017.[8]

The decline of print media in MENA is not as radical as compared to more mature markets and is likely to be brought about by the movement of 'Generalised to Personalised Media'. In this movement, traditional media platforms are slowly losing market share to new media due to its capability to receive highly personalised, high quality content – either at home or on wireless devices. Revamped ICT infrastructure such as high-speed broadband through fibre optics, internet access over 3G/4G/Long Term Evolution (LTE) networks have propelled the growth of 'Personalised Media'.

The GDP of the Middle East and North Africa (MENA) region is driven largely by the six GCC countries which are characterised by a low population base but a very high spending power. Significant potential exists in other volume driven markets like Egypt as well, where a largely young and technology savvy population is driving growth.

With increasing investments in 4G/LTE network by operators as well as in passive infrastructure by the governments across the region, future M&E demand is expected to be driven by mobile broadband, as more and more services become accessible through smartphones and tablets. At the same time, content production remains largely fragmented. There are no worthwhile players with the required infrastructure, skills or the scale to be able to cater to the huge demand for high bandwidth consuming content that can be created in the process. This could present an exciting opportunity for Indian content production houses, who could partner with local players to expand the market.

- Anindya Roychowdhury
KPMG Partner in the Middle East

05. KPMG in India analysis
06. http://www.zawya.com/story/Expo_2020_a_boost_for_Dubais_economy-ZAWYA20131002074146/ 2 October 2013 and KPMG in India analysis
07. http://www.sportsgrid.com/soccer/qatar-will-spend-200-billion-on-2022-fifa-world-cup-what-else-could-you-buy-with-that-much-money/#6, 9 July 2013
08. http://english.alarabiya.net/en/media/advertising-and-pr/2013/07/11/Arab-web-advertising-market-set-to-hit-1bn-by-2017.html, 26 September 2013

Television

Historically, Egypt has been the leading country in MENA for TV content production with over 65 per cent market share in 2012. GCC countries have the next share of around 20 per cent with UAE in the lead. Other countries such as Syria, Lebanon, Iraq and Jordan contribute the remaining 15 per cent share of the TV production market in MENA.[9]

TV viewing habits in the region have remained fairly constant in spite of the emergence of online and social media in last 3–5 years. Average TV viewing time in key markets such as Saudi Arabia and Egypt has ranged between 3 to 3.2 hours[9]. However, this trend is likely to change in the near future.

The TV industry in the region is expected to reach USD3 billion by end of 2014.[9] The industry is dominated by Free-to-Air (FTA) platform. Though pay TV has been introduced in the market, it has not grown exponentially. There were around 538 FTA channels in 2011[10]. The broadcasting industry remains concentrated across three major markets – Egypt (18 per cent), Saudi Arabia (17 per cent) and UAE (14 per cent).[9]

Pay TV witnessed growth from 2006 to 2011 in the region; however, it has slowed down after 2011. There is a great demand for sports related channels, especially football, in the region and various pay TV providers such as Al Jazeera come up with special packages for covering events such as World Cup football, Euro championship etc.[9]

Advertising is the major revenue stream for players constituting ~ 70 to 75 per cent of overall TV revenues. There are a large number of FTA channels which are running on ad supported models. Pay channels are limited and are mostly restricted to foreign channels. TV advertising is projected to grow at a CAGR of around 5 per cent from 2014 to 2018 while pay TV revenues are projected to grow at a higher range between 15 to 18 per cent from 2014 to 2018,[11] albeit on a smaller base.

Print

The print industry in the MENA region has demonstrated a stronger resilience in the last few years as compared to more mature markets such as North America and Europe. However, following the trend globally, print media's share in overall M&E market has shown a decline in the last few years. Overall print industry revenues are estimated to cross USD3 billion by end of 2014. Revenues from subscription range from 30 to 35 per cent across different countries in MENA.[9] Revenues from subscription as well as advertising are likely reducing due to a rise of substitutes offered by digital media.

The region experienced a slight decline of 2 to 3 per cent in newspaper print circulation; the biggest market for print circulation i.e. Egypt, saw the launch of new newspapers such as Al Tahrir, Al Horia Wa Al Adala and Al Mesryoon following the exit of President Hosni Mubarak in February 2011.[9]

With differentiated editorial content and targeting the underserved categories of customers, several newly launched newspapers have been successful. For example, success of sports-only newspaper Sports360[0] suggests that there is demand for high quality regional content for a niche/underserved segment of consumers.[9]

Some newspapers shut down in the last few years due to their inability to re-invent themselves in the wake of the digital revolution. Some of them include –Awan, Arrouiah and Assawt from Kuwait; Al Waqt and Al Meethaq from Bahrain[9]. Due to lack of auditing and a credible third party measurement system, a majority of the advertisers in the region have to rely only on claimed circulation numbers by publishers for making their investment decisions. With the rise of online consumers in the region, many advertisers are tuning to online media for branding and advertising initiatives.

The magazine industry in the MENA region went through a rough patch in 2008-09 and forced some of the players to close. However, more than 60 new magazines were launched in 2011 alone. Though there are several segments in which magazines are available such as lifestyle, business, fashion, shopping, and children and youth, the dominant segment is women's magazines. It represents around 75 per cent of the total circulation of magazines in the region. This segment shows a high degree of consolidation with the top 5 titles accounting for around 80 per cent of circulation.[9]

Several newspaper and magazine publishers have started creating and distributing content online to cater to wider categories of consumers. For example – a leading newspaper in UAE, Emirates Business 24/7, ceased publishing in 2010 and started publishing its content online in the same year. Also, Al Mofakkerah Al-Eqtisadiah, a subscription-based business newspaper published twice a month from Jordan stopped printing in 2010 and is now published online from Qatar as a business news portal[9]. As online content becomes well entrenched, there can be possibilities for global players to participate in content syndication.

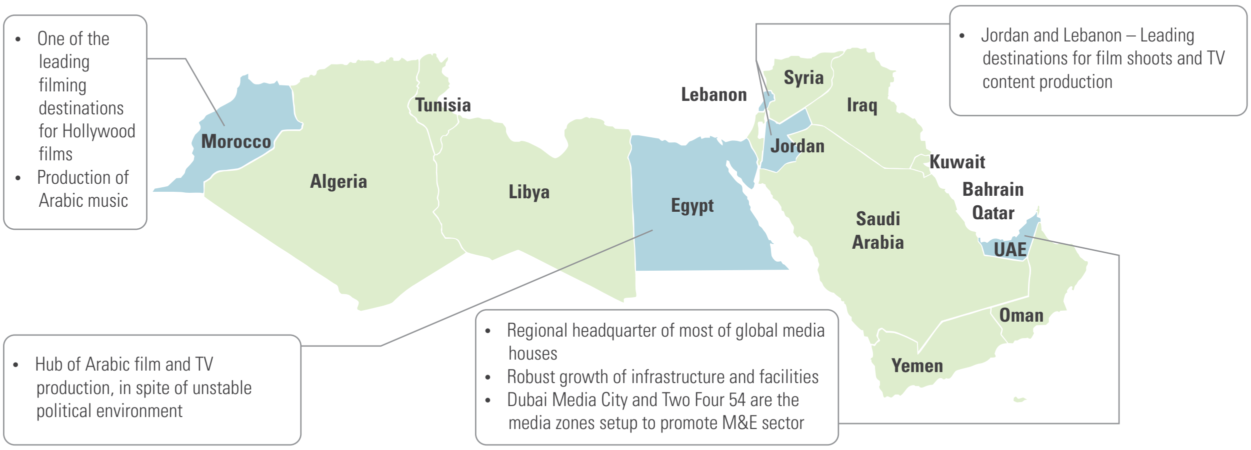
Films

Although momentum has been generated in recent years, the volume of Arabic film content is still very small compared to international volumes. Between 2005 and 2010, the Middle East contributed less than 1 per cent, or 215 films out of around 30,000 films produced in the world during this period. Though very few films are locally produced in MENA, there is a huge market for film distribution for foreign language films. Further, production of Arabic film and TV programmes is significantly below par compared to other mature markets representing only around 0.05 per cent of GDP.[9]

Egypt, UAE, Jordan, Morocco and Lebanon have been the leaders in Film and TV content production due to a large community of artists and technicians. Additionally, these countries have extended benefits to content producers for production and post-production of film and TV content.

09. KPMG in India analysis
10. http://www.arabadvisors.com/Pressers/presser-210611.htm, 21 June 2011
11. Article 'Changing market: Print publications remain dominant, but new outfits are on their flanks' by Oxford Business Group, KPMG in India analysis

Till 2012, Egypt produced more than 30 per cent of all feature films produced in MENA region. Other notable countries were Lebanon, Jordan and Syria which had a share between 10 to 20 per cent in MENA's film production market. GCC countries had around 33 per cent share of the market with UAE in the lead. However, the recent uprisings in the region have impacted the industry.[12]



Source: KPMG in India analysis

Morocco, Jordan, UAE have been chosen as filming locations by many in Hollywood, Bollywood as well as other film industries due to their varied landscape, historical places and a geographically convenient central location. Notable films shot in Jordan include The Hurt Locker (2008) and Transformers: Revenge of the Fallen (2009). Troy (2004) and Inception (2010) have been shot in Morocco while Mission Impossible – Ghost Protocol (2011) and Fast and Furious 7 (2015 release) have large portions shot in UAE. The UAE Government has been instrumental in attracting film and TV show makers as they offer high quality M&E infrastructure, financing and incentives required to support a vibrant media industry. Several of the world's leading television broadcasters, advertising agencies, and print publications are based in UAE with most of them setting up in Dubai or Abu Dhabi as regional headquarters for their operations. Dubai Media City, which started in 2001 as a specialised media zone is one of the preferred facilities by local as well as international media players.[12]

Various film festivals have also been started to promote regional films and to promote the region in terms of locations to attract tourists. UAE premiered its first feature film 'City of Life' in 2009 while Saudi Arabia premiered 'Journey to Mecca' in 2012. Notable festivals include[12]:

- Gulf Film Festival (GFF), Dubai
- Dubai International Film Festival (DIFF)
- Abu Dhabi Film Festival (ADFF)
- Doha Film Institute (DFI).

12. KPMG in India analysis, Industry discussions conducted by KPMG in India

New Media

New or Digital Media has revolutionised consumer habits in the region. Current spending on online advertising in MENA is around USD300 million which is expected to touch USD1 billion in 2017. Saudi Arabia is one of the leading countries in terms of digital branding and advertising as it accounts for one third of the overall online advertising expenditure in the MENA region.[13]

The vast young population in MENA is keen to use the latest smart phones and tablets to satisfy their information and entertainment needs. As per a report released by UAE's Telecommunications Regulatory Authority (TRA) during the 3rd quarter of 2013, ~ 46 per cent of the handsets registered on UAE networks were smart phones. During this quarter, consumers in UAE visited websites of various applications 1.5 billion times through their smart phones and through fixed internet services. Smartphone makers such as Apple, Samsung, LG, Blackberry, Sony Ericsson, Nokia etc. have started releasing their latest products in MENA region simultaneously with their global launch. Smartphone maker Blackberry launched its Z series smart phone globally in Dubai last year.[14]

Key highlights based on KPMG in India analysis and from a survey recently conducted by IPSOS around digital media:

- Top country for internet usage: UAE
- Leading countries for social media usage: Jordan, UAE, Saudi Arabia
- Top product shopped online in MENA: Clothes

Governments as well as private sector players have acknowledged the strength of digital media and have started taking necessary steps in upgrading the ICT infrastructure, policies, and the budgets as well. With Yahoo taking over local media firm Maktoob in 2009 for USD164 million and research giant Thomson Reuters acquiring Zawya in 2012, it reinforces the fact that more and more emphasis will now be placed on digital media in the region.[15]

Digital

Digital has the highest potential for growth in the region due to favourable demographics[16]:

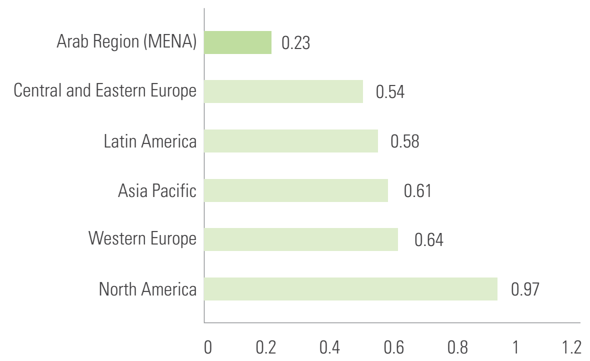
- Young population (more than 50 per cent of the population in the region is below the age of 25),
- High literacy rates
- High uptake of smart phones, tablets and similar gadgets given the high spend power in the oil-rich GCC countries.

There have been numerous initiatives taken up by the Governments / private sector players like – Group Buying Services, e-commerce and online market places, recommendation services, socially focused services etc. In the mobile space, mobile apps and mobile gaming, and augmented location based services have been popular.

Online

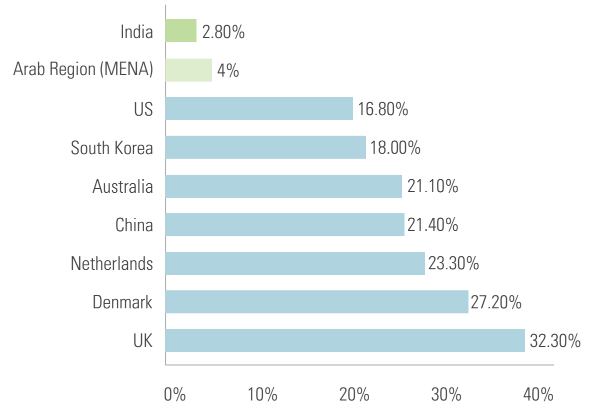
Several large advertisers have now started using online advertising as well as social media to promote their brands. Their campaigns have tasted success and this is likely to lead to more extensive usage of social media.

Advertising spend as % of GDP (2011)



Source: KPMG in India analysis

Digital advertising share as % of total advertising spend (2011)



Source: KPMG in India analysis

13. Trade Arabia News Service, November 2013
14. Article on consumption habits of MENA users in ArabianGazette.com, March 2013
15. Wall Street Journal, 2009 and 2012
16. KPMG in India analysis

Based on KPMG in India analysis, nearly 85 per cent of the population spends more than 30 minutes online every day. Hence, there is a vast consumer community available which spends a significant amount of time online every day. This has prompted organisations to come up with newer business models. There are also variations in the online activities for different age groups, with common activities for kids including online games, social networking and videos and TV programmes.

Saudi Arabia is now 'the biggest user of YouTube per capita in the world' as per a recent study[17]. This is primarily due to the significant percentage of young population (an overall population of 28.3 million) which is seeking a reprieve from the region's bland TV programming as well as monitored usage of social media platforms like Facebook and Twitter[18]. This younger generation is turning to YouTube for more relatable and entertaining content. There are agencies and shows such as 'UTURN' and '3al6ayer' that cash in on YouTube's regional popularity. UTURN has managed to get 286 million views on the site so far.

Social

Social networking is the second most common activity, after checking emails carried out online in UAE by consumers.[19] It also played an instrumental role during the uprisings in MENA region in the last few years. It was used extensively by people to voice their opinions as well as by protestors to mobilise people quickly due to its extensive and fast communication speed.

Percentage of population citing social networking as their most common activity	2009	2012
Egypt	10%	30%
Saudi Arabia	7%	25%

Source: KPMG in India analysis

Key statistics – UAE	
Visits to social networking sites in 3Q 2013	13.7 billion
Share of various social media sites	
Facebook	91%
Twitter	8%
Maktoob, LinkedIn, Myspace	1%

Source: http://www.itp.net/mobile/596057-smartphones-account-for-46-of-uae-registered-handsets-tra

Key statistics – Saudi Arabia	
Active Twitter users	3 million plus
Number of Tweets per month	50 million
Active Facebook users	6 million plus
Daily YouTube views	90 million plus

Source: http://www.arabiangazette.com/50-million-tweets-winds-social-change-kingdom-saudi-arabia-20130408/

It is evident that social media has become an integral part of the life of people here. The rise and popularity of social media, especially Twitter, is due to the fact that there is heavy censorship in many countries in the region and people are using social media as a tool to voice their opinions.

When you get connectivity to the web, it puts you in a different class of people. People now online in rural villages in Africa, start to join social networks in their own country to enable business. They join social networks with others countries, which is very important in delivering healthcare and part of its education.

If there is an important message to get out about an epidemic, or food, or how to deal with crop disease, when you have internet infrastructure it spreads very quickly. It is an important tool for delivering healthcare as well as commerce.

While this was important, 'whistleblowers' perform an important role in monitoring people in positions of authority.

October 2013

Sir Tim Berners-Lee
World Wide Web Inventor

Source: Abu Dhabi Media Summit, 2013

17. http://www.fastcompany.com/3021832/fast-feed/the-worlds-most-avid-youtube-viewers-are-in-saudi-arabia?partner=rss, 18 Novembe 2013
18. http://www.theguardian.com/world/2013/dec/17/saudi-arabia-digital-twitter-social-media-islam, 17 December 2013
19. UAE yearbook 2013

Radio

The radio industry in the region is growing mostly due to liberalisation of the sector in many countries. This has likely enabled numerous private sector radio stations to start operations. As of December 2011, UAE had the maximum number (38) radio stations in the region.[20]

Some of the notable radio channels in UAE include:[20]

- Rock Radio, Coast 103.2 (English content);
- Al Arabiya, Al Khaleeja (Arabic content);
- Gold FM, Radio ME FM (Malayalam content),
- Radio Mirchi, City 101.6 FM (Hindi content);
- Hello FM 89.5 (Tamil content);
- Tag 91.1 (Filipino content)

Out-of-Home (OOH)

Out-of-home (OOH) advertising is a steady component in overall advertising market in the region with around 10 per cent share. Outdoor advertising (billboards), digital indoor advertising, and cinema advertising are key components of the OOH sector. There is a large amount of variation in OOH advertising across MENA countries with OOH accounting for around 30 per cent of revenues in Lebanon while in Qatar it merely stands in the range of six to eight per cent[20]. This is primarily due to the controls put in by Governments over outdoor advertising. New entrants such as Al Barq Digital, based in Abu Dhabi (UAE), have started outdoor advertising in digital format and are currently providing their services in various malls, kiosks in UAE and in other countries in the region.

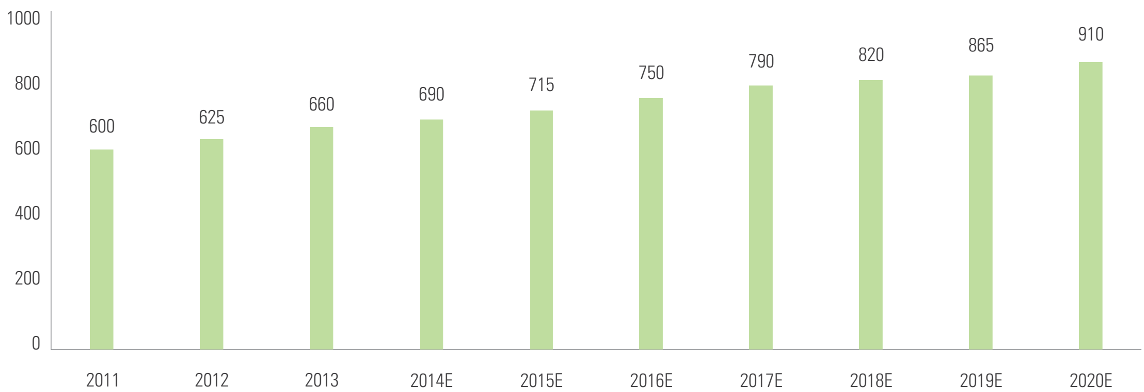
M&E market in Sub-Saharan Africa (SSA)

Africa is a very diverse market with a population of around 1.1 billion spread over 55 recognised countries/states.[21] Nigeria is the most populous country in Sub-Saharan Africa (SSA) with a population of over 150 million while Seychelles is the smallest, with only around 100,000 people. Over 1,500 languages are used in Africa.[22]

Africa's population is about to touch 2 billion by 2050 and the rate of urbanisation in Africa is also on the rise with almost 60 per cent of the population expected to be living in the cities by 2050. The economically 'active' population (i.e. population between15 to 65 years of age) is estimated to grow from 56 per cent to 66 per cent — a striking contrast to more mature continents whose populations are aging and moving into the dependent category.[22] This makes it a promising market for the Media and Entertainment sector in the future.

Based on KPMG in India's analysis, SSA is poised to grow at a rate of five to six per cent compared to the growth of global economy at a rate of 2 to 3 per cent between 2011 and 2020. Consumer expenditure in SSA was around USD600 billion in 2010 and is expected to reach nearly USD1 trillion by 2020 highlighting the scope of opportunities. South Africa and Nigeria together account for more than 50 per cent of overall consumer expenditure in SSA and hence are the key countries for Media and Entertainment sector as well.[22]

Consumer expenditure in SSA (USD billion)



Source: Report by Accenture on African Consumer Markets, 2011, KPMG in India analysis

20. KPMG in India analysis
21. http://www.prb.org/Publications/Datasheets/2013/2013-world-population-data-sheet data-sheet. aspx , 2013
22. Report by Accenture on African Consumer Markets, 2011

According to Nielsen survey for media in Africa (2013), one of the key insights in terms of people's media preferences states that though advertising in print and electronic/digital media is important to create awareness, 'Word of Mouth' endorsements stand out as one of the most influential drivers for purchases.[23]

Based on this survey and KPMG in India analysis, selec countries of SSA were grouped based on the factors such as – a) Media penetration, b) Frequency of usage, c) Range of programming / mobile services and d) Digital / social media activities.[23]

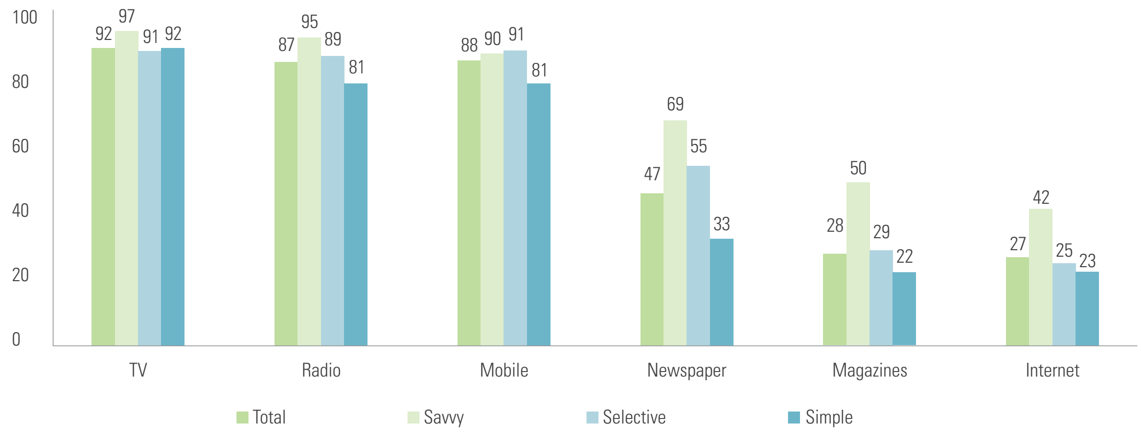
Savvy	Selective	Simple
South Africa	Nigeria	Ghana
Kenya	Zambia	Cameroon
Botswana	Zimbabwe	DRC (Congo)
Namibia	Tanzania	Ethiopia
Angola	Uganda	Madagascar
		Mozambique

The survey suggested that TV, radio and mobiles have the highest usage while usage of print media varies dramatically across the countries.

In summary, people in 'savvy' countries are more likely to read print media, access internet, interact using social media and use smart phones. Population in 'selective' countries is the largest and most diverse range of consumers at various media intersection points. These countries typically have higher costs for mobile data and voice thereby limiting the development of digital media. 'Simple' consumer countries have the lowest GDP per capita and lowest media involvement which is evidenced by the fewer independent TV and radio stations, media regulations as well as high costs for mobile internet usage.[23]

According to KPMG in India analysis, nine countries in SSA are likely to account for ~75 per cent of total consumer spending in SSA by 2020. We divided these 9 countries in geographical sub-regions i.e. east, west and south and picked the top country from each sub-region for further analysis - Kenya, Nigeria and South Africa. We shall now discuss the different media platforms in the region, focussing more on these three countries

Penetration range across SSA (Percentage)



Source: Nielsen Survey for Media in Africa, 2013 and KPMG in India analysis

23. Nielsen Survey for Media in Africa, 2013 and KPMG in India analysis

Sub-region	Country	Population in 2009 (million)	Spending in 2010 (USD billion)	Estimated Spend in 2020 (USD billion)
East	Kenya	40	23	40
	Ethiopia	83	20	40
	Uganda	33	15	30
West	Nigeria	151	115	165
	Ghana	24	15	30
	Senegal	13	10	15
South	South Africa	49	215	315
	Angola	19	14	20
	Zambia	13	10	25

Source: KPMG in India analysis

Television

South Africa

South Africa is the most important market for TV industry in SSA and is expected to grow at a CAGR ranging from six to eight per cent in the next five years. Revenues from pay TV subscriptions account more than 55 per cent of the overall TV industry revenues compared to 45 per cent contribution of TV advertising. Share of pay TV subscription revenues is on the rise and is expected to go over 60 per cent by 2018.[24]

According to KPMG in India analysis, South Africa is the largest pay-tv market in Africa with approximately 5 million subscribers. Pay TV has gained momentum in the country in the last few years and is expected to add 2 million more subscribers in next five years.[24]

TV advertising market in South Africa is fairly stable and is expected to grow at a CAGR ranging from four to six per cent in next 5 years. TV advertising contributes approximately 40 per cent to the total advertising spends in South Africa. Though market for TV advertising is expected to grow, its share in overall advertising is likely to fall slightly due to emergence of new media advertising.[24]

Nigeria

Nigeria is one of the few countries in the world with a projected CAGR of over ten per cent from 2014 to 2018. Similar to the South African market, around 55 per cent revenues in Nigerian TV industry come from pay TV subscriptions and this percentage is likely to remain the same for next five years. Number of pay TV subscribers in Nigeria is expected to grow from 2.5 million to approximately 3.2 million in next five years.[24]

For most advertisers in Nigeria, TV has been one of the most preferred options for the past few years. Advertising market is primarily focussed around urban areas in Nigeria with more than 60 per cent of total advertising budget spent in and around Lagos.[24]

Kenya

Kenya is a relatively small market for the TV industry compared to South Africa and Nigeria. However, like Nigeria, Kenya is one of the few countries in the world with a CAGR of over ten per cent from 2014 to 2018. Kenyan TV industry is expected to grow at a staggering CAGR of 16 to 18 per cent till 2018.[24]

Kenyan TV industry is dominated by advertising with approximately 80 to 90 per cent share in overall TV industry revenues unlike South Africa and Nigeria,. Pay-tv market in Kenya is still very nascent with a penetration less than 10 per cent of the overall population in the country.[24]

Compared to global TV industry CAGR of approximately 6 per cent, Kenya and Nigeria are expected to grow at a much higher CAGR for next 5 years[24]. This depicts that media industry players could have large potential in setting / expanding their businesses in these countries.

However, there are some challenges identified in TV industry in SSA – one of the most important being migration from analogue broadcasting to digital terrestrial television (DTT).

With a rapidly approaching deadline of June 2015 for migrating from analogue broadcasting (video and/or sound) to digital terrestrial television (DTT), Africa may face a tough challenge in bringing all stakeholders including service providers, consumers, and regional regulatory bodies on the same page. This deadline has been set by International Telecommunication Union (ITU). Once the deadline of June 2015 passes, it is understood that there will be no more international support for analogue spectrum.[25]

Within Africa, different geographies have set up different deadlines for internal migration. For example, Kenya has set a deadline of June 2014 for completing this migration in a phased approach. Rwanda has set a deadline of July 2014 for this migration. Most African countries such as Mauritius, Botswana, Kenya, Tanzania, and Nigeria have made steady progress to successfully meet ITU's deadline.[25]

However, notable exception in this list is South Africa. South African government and their department of communications have delayed this process for a long time and now it looks unlikely that they will be able to complete this migration before 2017.[25]

24. KPMG in India analysis, Industry discussions conducted by KPMG in India
25. IT News Africa, January 2014

Main challenges in this migration include:-

- lack of clear information of this deadline amongst all stakeholders
- confusion due to inadequate guidance procedures and
- most importantly, supply and cost of set top boxes (STBs) that enable consumers to receive digital signals.[26]

After implementing DTT, process of TV content broadcasting across various African countries is expected to get smoother.

Most of Africa will not meet the ITU deadline and for the most part; it is unlikely to matter – at least not for the next year or two. When the deadline passes, there will no longer be any international "protection" for the spectrum that is used for analogue TV, so there could be signal interference and degradation if other users are allowed into the spectrum.

The real challenges are the pent-up demand for the spectrum to be reallocated, to improve broadband access and provide better quality of service and the ability of viewers to access digital TV with analogue equipment. It is the latter that will impact the poorer sections of the communities, as they will have to acquire new aerials and set top boxes – even if subsidised, it is likely to reduce the number of people able to watch TV.

January 2014

Adrian Schofield, FCSSA, PMCSSA
Manager, Applied Research Unit,
Joburg Centre for Software Engineering
at Wits University

Source: IT News Africa, January 2014

Print

South Africa

Although circulation numbers are reducing, Print media in South Africa is expected to grow at a nominal rate of around 4 to 6 per cent. Only select newspapers such as 'Sowetan' and 'The Times' have showed consistent growth in terms of subscription numbers in last few years. In terms of magazines, most categories – including consumer magazines and business magazines – saw a decline in subscription.[27]

As predicted by IMF, South Africa's GDP is expected to grow at a mere 2 per cent; however inflation is anticipated to be at a higher rate. Hence, people are expected to have lesser cash in hand, and hence reduced spend on newspapers or magazines. Following the global trend of subscription of newspapers and magazines in digital format, South Africa is also expected to see a wider community adopting 'digital' subscriptions. Digital editions will likely be taking the place of traditional print editions of newspapers and magazines; however the share of digital editions is likely to be in the range of only 8 to 10 per cent in near future. Digital editions typically offer the same content to consumers at a discount of 20 to 30 per cent.[27]

The advertising market for South African newspapers has stabilised now and is likely to remain in the range of 20 to 30 per cent of overall advertising market. On the other hand, digital advertising is on the rise and could grow upto a size of USD 50 to 60 million in next 3 to 4 years.[27]

In the current difficult trading climate our performance is quite commendable but it doesn't mean there's no further space for growth.

There's a lot of scope to continue growing, not just the newspapers but other sources of news such as social media and other digital products.

September 2013

Mpumelelo Mkhabela
Editor of one of the leading dailies
in South Africa 'Sowetan'

Source: financialmail.co.za

Nigeria

Compared to South Africa, Nigeria is a relatively small market with a size of around USD530 million in 2013. It is anticipated to grow at CAGR of around 5 per cent and reach USD680 million in 2018. However, within print media sub-sectors, the sub-sector of magazines is expected to grow at around 10 per cent while the market for newspapers is likely to grow at less than one per cent.[27]

Revenues from circulation of newspapers and magazines are likely to increase in the next four to five years while revenue from advertisements is expected to have minor variations. According to industry discussions, around 65 per cent of revenues come from print media circulation in Nigeria.[27]

Kenya

Kenya has witnessed a rapid growth in its print media sector which has risen from USD140 million in 2008 to USD290 million in 2013. This growth is likely to continue in near future as well with market size estimated to reach around USD360 million by 2018.[27] Print media in Kenya is very strong as an emerging middle class looks out to purchase newspapers and magazines. Though consumers have shown interest in digital subscriptions of their favourite print medium, it is expected to be in the range of only 5 to 7 per cent of total subscription numbers.[27]

26. IT News Africa, January 2014
27. KPMG in India analysis and industry discussions conducted by KPMG in India

Advertising in print media is a big market and revenues from advertising in newspapers are likely to constitute over 55 per cent of the overall print media revenues by 2018.[28]

Films

African cinema has come a long way since its inception in 1960's. At that time, films were primarily funded by the French controlled Bureau of African cinema. This bureau financed more than 65 per cent of the films produced in SSA till 1980s.[29]

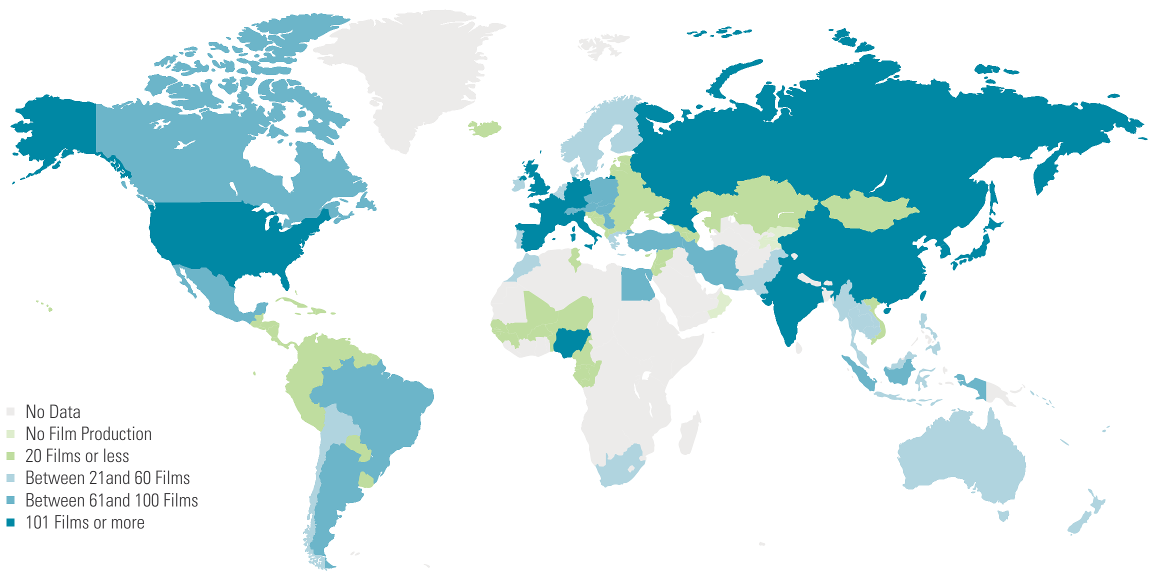
However, film making in Africa is going through a new era. Several co-production treaties have been signed by African production agencies which help them get adequate funding, support in terms of film making, post-production processing, and access to latest technology etc. Nigerian films (Nollywood) which were previously produced by local channels/producers are also now increasing looking out for co-producers often based outside Nigeria and SSA.[30]

Based on UNESCO data, only Nigeria had a high rate of movie production. In Nigeria, on average, 966 films released per year between 2005 and 2011 making it the second largest movie producing country by numbers. But the films produced in Nigeria were semi-professional/ informal productions, most of them with limited or no theatrical release. Although 1,074 films were produced in 2010 in Nigeria, national films sold only 117,563 tickets (26per cent of market share of that year), in a country with a population of about 160 million inhabitants.

Nollywood has changed the face of Africa; the pictures we see are no longer those of starving naked children, but rather the stories of our lives as Africans, our work, our culture, our lifestyles.

- **Joseph Tegbe**
Partner,
Management Consulting -
KPMG in Nigeria

Concentration of film production, 2011



Source: UNESCO Institute for statistics, July 2013

28. KPMG in India analysis and industry interactions
29. http://www.newafricanmagazine.com/features/culture/africas-film-industry-embraces-transnationalism
30. Article by Lindiwe Dovey in New African Magazine, October 2012

In fact, SSA countries feature in the lists of least number of screens per 100,000 inhabitants (with population aged 5to 79) in 2011.[31]

Country	Screens per 100,000 inhabitants
USA	12
United Kingdom	6
China	3
Brazil	1
India	0.8
Sub-Saharan Countries	0.02 – 0.1

Source: KPMG in India analysis

South Africa

According to a recent study conducted for the National Film and Video Foundation (NFVF), South Africa's film industry has grown significantly since 2005, contributing over USD300 million to the national economy in 2012 with further growth expected over the next five years.

There are numerous advantages for South Africa in terms of cinema production. South Africa is a prime film location, offering a combination of film infrastructure, attractive financial incentives with a favourable exchange rate, a sunny climate and a wide diversity of spectacular locations. Number of films produced in South Africa rose from 5 in 2005 to 60 in 2012. 'Tsotsi', an internationally acclaimed movie that won 2006's Oscar for Best Foreign Language Film was produced in South Africa in 2006.[32]

One of the major reasons for filmmakers – local as well as foreign – to choose South Africa as a filming location is financial incentives offered by Department of Trade and Industry (DTI). Foreign movie-makers who shoot at least half their footage in the country and use local post-production facilities can get up to 25 per cent of their South African costs back, whereas local filmmakers can get up to 35 per cent back.[32]

The study indicates that an additional 2,175 full-time equivalent (FTE) jobs have been created and that there are 2,500 direct service providers in the film making industry in South Africa.[32]

Additionally, South Africa has a healthy number of advertising and television professionals. Animated films have also have found a market in this region and film makers are exploring this area as well.

Nigeria

Nigeria is the second largest film producing country in the world and the only country in Africa to produce more than 100 films in a year.

31. Inputs from UNESCO Institute of Statistics around Digitization of Film Industry, August 2013 and KPMG Analysis
32. Article in screenafrica.com on economy growth due to films, October 2013

A detailed analysis on 'Nollywood' by KPMG in Nigeria provides further insights:

The Nigerian film industry (Nollywood) is a critical component of the country's economy – the fourth largest contributor to Nigeria's GDP in 2012-2013, with revenues in excess of USD500 million annually. Although the industry is largely fragmented and unstructured, it is also the highest employer of labour after agriculture.

The industry has largely grown on the back of the entrepreneurial prowess and passion of indigenous film producers/ distributors, cast and crew. Next to football, Nollywood is the other key unifying source of entertainment that has captured the hearts of Nigerians at home and abroad. This is largely driven by the fact that film producers have focused on local content that its target audience can relate with. Considerable emphasis is placed on the multi-lingual nature of the population. In 2013, Nollywood produced titles in close to 10 languages with most of the movies produced in English, Yoruba and Hausa. In addition, most movies follow a narrative story telling format and are based around themes such as social, cultural and family issues, across various genres and are mostly targeted at mature audiences. Nollywood movies are typically shot on celluloid, released directly to DVDs/VCDs and on average are produced within two to four weeks on a budget of USD20,000 (for low budget movies).

In addition, Nollywood has contributed significantly in projecting Nigeria and Africa's image globally, with the themes and story lines resonating with Africans and black communities all over the world. The soft power created by these movies has led to a change in the face of Africa and how Africa is perceived overall, with Nollywood actors and languages becoming increasingly popular in large cities across Africa. In addition, it has led to the growth of the film industries in Ghana, Kenya and Liberia. Nollywood has also been heralded as a driver for Africa's tourism industry potential.

Nigerian films produced in English have an international appeal and are now released outside Nigeria, in US and UK cinemas and at international film festivals. Popular Nollywood movies premiered abroad include Tango with Me, Flower Girl, Mirror Boy, Across the Niger and Return of Jenifa. There has also been increased collaboration with Hollywood actors, with a couple of appearances by Hollywood actors in some local productions such as Hakeem Kae Kazeem in Last Flight to Abuja and Chiwetel Ejiofor and Thandie Newton in Half of a Yellow Sun. This has helped to increase the recognition and profile of the movie industry and it is expected that the trend will continue with Nigerian actors moving on to the Hollywood scene. This is riding on the back of the music industry, which has seen several collaborations with international music stars and even international deals with Nigerian artistes.

Contrary to mature markets, more than 95 per cent of Nollywood movies are released directly on DVD/VCDs. Beyond the traditional means of distribution, online sources such as iROKOtv, known as the Netflix of Africa (allows users to stream exclusive Nollywood films for about USD5 per month) are beginning to gain ground. The sharing of broadcast syndication rights with large pay TV digital networks has also helped to redefine the shape of the industry; producing other avenues for film producers to monetise revenues. Producers are also exploring components such as in-cinema advertising, product placements, and merchandising to enhance revenue capabilities of Nollywood movies.

However, despite Nollywood's strong positioning and exciting future prospects, the industry faces key challenges across the production, distribution and exhibition phases, which need to be addressed in order to maximize the industry's potential, move theon past successes.

Film Financing continues to be a key challenge for the industry, as there are currently no formal financing mechanisms. Even with the provision of grants and loans supported by the government, many key stakeholders are still unable to access funds, due to mainly a lack of understanding of how film financing works and the absence of formal operating structures on the part of industry players, among other factors. As a result, the major source of funding remains reinvested profits from previous productions (and support from family, friends and associates) to support typical budgets of between USD20,000 to USD250,000. Limited funding leads to other challenges such as absence of world class equipment, shooting in outdoor locations without any concept of studios, and significant skills gaps.

Although Nollywood is the second largest film producing industry globally, its ability to monetise revenues from film production is significantly hampered by the limited number of cinemas/ screens available across the country (approximately 0.8 screens per million), the high level of piracy in the industry and the quality of content produced.

Poor content quality often implies that a good number of movies produced are not cinema worthy and therefore cannot be released theatrically both in the domestic and international markets, which are key sources of revenue for movie production. As a result, movies typically earn 50-60 per cent of their revenues from sales of DVDs and VCDs, which typically occurs within two to three weeks of the film's release. This in turn can lead to a high rate of piracy and copyright infringements.

Given the strong national and international following of Nollywood movies, the nascent nature of the industry and gaps and opportunities across various segments of the value chain, the Nigerian film industry seems to be at the tipping point and at the cusp of phenomenal growth. However, appropriate investments and structures need to be in place to address the key challenges facing the industry. This, we believe, is a joint effort, on the part of current stakeholders, potential investors and the government.

The quality of content produced needs to be improved; piracy issues need to be addressed; stakeholders need to have structures, systems and processes that can enable easier access to finance; distribution and exhibition channels need to be significantly increased and/or revamped; need for supporting infrastructure including adequate power supply and increase in broadband penetration; enabling laws need to be enforced and/or rejigged; and the industry needs to refocus on new ways of working through training, knowledge building forums and capacity development.

"Nollywood is our shining light. Whenever I travel abroad; many of my colleagues ask me about Nollywood."

Goodluck Jonathan
President Nigeria, May 2013

Source: UN

"One of the reasons the Nigerian film industry hasn't developed is that they haven't had access to formal financing."

Yewande Sadiku
Executive Producer
"Half of a Yellow Sun", 2013

Source: UN

"Only less than five per cent of Nollywood movies are cinema worthy and can generate reasonable revenue; exhibitors are interested in showcasing movies that are commercially viable."

Kene Mparu,
MD,
The Film House Cinemas, 2013

Source: Industry discussions by KPMG in India

Opportunity offered by exhibition business in Nigeria

The exhibition infrastructure in Nigeria is still at its infancy leading to approximately 95 per cent of all Nollywood movies releasing directly on DVD/VCDs. The country had an estimated 108 screens in 2013 with a view to reach 275 screens by 2020, which means an addition of ~160 screens in the next 7 years. This is in stark contrast to India, where the leading player alone adds ~50 to 100 screens each year.

In terms of screen density, Nigeria at 0.5 screens per million people, falls grossly behind other film consuming economies such as US, China, Brazil and India. While some players such as Silverbird Cinemas, Genesis Deluxe Cinemas and FilmHouse have recognised the market potential and set-up operations, there is still a large demand supply gap presenting an opportunity to other national and global players. Development of exhibition industry is expected to be a key driver to help ensure the profitable growth of the Nollywood film industry, as currently the theatrical revenue stream is extremely small.

Source: KPMG in India analysis; Industry discussions conducted by KPMG in Nigeria; http://natoonline.org/data/us-movie-screens/

New Media

Consumers in Africa are getting easier to reach due to a remarkable uptake of mobile services. Mobile penetration in Sub-Saharan Africa was around 70 per cent in third quarter of 2013 – much lower than the global average of 92 per cent and compared to 30 per cent penetration in SSA in 2008. However, it is on a rise and this significant mobile adoption by consumers has made it easier to reach consumers through mobile marketing, competitions and promotions.[33]

The countries with the greatest number of year-on-year net additions of mobile subscriptions for third quarter of 2013 were: Nigeria, Democratic Republic of Congo, Mali and Ghana. In terms of mobile subscriptions per country, Nigeria leads, followed by South Africa, Kenya, Ghana and Tanzania. Total mobile subscriptions are forecasted to increase from more than 560 million in 2013 to around 930 million by the end of 2019.[34]

According to an IDC report released in December 2013, the number of mobile connections in the three major sub-Saharan countries — South Africa, Kenya and Nigeria — is expected to grow 28.2 per cent next year to reach 55.8 million. Also smartphone spending in SSA is expected to increase by 6 per cent in 2014 while feature phones will decrease by 11 per cent. Based on a survey by telecom giant Ericsson, 80 per cent of all mobile subscriptions in SSA will be 3G/4G by end of 2019.

Growth in mobile data traffic in SSA is expected to surpass mature markets like UK in next 5 years. While mobile data usage is expected to increase 11 times in UK, it is expected to increase 17 times in SSA.[35]

With social media apps now coming pre-installed in most smartphones, consumers are feeling 'always connected' to the world where they can express their opinions, get updated with latest news around the world, enjoy videos, listen to radio on the go.

An 'app culture' is strongly evolving where the most common types of apps to be downloaded are those for banking. Mobile finance services have a strong growth potential in the region due to an array of banking apps being introduced from mobile operators and established banks, as well as the fact that many people do not have access to traditional banks.[36]

Adding to this is the increase in international bandwidth availability to Africa as eight countries in SSA already offer high speed wireless network called LTE services while five others are actively exploring it.[36]

These are key levers in driving the content creation and new business models based on digital media.

MXit (Free online mobile chat service) has applied three key strategies in accessing lower income African consumers.

Firstly, MXit has kept its product simple, minimizing customization. Secondly, MXit has improved reach through accessing early adopters in communities and ensuring that users are constantly educated about new services. And lastly, MXit ensures that it understands and appeals to its target consumers' most basic needs, which can often be misunderstood if there is not sufficient research."

Herman Heunis
Founder and Managing Director,
MXIt (Free Mobile Chat Service)

Source: financialmail.co.za

33. Inputs from Accenture report on African Consumer Markets (2011), Ericsson Mobility Report on Sub-Saharan Africa (2013)
34. Ericsson Mobility report for Sub-Saharan Africa (2013)
35. Inputs from TechWeekEurope and Cisco Report on Mobile Data Traffic in UK (2014)
36. KPMG in India analysis

Online

Internet usage in South Africa has more than doubled in the last four years. According to recent State of the Newsroom SA 2013 study conducted by Wits Journalism, one in three adults in South Africa last year - 12.3 million people - was on the Internet and the figure is expected to double by 2016.

In South Africa, the Government is gearing up to roll out broadband access to every citizen by 2020.

As per the Economist, Kenya is probably SSA's most sophisticated digital nation boasting of around 18 million internet users and a staggering 99 per cent of the internet traffic coming from the mobile phones.[37]

In SSA, many consumers experience the internet for the first time in black and white on their low cost phones. Non-availability of smartphones in masses and patchy yet expensive mobile data connectivity may have led to development of unique digital services in SSA. For example, M-Pesa, one of the leaders in mobile money is a Kenyan SMS based payment service with over 15 million subscribers and an application programming interface (API) enabling several African start-ups.[37]

Similarly, 2go, a Nigerian portal competing with Facebook, became profitable just after 4 years of launch and had around 9 million users by then. It also focuses on providing social media functionalities but on regular phones.[37]

In 2010, Kenya exported around USD360 million worth of technology related services up from USD16 million in 2002. Based on JBB research, Kenyan mobile-entertainment market was around USD165 million in 2013. There are innovative start-ups like Planet Rackus that have come up with mobile games which are now available for download in Nokia store, Google Play store as well.[37]

Pay TV

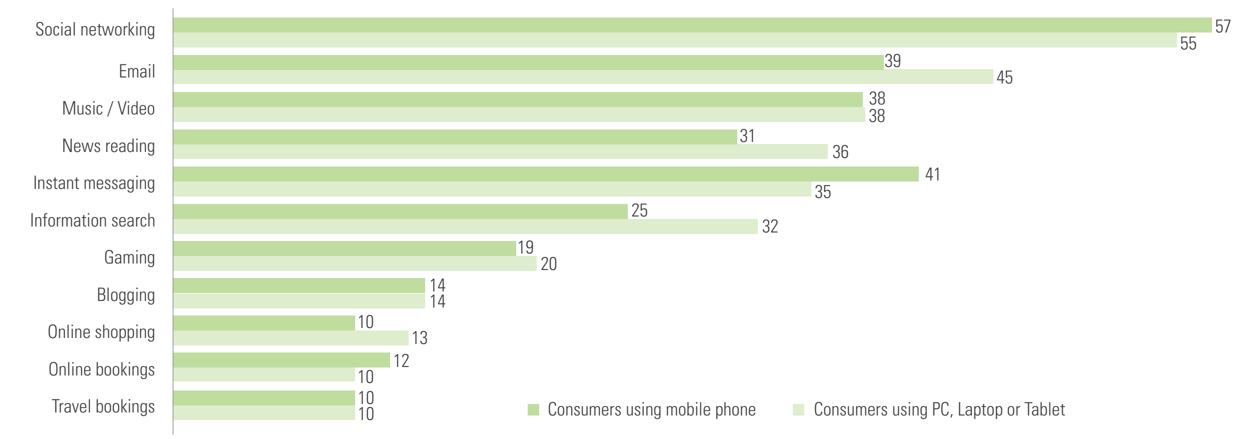
The migration to digital broadcasting across the globe has likely spiked the demand for high quality content and pay-tv model seems to have gained momentum in last few years. Most pay-TV providers are offering increasingly content-hungry consumers quality programmes. Hence, the pay-tv industry is poised to possibly play a pre-eminent role in the unfolding digital TV era.

The model thrives on the innovative creation and delivery of superior television content. Quality content, Quality sound, Quality picture and Quality service are the four pillars. Often it is predicted that internet will soon slow-down the progress of pay TV; however global revenues in pay TV are on the rise. The amount reached USD184 billion in 2012 compared to USD135 billion in 2007 and is expected to hit USD225 billion by 2017.[38]

Social networking

In one of the recent surveys, most Africans have opined that they want and prefer to use internet for social networking. The results were similar irrespective of the mode of using internet i.e. with PC/laptop/tablet or with mobile.[39]

Percentage of conducting a particular activity by frequent users while connected to internet



Source: African consumer insights report by McKinsey & Company

37. Inputs from Media Map 2013 by Bonnier R&D
38. Business Daily Africa, August 2013
39. Inputs from African Consumer Insights report by McKinsey and Company

Video streaming and Video on Demand

Video streaming is also seen as one of the growing market in the digital media space. Many operators are getting together in SSA to provide digital media content to their consumers. MTN has partnered with True African (Uganda) and MultiChoice (Nigeria).[40]

VoD is the latest platform on which rapidly growing Nigerian Film Industry, Nollywood, is becoming a global brand. Nigeria opened the market for digital licenses of films in 2010, thereby adding a new revenue stream for the producers. Similar to Netflix in the US, a few VoD providers such as iROKOtv, Afrinolly, and Pana TV have started providing services in Nigeria in recent past.[40]

VoD service providers are coming up with innovative schemes to lure customers. Pana TV has struck a deal with Samsung and will see the Pana app pre-installed on every piece of the electronics giant's kit sold on the African continent while Afrinolly has achieved half a million downloads in its first 10 months of offering Nollywood content online.[40]

However, there are major challenges related to VoD. They include:[40]

Slow, patchy and expensive internet connectivity

When iROKOtv, one of the VoD service providers in Nigeria, started the service, the founder had to collect the films on a hard drive and upload them from United Kingdom (UK) since local internet connectivity was extremely slow. It was expensive as well.

Poor electricity supply

Problem of patchy internet connectivity is coupled with poor electricity supply in the country. Even the capital city of Lagos faces electricity shortages.

Legal disputes

Afrinolly and iROKOTv are in a legal dispute about whether the former is making money from content the latter has paid to have exclusively.

To overcome internet connectivity challenges, firms are looking at technological solutions that can allow streaming on mobiles and tablets even when the signal is low. In the worst case scenario, content can look grainy; however it may still be better than having nothing available. This is expected to bring confidence in consumers in terms of workability of VoD and could change the whole market completely. With growing number of 4G LTE implementations currently running in Africa, VoD is expected to become a smooth and enjoyable experience.

Foreign M&E players in Middle East and Africa (MEA) market

As described earlier, MEA is one of the fastest growing regions in the world in terms of M&E sector and there is plenty of potential for players in traditional as well as new media. United Arab Emirates (UAE), Qatar, and Saudi Arabia are the focus countries in Middle East and North Africa (MENA) region while South Africa, Nigeria and Kenya are expected to grow faster than other countries in Sub-Saharan Africa (SSA).

Several multinational players have set up their bases in MEA region and are leveraging on the rapidly growing high class infrastructure and government support in terms of establishing academies, forming alliances with local entities, financial incentives, facilities required for content production as well as post-production activities.

An illustrative list of multinational players operating in MEA region includes:

- Sky News Arabia - Setup as a Joint venture between British pay TV player BSkyB and Abu Dhabi Media Investment Company, it operates a 24 hours news service channel in MENA.[41]
- Ubisoft - One of the leading publishers of video games, Ubisoft has setup a development studio and a gaming academy in Abu Dhabi.[42]
- Cartoon Network Arabia - Time Warner Company setup Cartoon Network Arabia in 2010 to provide content in Arabic language. In addition to this channel, Time Warner Company has also setup Cartoon Network Academy recently in Abu Dhabi's media zone, TwoFour54, to provide training in various animation techniques.[41]
- Fox International Channels - News Corp's Fox International offers 13 channels in MENA through Free-to-Air satellite and pay TV through its regional hub in UAE. A mix of Arabic and international content is distributed over these channels.[41]

Key multinational players operating in SSA include:

- Bloomberg TV – In 2013, Bloomberg TV announced a partnership with Nigerian content provider, Optima Media Group (OMG), through which Bloomberg airs 3 to 4 hours of television content per day. Content is produced in Lagos, Johannesburg, and Nairobi in SSA while international feed comes from London. Content is packaged and distributed through satellite and IPTV as well as in traditional terrestrial formats.[43]
- Fox International Channels – Fox international channels has an office in Johannesburg (South Africa) and it offers international content to its viewers in SSA through pay TV providers such as DSTv and StarSat (erstwhile 'TopTV').[40]

40. KPMG in India analysis
41. The Hollywood Reporter Magazine, October 2012
42. http://www.ign.com/articles/2013/01/02/ubisoft-opens-abu-dhabi-studio
43. Bloomberg press release, 28 February 2013

In addition to the multi-national players, some of the Indian players have established a strong presence in MEA region in TV, radio, and print media. Particularly, within GCC region, Indian M&E players have tremendous potential as more than 36 per cent of the overall GCC population comprises Indian expatriates. In the UAE, Indian expatriates account for ~70 per cent of overall population of UAE. In addition to Indians, expatriates from Pakistan and Bangladesh in GCC countries also form part of the consumer community for M&E sector.[44]

Some of the Indian players operating in MENA region include:

- Zee Network – Zee is one of the major Indian players operating in the MEA region. Zee started its operations in MENA in 1994 and extended its presence to Africa in 1996. Its portfolio of 20+ channels is distributed through Free-to-Air satellite, Over-the-Top TV (OTT) as well as IPTV networks such as eLife in UAE. The portfolio includes popular channels such as Zee Tv, Zee Cinema, Zee Cafe, Zee News, Ten Sports as well as regional channels such as Zee Marathi. In addition to distributing Indian content in the region, Zee has also content produced in Arabic with shows such as 'Zee Connect'. [45]

  Zee's movie channel, Zee Aflam, had reached a level of 49.7 GRPs with a share of around 12.8 per cent in MENA in 2012. Also, in 2012, Zee launched its 24 hours Arabic channel 'Zee Alwan'. Recently, Zee also announced its plans to launch two new HD channels in the region.[46]

  Zee's Ditto TV, an OTT distribution platform, offers live TV programmes, VOD, Music, News on internet enabled devices such as laptops, tablets, smartphones and desktops. Ditto TV is currently available in markets such as UAE; however it is expected to be made available in rest of the region soon. Further, content offered on Ditto TV includes Zee's programmes as well as content from Multi Screen Media (Sony Entertainment Television), TV Today Network, BBC, Viacom18 network.

- Other players in TV industry – Apart from Zee, majority of the Indian television content producers such as B4U, UTV, NDTV, and Sony Entertainment Television have partnered with UAE's eLife (IPTV platform) to distribute their content to Asian consumers. Recently, Star India partnered with eLife to distribute a portfolio of 17 channels in 6 languages including popular channels such as Star Plus and Star Gold in UAE.[47]

- Gulf Madhyamam – Gulf Madhyamam is the first newspaper in Malayalam to be published outside India. Owing to the needs of huge expatriate population in GCC region, Gulf Madhyamam started operations in Bahrain in 1999. Currently eight editions of Gulf Madhyamam are published from various cities in MENA

- Radio Mirchi – Radio Mirchi started its operations in UAE in 2012 through an association with Abu Dhabi Media Company. Radio Mirchi in UAE provides content in Hindi and English. It is one of the leading private radio stations in India operating across 32 stations in 14 states with more than 41 million listeners

In SSA region, Indian television content is distributed through regional IPTV providers. For example, Zuku TV offers Indian content providers such as Star India, Sony Entertainment Television, UTV, B4U, and Zee through its fiber optic network and through satellite TV in Kenya, Uganda, Tanzania and Malawi with plan to expand operations in Ethiopia, Eritrea, South Sudan, Rwanda, Burundi, and Zambia soon.[48]

Additionally, some of the Indian TV content producers have partnered with 'Glow TV', a regional FTA channel in South Africa to air select shows such as Bade Achhe Lagte Hain, Kya Huaa Tera Vaada (from Sony Entertainment Television), Koffee with Karan (Star India) etc.[49]

44. 'GCC as an Investment Destination' by Alpen Capital, 5 November 2013
45. Interview of Mr Mukund Cairae, CEO – MENA and Pakistan, Zee Network, published on mediavataar.com, 13 May 2012
46. Zee TV
47. Television Post, 7 February 2014
48. KPMG in India analysis
49. Article published on indiantelevision.com, 6 November 2013

Conclusion

Middle East and Africa (MEA) is the fastest growing region for M&E sector in the world with a projected growth rate of 12 to 14 per cent[50]. Additionally, with world-class events such as Expo2020 and football world cup taking place in next 8 to 10 years, there is tremendous potential available for companies around the globe operating in M&E and advertising sector to expand their business in this region.

While traditional media such as TV, films and print are expected to hold their share strong, new media such as digital, online and social are also getting momentum at a rapid rate in the region due to high percentage of young population in the region. UAE, Qatar, and Saudi Arabia are expected to be the focus countries in MENA for the next five to seven years, and in sub-Saharan Africa, South Africa, Nigeria, Kenya will likely be positively looked upon by the M&E sector companies.

In terms of setting up businesses, numerous multi-national companies such as Fox Studios, Sky News, Cartoon Network, Bloomberg have already setup their base in MEA and several other companies are actively looking to enter this lucrative market.

Films and TV content production and distribution have been one of the most preferred sub-sectors for Indian as well as multi-national players to operate in MEA market. Indian media players such as Zee, Radio Mirchi and Madhyamam are successfully operating in the region in radio and print media segment. The players looking at these markets need not be limited to targeting the diaspora alone as even the local population in these regions can present an attractive market, which has been demonstrated by players in other sectors as well like Telecom, Automobiles etc.

A large consumer community (including 36 per cent of overall population as Indians in GCC region)[50]; high quality infrastructure for ICT, production and post-production of content; abundance of filming locations and support offered by governments are can be the pillars of growth for Indian M&E sector players in this region. With an encouraging outlook estimated for next 5 to 7 years, Indian players could leverage on the strengths and potential offered by this region and extract significant business value.

14

Tax and regulatory

Navigating through tax complexities

The tax environment in India is quite challenging. Thanks to the ingenuity of the tax payers and the aggression of the tax authorities, the year gone by has witnessed some of the most innovative and unprecedented litigation on the tax front in India. The tax developments in India are being tracked globally with bated breath, be it tax implications of issue of shares by an Indian company to its overseas parent, uncertainty surrounding indirect transfer of shares, withholding tax on payment towards software, connectivity payments etc.

Given the uncertain political scenario in the country and impending general elections, the fate of the implementation of the proposed Direct Taxes Code Bill and the Goods and Services Tax Bill, which are intended to address some of the woes of the taxpayers, remain in the dark.

Talking about the M&E sector, amidst the sluggish growth of the economy, the growth in the M&E sector has been commendable and the sector has stood strong in these difficult times. However, the myriad of taxes in various forms and multifarious statutory compliances, are, to an extent, playing spoilsport. The industry has been burdened with the varied stream of direct and indirect taxes viz. entertainment tax, service tax, VAT, income tax, etc.

Several issues such as dual levy of tax, i.e. service tax as well as VAT on licensing of copyrights in certain cases, uncertainty regarding 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 DTH industry, uncertainty surrounding taxability of foreign sports associations, teams and players, etc., are being faced by the tax payers in the M&E sector. These issues have been long outstanding and require utmost attention and addressal by the Government.

On the regulatory front, the Telecom Regulatory Authority of India has recommended revision of foreign direct investment limits in certain segments. If these recommendations are accepted by the Government, it could boost investment in the sector, leading to further growth.

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

- ### Levy of service tax on distributors / sub distributors / exhibitors of movies

  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.

In view of the above, all types of revenue sharing arrangements between the producers, distributors, sub distributors and exhibitors of movies will be subject to service tax, except for revenues from licensing of copyright in films for exhibition in cinema hall /theatres, which are exempt from service tax.

Prior to issuance of the aforesaid Guidance Note, there was also a Circular[1] issued by service tax authorities, which clarified that levy of service tax would not depend on the nature of such arrangements but on the nature of the transaction involved. Thus, service tax was applicable on the exhibition of movies by the exhibitor, whether the arrangement with the distributors was on a principal to principal basis or on behalf of the distributor/sub distributor/producer or on a revenue sharing basis.

The aforesaid Circular has been upheld by the Madras High Court[2], wherein it has been held that having regard to the various modes of arrangements between the distributors/ sub – distributors and exhibitors of films, CBEC was justified in issuing the said Circular, clarifying the transactions between distributors/ sub – distributors and owners of theatres and the levy of service tax thereon.

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.

Judicial decisions

- ### Abandoned film project expenses allowed as revenue expenditure

In the case of A.K. Films Private Limited[3], the taxpayer who was engaged in the business of producing feature films and television programmes incurred expenditure on a film which was subsequently abandoned. The tax authorities held that feature film, being a capital asset in the hands of the producer, any loss arising from the abandonment of film cannot be treated as revenue loss and accordingly, disallowed the expenditure on the abandoned film.

The Mumbai Tribunal held that according to Income Tax Rules, a feature film is to be given a treatment not different from that given to an article or thing which is manufactured. Therefore, a film, which for some reason has been abandoned, should not be treated differently than stock-in-trade which has lost its value. Accordingly, the Tribunal held that the cost of production of the incomplete project should be allowed as a business expenditure on its abandonment, unless such abandonment is temporary.

KPMG in India's comments

This is a welcome decision, which is expected to provide some respite to the film producers in respect of the cost of abandoned films. Non grant of deduction in respect of cost of abandoned films could have added to the woes of the producers, who could have already suffered substantial loss by incurring such expenses.

- ### Interest on loans availed for production of films not exhibited during the year

In the case of Firoz Nadiadwala[4], the taxpayer incurred interest expenditure on loans taken for the cost of production of films which were not released during the year. The taxpayer claimed the interest expenditure incurred during the period, as deduction, while computing its business income under Section 36(1)(iii) of the IT Act.

However, the tax authorities held that the interest paid on borrowings, specifically taken for production of films, which were not released during the year, needs to be considered as per Income Tax Rules (Rule 9A) and not under Section 36(1)(iii) of the IT Act.

As per Rule 9A, deduction of expenditure incurred on production of films (i.e. cost of production of films) is allowed either in the first year of release or over a period of two years, based on when the copyrights in the films are exploited or the date of release of the film. One of the key issues before the Mumbai Tribunal was whether the aforesaid interest formed part of cost of production as per Rule 9A.

The taxpayer argued that, the interest expenditure incurred during the period is to be allowed as deduction under Section 36(1)(iii) of the IT Act as the borrowings were made for the purpose of business and not as per Rule 9A. However, the Tribunal rejected the arguments of the taxpayer and held that Rule 9A is to be mandatorily applied for determining the expenditure in respect of the films. It held that the interest on borrowings specifically taken for the production of the two films has to be considered as part of cost of production of the films allowable in the year of release of the films and not in the period in which such expenditure was incurred.

01. Circular No. 148/17/2011 dated 13 December 2011
02. Mediaone Global Entertainment Ltd (2013-TIOL-516-HC-MAD-ST)
03. ACIT v A.K. Films Private Limited (I.T.A. No. 5980/Mum/2012)
04. Firoz Nadiadwala v Addl. CIT (2013) 143 ITD 551 (Mumbai)

KPMG in India's comments

The Courts, in the past, have generally taken a view that deductibility of the expenditure relatable to the production of the film (which is otherwise allowable under the provisions of the IT Act) has to be determined in accordance with Rule 9A. The Tribunal in the above case has reaffirmed this position by holding that interest expenses incurred vis-à-vis loan specifically taken for production of films is allowable as per provisions of Rule 9A.

- **Transfer of copyright in a feature film for 99 years - 'sale' and not 'royalty'**

In the case of K. Bhagyalakshmi[5], the taxpayer was engaged in the business of purchase and sale of films. It entered into an agreement with an Indian entity for acquisition of film rights for a period of 99 years.

The taxpayer was of the view that with the payment being towards purchase of cinematographic film, no tax was required to be deducted from such payment. However, the tax authorities held that it is not a case of sale but a case of a mere grant of satellite right in the movie by the film producer. Accordingly, the payment made for transfer of such right would fall within the meaning of 'royalty' under the IT Act, subject to tax deduction at source (TDS) at 10 per cent under Section 194J. The deduction in respect of the payment was disallowed for non-withholding of tax under Section 194J.

The High Court held that as per the Indian Copyright Act, 1957, copyright in a cinematographic film subsists until 60 years, whereas the taxpayer has acquired the rights for 99 years. Therefore, the High Court held that the transaction can only be treated as a one of 'sale' which would be excluded from the definition of 'royalty' under the IT Act. Accordingly, the tax payer was justified in making the payment without withholding of tax under Section 194J of the IT Act.

KPMG in India's comments

This is a welcome ruling holding that payment towards acquisition of film rights for period exceeding 60 years would not be subject to TDS. This is expected to help producers in avoiding substantial funds getting blocked in TDS, and thereby improving their working capital position.

05. K. Bhagyalakshmi v DCIT (2013) 40 taxmann.com 350 (Madras)
06. Asia Satellite Telecommunications Co. Ltd – 197 Taxman 263 (Delhi HC)

Broadcasting Industry

Key Tax issues

- **TDS on various payments by TV channel companies**

TV channel 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 two 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 advertisement 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 reflects 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)[6], 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.

Recently, the Delhi High Court in the case of TV Today Network Limited[7] 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 treaty and hence, not liable to tax in India.

- **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 '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.[8] has held that where an FTC has an Agency PE in India (i.e. PE on account of its agent), a payment of arms 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. 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.

Judicial decisions

- **Services rendered by non-resident for production of programmes for purpose of broadcasting and telecasting to be treated as 'business income'**

  In the case of Endemol India Private Limited[9], the taxpayer was engaged in the business of providing and distributing television programmes. It produced a reality show for which the shooting was required to be carried out in Argentina. It engaged an Argentinian company for providing line production services in Argentina. The taxpayer approached the Authority for Advance Rulings (AAR) to determine the taxability of the amount paid to the Argentinian company.

  The AAR held that services rendered for production of programmes for the purpose of broadcasting and telecasting has been specifically characterised as 'work' for the purpose of Section 194C. Accordingly, it will not be appropriate to treat the payment as Fees for Technical Services (FTS) under the provisions of the IT Act.

  The AAR held that when such services are specifically categorized as 'work' for Section 194C, then the income therefrom should be treated as 'business income'. Accordingly, it was held that in the absence of PE of the Argentinian company in India, its income was not taxable in India.

KPMG in India's comments

This is a welcome ruling which provides persuasive value to the position adopted by the taxpayers that fees paid for production of programmes for the purpose of telecasting, being specifically characterised as 'work' for the purpose of Section 194C, should not be treated as FTS in terms of Section 194J of the IT Act. A similar view has been taken by the Delhi High Court in the case of Prasar Bharti (Broadcasting Corporation of India).

- **Service tax on distribution and advertisement sale rights acquired from overseas broadcasting company**

  In the case of M/s ESPN Software India (P) Ltd[10], the Delhi Tribunal has held that acquisition of channel distribution and ad-sale rights does not amount to import of broadcasting services and hence, not liable to service tax under reverse charge mechanism.

  ESPN India was engaged in distribution/ sub-distribution of various channels owned by foreign broadcaster, in India through Cable TV network and DTH platform. Further, ESPN also purchased advertising time inventory on these channels and sold it to third parties in India. On such activities, ESPN was already paying service tax under the taxable category of 'broadcasting service'.

07. DIT v TV Today Network Limited (ITA 600/2012)(Delhi HC)
08. Set Satellite (Singapore) Pte. Ltd v DDIT(IT) – 173 Taxman 475 (Bombay HC)
09. Endemol India Private Limited [2013] 40 taxmann.com 340 (AAR – New Delhi)
10. M/s ESPN Software India (P) Ltd Vs CST, New Delhi (AIT-2013-189-CESTAT)

The Service tax authorities contended that ESPN was also the recipient of broadcasting services from the foreign broadcasters and hence, was liable to pay service tax on the import of broadcasting services.

Negating the contention of the tax authorities, the Delhi Tribunal observed that:

– the transaction would not be liable to service tax under 'Broadcasting Services' under reverse charge mechanism since ESPN India did not receive telecast signals from the foreign entity as the signals were received directly by MSO/ DTH providers, etc.

– the definition of 'broadcasting' is to be read as a whole and cannot be interpreted to include that the appellant is a 'service recipient' as well as a 'service provider' under the definition of 'broadcasting'.

KPMG in India's comments

The aforementioned judicial pronouncement is expected to put to rest the other litigations on the same matter that are being pursued by the Service Tax authorities against the broadcasters in India.

The period involved in the above mentioned case was prior to the introduction of the negative list regime. With the introduction of the negative list regime, effective 1 July 2012, the taxable service categories have been done away with. Foreign broadcasters without a presence in India will now be liable to take registration in India and discharge the service tax liability on subscription revenue, advertisement revenue, etc. earned for the services provided in India. The Indian agents of the foreign broadcasters will be liable to discharge service tax on service fee recovered from the foreign broadcasters. Such service fees recovered by the agent will be available as credit to the broadcasters, subject to the conditions prescribed under the CENVAT Credit Rules, 2004.

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[11]. 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.

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 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.

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.

11. CIT v Ahmedabad Stamp Vendors Association – 25 taxmann.com 201 (Supreme Court)

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.

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 & Record[12] and the Calcutta Tribunal in the case of Gramophone Company of India[13] 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.

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, forms part of the negative list of service tax regime. Accordingly, selling of space or time slots on digital media i.e. internet or selling of hoarding space should not be liable to service tax, irrespective of who the service provider or service recipient is and the mode of consideration.

- **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 the banner advertisement on its portal would be liable to tax in India. Recently, in the case of Right Florists Private Limited, the taxpayer[14] had made payments in respect of online advertising to Google Ireland Limited (Google) and Overture Services Inc USA (Yahoo) without withholding any tax from these payments.

  The taxpayer took a stand that since Google and Yahoo did not have any PE in India and also did not carry out any operations in India, the payment was not taxable in India. The tax authorities rejected the contention of the taxpayer and held that irrespective of the taxability of the income in India, the taxpayer should have obtained order under Section 195 of the IT Act for withholding of taxes prior to making the remittance. In the absence of withholding tax from such payments, the expenses were disallowed by the tax authorities.

  The Tribunal, relying on the OECD Commentary, observed that a search engine, which has its presence only through its website, cannot be held as a PE unless its web servers are also located in the same jurisdiction. Accordingly, since the search engines of Yahoo and Google were outside India, they did not constitute a PE in India.

  The tax authorities pointed out that the Government of India (GOI) has expressed its reservations on the views of OECD. The reservations provide that website may constitute a PE in certain circumstances. In this regard, the Tribunal held that the GOI's reservations are relevant only in respect of tax treaties entered into by India after expressing such reservations. It further observed that though the GOI has stated that website may constitute a PE in certain circumstances, but till date it has not specified what those circumstances are.

  Relying on the decisions in the case of Pinstorm Technologies Pvt. Ltd.[15] and Yahoo India Pvt Ltd[16], the Tribunal held that payment made for online advertisement is not in the nature of royalty.

  On the FTS front, the Tribunal held that there is no human touch involved in the whole process of advertising service provided by Google and Yahoo and therefore, the payment cannot be taxed as FTS. Accordingly, it was held that the payment made was not liable for deduction of tax at source and therefore, cannot be disallowed under the provisions of the IT Act.

KPMG in India's comments

Online advertising on internet search engines has become an important advertising and marketing tool for the present day business. The above ruling has re-affirmed the position of non-withholding of tax in respect of payments for online advertising on the portal of a foreign company, adopted by various Tribunals earlier.

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

12. Tips cassettes & Record Co. v ACIT – 82 ITD 641 (Mumbai Tribunal)
13. Gramophone Co. of India Limited v DCIT – 48 ITD 145 (Calcutta Tribunal)
14. ITO v. Right Florists Pvt Ltd [2013] 32 taxmann.com 99 (Kolkata - Trib.)
15. Pinstorm Technologies Pvt Ltd v. ITO [2012] 54 SOT 78 (Mum)
16. Yahoo India Pvt Ltd v. DCIT [2011] 140 TTJ 195 (Mum)

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 one time 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 forms a part of the negative list. Thus, the sale of space or timeslots on radio is liable to service tax. The industry is of the view that inspite of the fact that radio is a cost free and easy medium of mass communication, the aforesaid benefit of exclusion from the levy of service tax is not granted to radio industry, which is an unfair treatment. 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.

Whether payment for acquiring right to telecast 'live event' is in the nature of 'royalty' subject to tax in India is a subject matter of controversy between the taxpayers and the tax authorities. The Mumbai Tribunal in the case of Neo Sports Broadcast Pvt. Ltd.[17] has held that since there is no copyright in 'live events', the payment for broadcast of live matches is not in the nature of 'royalty' and accordingly, not taxable in India. However, the proposed Direct Taxes Code specifically considers payment for live feed as royalty.

As regards taxability of foreign sports bodies, the Calcutta High Court in the case of PILCOM[18] 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[19], 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

- ### Withholding tax rate on royalty and fees for technical services enhanced by Finance Act 2013

  Up to 31 March 2013, royalty and FTS payable to non-resident were liable to withholding tax at 10 per cent[20] on gross basis.

  However, Finance Act 2013 enhanced this basic withholding tax rate from 10 per cent to 25 per cent on gross basis. This will have significant impact on payments made for acquisition of content, transponder hire charges, etc. and therefore, will enhance the 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[20]). However, there is a silver lining here given that a lower withholding tax rate under tax treaties can be applied, provided the non-resident obtains an Indian Permanent Account Number ('PAN') and Tax Residency Certificate ('TRC').

- ### Clear roadmap for implementation of Goods And Service Tax (GST)

  There seems to be no clarity as to the exact date of implementation of GST. With the impending general elections, the fate of its implementation is highly uncertain. 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.

  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 release definitive timelines and steps for the implementation of GST at the earliest.

  Also, the industry expects that other applicable indirect taxes such as entertainment taxes will be subsumed into GST. If the levy of entertainment tax is kept out of GST, it could be particularly unjustifiable in States such as Maharashtra, where the rate of entertainment tax being levied on films is relatively high. Therefore, entertainment tax should also form part of the GST.

- ### 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

17. DIT v. Neo Sports Broadcast (P) Ltd. [2011] 133 ITD 468 (Mum)
18. PILCOM v. Commissioner of Income Tax [2011] 198 Taxman 555 (Cal.)
19. INDCOM v. Commissioner of income Tax(TDS) [2011] 11 taxmann.com 109 (Cal.)
20. Plus surcharge and education cess

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**

  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 tax deduction at source (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.

Transfer Pricing

With the increase in cross-border transactions across the globe, the scrutiny by the Transfer Pricing ('TP') authorities of such transactions undertaken between related parties has also increased manifold. Hence, it is imperative for companies to have a robust TP policy in place to support the pricing of cross-border transactions between related parties. The Indian 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 transfer pricing certificate (known as Accountant's Report) with the tax authorities disclosing details of such transactions in a prescribed format.

Key Transfer Pricing issues

- **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 channel 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, the above 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. For example, in case theatrical rights of a forthcoming movie are proposed to be sold by a media house in different overseas jurisdictions, some of which may have their own subsidiaries located overseas, various commercial factors play an important role in arriving at an appropriate arm's length benchmark for the transaction, such as market perception of the theatrical rights being sold and value ascribed to movies involving differing star casts in different locations, timing of transaction, credentials of the transacting parties, advertisement and publicity involved, etc. On account of such factors, the determination of the arm's length price of a transaction with related parties poses serious difficulties despite data being available for similar transactions undertaken with unrelated parties. This is because it is difficult to quantify the impact of all these different factors in numeric terms so as to facilitate necessary adjustments that may be required to be made to uncontrolled transactions to render them comparable to controlled transactions.

- ### Difficulty in application of prescribed methods

  The Indian TP regulations have prescribed five 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 and (5) Transactional Net Margin Method. Further the law enables CBDT to prescribe any other method. On 23 May 2012, the CBDT has notified the 'other method' vide a Notification and Rule 10AB has now been inserted in the Income-tax Rules, 1962 (the Rules). 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. For example, there may be issues relating to valuation of licenses being transferred between parties or forecasting expected revenues and cash flows to justify the payments being made today for acquisition of certain media / content rights. In such cases, one would often need the support of valuation reports to justify the transaction value. Since the valuation approach did not technically find any mention under the law, prior to the introduction of the 'other method' taxpayers were saddled with the responsibility of adopting one of the five prescribed methods which might not have necessarily been the most ideal approach for benchmarking and often posed practical challenges in developing a strong audit defense to support the transaction value.

  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 has introduced APA provisions with effect from 1 July 2012. The arm's length price as determined under the APA provisions will be valid for a maximum period of 5 consecutive years unless there is a change in the provisions or the facts having bearing on the international transaction. With the introduction of detailed rules providing a framework for the APA regime in India in August 2012, the APA program is seen as one of the more positive developments, which should assist taxpayers to obtain certainty on their crucial transfer pricing matters, if they so desire.

  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. Several rounds of discussions are already in process and the experience has been satisfactory so far. International TP experts have welcomed the collaborative approach of the Indian APA team. It is being hoped that soon a few final APA agreements could be announced.

  In relation to the M&E industry, the option of APAs can be explored in case of complex and high value transactions or where the company is already undergoing TP audit scrutiny and hence, could be selected for audits again or where the company needs financial certainty with regard to future tax implications. APAs could reduce the need for documentation and the uncertainty associated with audit and appeals over APA term and facilitate TP planning. Double taxation can be avoided in case of Bilateral/ Multilateral APAs.

- ### 'Specified Domestic Transactions'

  Vide 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 (approximately USD0.8 million) in a year.

- ### Safe Harbour Rules (SHRs) announced

  To reduce increasing number of transfer pricing 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.

Regulatory Updates

The Telecom Regulatory Authority of India (TRAI) has issued recommendation to the Government on 22 August 2013 for revision of Foreign Direct Investment (FDI) limits in certain media segments. The recommendation of TRAI on the FDI limits is as under:

Sr. No.	Segment	Existing limits/ Approval Route	Recommended Limits /Approval Route
1	Teleport/DTH/HITS/IPTV/Mobile TV	74% Up to 49% - Automatic route Beyond 49% - FIPB route	100% Up to 49% - Automatic route
	Cable TV Networks Cable Networks (Multi System Operators (MSOs) operating at National or State or District level and undertaking upgradation of networks towards digitalisation and addressability)		
2	Cable Networks (Other MSOs not undertaking upgradation of networks towards digitisation with addressability and Local Cable Operators (LCOs))	49% Automatic Route	Beyond 49% - FIPB route*
3	Downlinking of TV Channels	100% Through FIPB Route	100% Through FIPB Route*
4	Uplinking of non News and Current affairs TV Channels		
5	Uplinking of News and Current Affairs TV Channels	26% Through FIPB Route	49% Through FIPB Route*
6	FM Radio		

* Foreign Investment Promotion Board (FIPB) approval process to be streamlined and made time-bound

Conclusion

The Indian M&E sector is rapidly emerging on the world map, thus marking its global presence. It is high time for the Government to provide fillip to the industry by addressing the various issues discussed in this chapter. This can not only provide a boost to the M&E sector but can also attract foreign investment in India, thus contributing to the overall growth of the Indian economy.

15

Skills in the M&E sector

Redefining roles

Introduction

Media and entertainment in India has evolved from just one channel, few films and a handful of newspapers to 786 channels, over 1000 films per year and thousands of publications. The consumption of media has grown steadily over the years with increasing reach, previously underexposed demographics accessing media and the proliferation of different platforms. As a result, skilled and trained manpower is a crying need in the sector.

Demand drivers

Some of the growth drivers in the sector are:

Digitisation of television and film

The ongoing roll-out of digital addressable systems (DAS) across the country is expected to lead to replacement of analogue transmission(which could carry merely 80-100 channels) by digital platforms like DTH and digital cable with much higher capacity (500+ channels).[1]

Digitisation can enable the broadcasters to invest in new genres, as well as increase the amount of high-definition content. India with 786 channels[2] and with around 200 new channels awaiting approval from the Ministry of Information and Broadcasting,[3] the need for skilled manpower across job - roles such as content production, channel operations and sales and marketing among others in the television sector is set to rise.

Over 95 per cent of all the film exhibition screens in India are digital which could mean wider distribution of content. This, along with the level of multiplexes increasing, will likely drive diversification of film genres and content. Also, expansion of investments in 3D and VFX rich content can also drive the demand for a skilled workforce[1].

Phase III Radio Licenses

The auction of Phase-III radio licenses will extend FM radio services to about 227 new cities, in addition to the existing 86 cities, with a total of 839 new FM radio channels in 294 cities. Phase-III policy will cover all cities with a population of one lakh and above with private FM radio channels. New radio stations would mean demand for people across all job-roles such as content production, sales and marketing, audio engineering, and broadcast operations among others.[4]

Increasing demand for regional content

With hundreds of regional language news and general entertainment channels and with around 87 percent of films being made in regional languages in 2013[5], there is huge demand for regional language content. This has potentially created the need for quality content in regional languages across all mediums - print, TV broadcasters, radio or film companies. With the growth of regional markets, production budgets have risen significantly as has the sophistication and quality of productions.[1] This can automatically lead to a demand for production personnel with focus on the regional markets.

Growth of new media

The rise of social or alternative media has coincided with the broadband penetration, proliferation of smart phones and adoption of mobile internet in India.[1] In 2013, India had 15.5 million broadband subscribers[6] and 130 million mobile internet connections users[7]. Industry players are keen to capitalize on this demand for new media and communications and create content accordingly. A workforce that can not only understand and create innovative content but is also hands-on with the technology and programming skills is the need of the hour. Given the pace of technological change and challenges, there is a requirement of people skilled in understanding new domains e.g. Big data analytics, digitisation of content, cyber due diligence and IPR.

Challenges[1]

The demand drivers clearly point toward a requirement for substantial manpower both in terms of quantity and quality. For a sector that is still evolving, the challenge to get a skilled workforce commensurate with growth is immense. Some of the common challenges across sub-segments are:

- Industry players are yet to fully recognize the importance of training, skill development or education in media. The students trained in a media course often have to compete with general stream graduates for a job, as the industry continues to hire general stream graduate students at the entry level who are expected to learn on the job
- Perception about media as a vocation-especially on the creative side-is often not favourable. Other challenges that accentuate the issue is the lack of job security driven by company size and the widespread use of freelancers, sometimes unattractive salaries as compared to other industries and absence of clear career path for a student
- These make it usually difficult to attract or retain students or manpower across many sub-segments, especially the creative profiles like script-writing, film-making, production, acting, journalism and animation
- The demand for manpower in the sector may have led to the opening of a lot of media schools but many of them lack quality, teach an outdated curriculum and are mostly ill-equipped to handle demands of the industry to train and skill manpower.[1] Students graduating from these institutions may find it difficult to be employed; hence, it tends to diminish the value of media education as a whole.
- There is clearly a gap in the number of quality institutions, given India's size and the concentration of education institutions in tier-I cities

01. Industry discussions conducted by KPMG in India
02. IndianTelevision.com, 06 February, 2014
03. Business Standard, 15 January, 2014
04. The Asian Age, 26 December 2013
05. Central Board of Film Certification
06. TRAI Performance indicator reports 2013 and KPMG in India Analysis
07. IAMAI Mobile Internet in India report, 2013 and KPMG in India Analysis

- 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
- Industry discussions have also brought forth the need to have better quality faculty members in media schools, many of them may be good practitioners but not necessarily good teachers
- Attrition is high since most job roles reach saturation level soon, due to lack of a career path. It also has to do with the image of media as a glamourous profession but not all the job roles are such and soon the candidate loses interest in the sector.

Education for film professionals has not grown at the same rate as the film industry itself. We need to provide international standard training to professionals holding technical jobs in the industry.

-Nina Lath Gupta
Managing Director,
National Film Development Corporation

Film

India is one of the countries that produces the most number of films in the world (around 1426 in 2013). With the numbers of films being made steadily rising every year (961 in 2006 to 1426 in 2013),[8] the need for skilled manpower has become pronounced. Traditionally, film education in India has been largely limited to few established government institutions such as Film and Television Institute of India (FTII), Pune, Satyajit Ray Film and Television Institute (SRFTI), Kolkata and Jamia Millia Islamia, New Delhi.

FTII receives around 5,000 applications from various parts of the country for admission to various PG diploma and certificate courses at FTII. The total number of seats in the 11 courses is 132, with each course having 12 seats.[9]

With the number of films being made and the popularity of film courses growing, the capacity of government institutions is a constraint; hence, private players have stepped in the last few years to fill the gap. Several private film schools such as Whistling Woods, Balaji's ICE, Shristi School of Art, Design and Technology, Annapurna International School of Film and Media among others have been established.[10] In addition to these, there are several smaller institutions that have emerged in an 'unorganised' manner. These schools, many unaccredited, offer short team courses but the quality of the curriculum and the low quality of teachers often result in graduates who find themselves irrelevant or poorly equipped to obtain employment in the industry.

Curriculums are also catering to emerging job roles i.e. Annapurna International School of Film and Media has a specialised media-based MBA course and its structure consists of finance, accounts, marketing, strategy and entrepreneurship all from media industry's perspective. These courses feed into the demand for media managers in the industry.[10]

Since they are not allowed to award degrees, most of these schools have affiliations with foreign media schools. Established foreign film schools such The New York Film Academy (NYFA), are also looking to tap into the demand for quality film schools. It has launched a full-function state-of-the-art campus in at Greater Noida in 2013. They offer certificate courses and workshops in the India campus, but offer degree courses only in their parent branch in Los Angeles.[11]

Universities are also shifting focus from generalized mass communication courses to film specific courses. For example, Andhra University introduced a four-week certificate course in 'Digital filmmaking and film acting' last year, in association with Apoorva Creations.[12]

In spite of the growing number of film schools, the challenge to get trained manpower will likely remain:[10]

- There is a perception among students that training in the film industry is not required and most film industry aspirants do not possess formal training as they expect to learn via the 'apprentice' route. This could have created a dearth of trained creative people like actors, script writers, screen play writers and directors
- Trade unions too have a part to play. Much of the technical pool in the film industry is affiliated to trade unions that do not have any standardised criterion for enrollment, hence the quality of manpower often does not meet the desired standards. Their wages and employment are mostly governed by these trade unions.

Television

In a country where the entire nation watched just one channel, Doordarshan, till a little over two decades ago, the growth of television medium and number of channels has been exemplary. The country has 786 channels, out of which 389 are news and current affairs channels, while the remaining 397 are non-news and current affairs ones. Most film schools also cater to the television since many of the skills overlap with film making.[13] The industry may have yet to mature in order to offer a great number of specialty TV courses.

The recent years have seen a demand for regional content leading to launch of various media schools in tier II and III cities. Take for example, an acting school called Actor's Studio recently opened in Orissa. The acting programme at Actors' Studio which focusses on both TV and films is designed to integrate theory, analysis and practice in the classroom. The programme uses a variety of techniques ranging from behaviour-based methods to technology-oriented exercises designed to enhance performance for camera.[14]

08. UFO Moviez India Limited and Central Board of Film Certification
09. The Indian Express, 6 February 2014
10. Industry discussions conducted by KPMG in India
11. Shiksha.com, 08 March 2013
12. Deccan Chronicle, 04 June 2013
13. Television.com, 06 February 2014
14. The Telegraph, 31 January 2014

The challenges plaguing the television industry are:[15]

- Lack of fresh talent pool. Creative profiles like actors and writers are mostly in short supply. This can impact not only costs but quality and differentiation as well, since most of the available talent pool is used across a range of productions
- Few media schools imparting courses in creative writing or ideation leading to paucity of content creation in the television industry, where number of channels have grown exponentially
- Most courses in media marketing and sales are not very popular with media schools and the industry often has to look to other sectors to hire manpower for these job roles. FMCG tends to be a key poaching ground for the media industry
- Budget constraints which tend to limit creativity and often hamper the possibility of exploring innovative concepts or formats.

Industry is looking positive and on the upstream, both industry and students have realised that the way to go in this industry is through proper education and training. Education is invaluable for this industry. India has historically not been known for media and entertainment education, but now things have started to change. Academia and industry together are taking strong steps towards the goal of having a well-trained and well-educated workforce.

- Chaitanya Chinchlikar
Vice President - Business Development,
Whistling Woods International

Print

With the advent of digital medium, print medium is on the decline in most parts of the world. In India however, the morning newspaper still holds an edge over the click of a mouse. India produced 3,73,840 newspapers and journals in 2012.[16] Institutions like Indian Institution of Mass Communication, Jamia Millia Islamia's course in journalism and Asian College of Journalism have been popular with students.

Journalism is also being offered by universities at the undergraduate level, for example, Delhi University's journalism course is sought after and even smaller universities such as Uttarakhand Open University have started offering post graduate degrees in journalism with courses such as Masters in Journalism and New Media in Hindi. More recently, The Law School, Banaras Hindu University (BHU), plans to introduce a one-year diploma course in mass communication and media laws from the coming 2014-15 academic session.[17]

However, with limited number of seats catering to only select few, the media houses realised the talent crunch and started with their own media schools such as Pioneer Media School, Times School of Journalism and recently, the Dainik Bhaskar group has opened a media school.[15]

The need for trained journalists remains and some of the challenges faced are:[15]

- The print medium often faces challenges from within the media sector in terms of attracting and retaining talent. Lack of clear and slow career path and low salaries often steer the talent pool, be it the creative ones or the managers and sales personnel, towards its more 'perceived to be glamorous' counterparts such as films and television
- Students generally lack command over languages, be it English or regional languages, which is crucial for a journalist's job, and therefore often fail to secure a job.

Animation & Visual Effects

One of the issues that India's animation sector has struggled with has been the clear lack of deeply trained talent. A key driver of cost structures as well as a magnet for business, animation is in need to fill the acute skill gap.

The demand for animation production is expected to continue to gradually increase as the sector gains scale. International television programming requires state-of-the-art work and India delivers that at significantly low costs. The cost of animation production in India is one fourth of North America and very competitive on the labour front when compared to countries such as Malaysia, Korea and the Philippines, which are traditionally the other outsourcing hubs. Countries such as the U.S., Canada, Australia, the U.K., France, Italy and Spain outsource work to India. Mumbai, Chennai, Bengaluru, Hyderabad and Trivandrum are the country's major animation hubs.[18]

The demand from the domestic market too – especially in television – has been rising. A number of animation and VFX companies in the country are also creating skilled manpower for the animation market through various training programmes. Many production houses have alliances with media schools so that they can get formally trained students, for e.g. Reliance MediaWorks has an alliance with Annapurna International School of Film and Media. Numerous individual training programmes are available from leading advertising and media institutes in the country such as Shristi School of Art, Design and Technology and National Institute of Design. These institutes offer various programmes in animation and digital production.[15]

But despite this, the animation sector faces challenges which include:[15]

- Animation is one of the more specialised mediums and needs a combination of aesthetic sense and technical knowhow. Many institutions though, often ignore these criteria and train students in software operations focusing only on technical knowledge without any training in design, arts or conceptualisation

15. Industry discussions conducted by KPMG in India
16. Registrar of Newspapers for India; Ministry of Information and Broadcasting
17. The Times of India, 14 February, 2014
18. Animation Boss, 8 January, 2014

- Technology is dynamic and a lot of the software the students train in become outdated by the time they graduate, often creating the need for the employers to retrain them
- The ecosystem for animation is still mostly nascent and it is largely restricted to programming for children
- Compared to other sections of the media industry, growth in animation has been challenging, often constraining the industry's capacity to offer competitive compensation and career growth.

In terms of overall vocational skill-sets development, the macro environment within the media industry isn't as evolved and conducive as mature industries like IT, manufacturing, engineering or pharmaceutical industries. This is also one of the reasons why the industry cannot really be the first career option for a majority of youngsters. Further creation of institutional training facilities, a dedicated vocational approach at imbibing skill-sets and generating commensurate enough job opportunities will actually address this gap and industrialize the industry as a whole. This in effect will lead to a matured M&E industry, similar to its other industry counterparts.

- Venkatesh Rodham
CEO,
Reliance Media Works

Music

Over the ages, music in India has been taught in the *gharana* style primarily in Hindustani, and Carnatic in the *guru-shishya* tradition.[19] But music education in India has undergone a lot of changes with professional music schools imparting training in vocals and instruments.

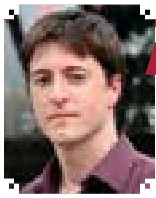
Music has always been an integral part of Indian cinema and prominence of music in films has remained undiminished, so there is a demand for talented and trained musicians and artistes. Over the last few years, a lot of new age music schools have opened in India to cater to the rising demand for good musicians.

For example, music director A R Rahman's KM Music Conservatory offers part-time and full-time courses in Hindustani and Western classical music and music technology. It offers courses in collaborative partnership with Middlesex University, UK. The Foundation Certificate in Music is a one-year course designed to acquaint students with fundamental musical skills and prepare them for the study of music at degree level. The curriculum contains units in academic skills, music history and analysis, music theory, performance,composition and audio technology. It became a full-fledged college offering degrees and diplomas in 2013, called the KM College of Music and Technology.[19]

Some of the other music schools are Swarnabhoomi Academy of Music which has collaboration with McNally Smith College of Music, USA and boasts of 70 faculty from 25 countries. The Shankar Mahdevan Online music academy provides courses online and has students from across 43 countries enrolled in 140 courses. FremantleMedia, 19 Entertainment (a division of Core Media Group) and Karm Yog Media & Arts Education Network have partnered to launch the Indian Idol Academy. True School of Music has international faculty from Manhattan School of Music, New York City for its professional programme, international DJs, sound engineering and music production courses authored by The Academy of Contemporary Music, UK.[19]

Despite this, the music industry faces a lot of challenges when it comes to skilled manpower:

- While there are several students at the school and college level who pursue music as a hobby, the lack of clarity and structure in the industry, on music as a career, inhibits many students from pursuing music full time. Musicians see lucrative careers largely in film music and advertising jingles. Unlike the West, where the vast majority of musicians form careers while performing live, in India, musicians do not have many options since the live events space is only just emerging
- A formal structure and a theoretical base for the study of music coupled with degrees and formal certification is the need of the hour to build a strong foundation of trained music talent in the country.



The industry should work together with media education schools in structuring a curriculum that meets the needs of the industry so that the people studying these courses also get placed as per their specialization.

- Chris Higgins
President,
Annapurna International School of Film and Media

Government initiative[20]

As a response to the growing need for skilled manpower in the industry, a public-private initiative in the shape of the Media and Entertainment Sector Skill Council (MESC) was formed three years ago. Set up under the National Skills Development Mission, Government of India, under the aegis of National Skills Development Corporation (NSDC), and promoted by FICCI, the council seeks to identify the quantitative as well as qualitative skill needs across various sub-segments of the sector and address them by generating adequately skilled workforce which is industry ready and employable.

19. Industry discussions conducted by KPMG in India
20. Media and Entertainment Sector Skill Council website

The key objectives of MESC include:

- To focus on building the Occupational standards, evaluation criterion and accreditation systems for providing multiple and varied technical skills in the media sector, including employability skills with regular and direct inputs from industry
- To create a sustainable and technologically advanced platform for collection, storage and exchange of industry data, workforce data, welfare data and career related data across the whole industry segment called the Labour market information system (LMIS)
- To build high quality trainer and learner communities while providing effective real-time connects between the job providers and jobseekers
- To actively engage with the Government and Industry for support to realise existing synergies and build new ones.

The council has signed a consortium agreement with forums such as Film and Television Producer's Guild, Animation Gaming & VFX Forum, Indian Outdoor Advertiser's Association, Film Federation of India, Indian Broadcasting Foundation and Association of Radio Operators of India.

As a first step, to fulfill its objectives toward skilling people in the sector, the council has approved four National Occupational Standards (NOS) for the Animation sector. NOS describe functions; standards of performance of an individual when carrying out a function in the workplace; it also defines the level of knowledge and understanding they need to meet that standard consistently. Essentially, NOS are benchmarks of good practice.

MESC is also part of the STAR Scheme (launched to incentivise skill development by providing monetary rewards to candidates for getting trained) with approved job roles in Animation. MESC has been provided with a target number of 10,000 certifications for the scheme. MESC is affiliating various training partners and assessment agencies for the scheme.

Recommendations[22]

Discussions with industry players and media schools have highlighted the steps needed to underline the importance of education in media and the role that all the stakeholders i.e., the government, industry players, universities, parents need to play. Some of these are given below:

- It is imperative that media and entertainment is integrated as a part of the school curriculum. While the Central Board of Secondary Education offers a course at class 12 as a vocational subject, other education boards in the country need to introduce it[22]
- Institutions need to pay close attention to teacher recruitment, training and create regularly updated curriculum in consultation with industry
- A formal regime of accreditation across sub-sectors of media and entertainment needs to be instituted
- There needs to be a regulatory body to monitor standards of media education in terms of the student-teacher ratio, practical - theory ratio, job roles and curriculum.
- There is probably a lack of coordination among government bodies. Greater coordination among various bodies and agencies can help give coherence to policies being formulated for training and skilling in the sector
- Technology is likely becoming a huge differentiator in the sector. Through technology, a convergence has taken place on a global scale which has helped skill sets, skill demand and talent pools be looked upon from a global and not local perspective. Application of international benchmarks is required even while forming committees for policy decisions. Leading global examples should preferably be followed for developing skills
- Demand is seen to be shifting from low-end skill sets to mid and higher skill set levels. There needs to be continuous up skilling for quality of output. This can also ensure a growth path to the media professionals
- Industry needs to recognize the value of training and place premium of skilled workforce to retain and attract manpower
- Apart from language skills, quantitative skills need to be developed for understanding issues, complexities and social realities, for sub-segments like journalism and new media
- Government and the industry need to support training institutions financially, so that they can develop infrastructure, for example purchase the latest equipments to train students
- Trade unions and associations in films and television industry need to provide incentives and a structure to develop skills through vocational courses. This can be done internally or through a partnership with educational institutions and companies
- There may also be a lack of recognised degree courses. Almost all media courses in India are diploma courses. Government needs to recognise the courses as degree courses since both the student and the employers value a degree course over diplomas
- Media schools are primarily concentrated in tier I cities, whereas the growth of regional media demands that tier II and III cities also have media schools. A campaign at the state level to highlight this opportunity to private players or government departments could be undertaken by the industry.

The growth in the M&E sector hasn't been replicated in the M&E education. There are a few programmes offered at different levels however an ecosystem has to be developed where it is considered as a preferred career choice. M&E education should ideally begin at the school level to provide a holistic understanding of the sector.

- Ravi Gupta
Dean,
Whistling Woods International

21. Industry discussions conducted by KPMG in India
22. Hindustan Times, 02 April 2012

16

Analytics

Profiting from insight

Introduction

With the phenomenal overall growth of digitisation in the last five years, today's media and entertainment (M&E) industry faces unique challenges like fluctuating consumer preferences often leading to shorter product lifecycles, multiple channels for users to access the same information, different versions of the same content across media and constant change in measurement of viewership and effectiveness among many others. To address these challenges, M&E organisations are revamping their way of supporting strategic initiatives and placing increasing stress on data driven insights. In order to find a profitable solutions to strategic issues, M&E organisations are working intensively on the huge amount of information that they have collected from various sources to interact with their customers and reduce cost by fixing leakages in the system.

Change drivers

- Multiscreen access to same content
- Increase in user generated content
- New tools to measure viewership effectiveness
- New business models

Source: KPMG in India Data and Analytics Research

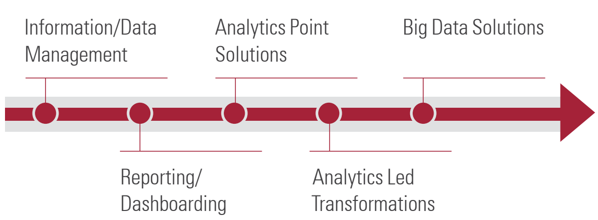
Changing landscape

M&E organisations are adopting innovative ways of accomplishing their objectives of making the most out of the available data (customer demographic data, content viewership data, mobile content usage data, advertisement response data) by investing in (in-house/outsourced) capabilities to support their strategic decisions. Core analytics solutions provides the basis for effective planning and execution with clear objectives, activities, deliverables and benefits that help improve performance[1].

Given its ability to be a strategic enabler in addressing a wide range of complex issues, analytics solutions are increasingly finding usage in the M&E industry. The transformative effect of data analytics is helping this fragmented industry in monitoring performance and maximising the return on investment. M&E organisations are able to use analytics as a key differentiator to deliver customised offerings to its customers and reduce the cost of operations by converting a major part of its capital expenditure to operational expenditure.

Given the wide application of analytics, analytics driven solutions are broadly classified below in the increasing order of complexity.

Data and analytics solution framework



Source: KPMG in India Data and Analytics Research

01. KPMG in India Data and Analytics Research

As the data assets grow in number, there is a clear need for the organisation to revamp its information management system to bring data driven decisions into practice. Organisations that have found a way to identify the right insights at the right time often have a better control over the business.

Focus Areas

Though the entire industry is mostly fragmented, there are common areas of concern across the value chain in this rapidly evolving market. Identified focus areas: sales and marketing function of M&E organisation:

Identified Focus Areas: Sales and Marketing Function of M&E Organization

Targeted Content Creation	Media Content Monetisation	Multichannel Distribution Management	Customer Acquisition	Customer Engagement
Media planning	Subscription management	Sales channel mix	Customer and service usage	User content analysis
Acquire and manage content	Rights management/ license sale	Channel performance monitoring	Social media analysis	Customer loyalty management
New content production	Ads and promotions	Channel level incentives	Cross platform advertising	Recover churned customers

Source: KPMG in India Data and Analytics Research

Solution themes

The core analytics solutions come under the following categories[2]:

Customer Analytics

In this dynamic M&E environment, consumers are often demanding more personalised services and communication for the subscribed services. Using predictive analytics techniques, companies can decode their customer behavior patterns and assess the opportunities to prioritise their marketing interactions. Analytics can also be used to the extent of differentiating profitable customers from loss making customers through customer lifetime value and help in building a healthy portfolio of customers. In addition to the digital data, other non-digital data helps to improve the accuracy to predict, target and deliver customised content to the customers.

Distribution Channel Analytics

Creating and managing content for multiple media formats, across multiple distribution channels can be a complex endeavor. Analytics for distribution systems can discover insights on forecasting appropriate content, content production, cross channel distribution and business support by providing integrated data management and business insights. These insights can then be utilised in the optimum allocation of channel resources to help obtain maximum ROI profitably.

Online Analytics

With billions of users accessing the content globally, internet is a major channel to track company's performance across a variety of parameters. Tracking customer perceptions online, allows companies to help understand customer sentiments, thereby providing a deeper understanding about their products. Based on the insights derived on the product performance, M&E organisations can tweak the product characteristics to suit the target customers. As a follow through, they can also track individual channel-wise performance through attribution modelling to understand the contribution of different online channels to their revenue.

01. KPMG in India Data and Analytics Research

M&E companies are able to unlock business insights on:

- Which is my most profitable brand?
- What are the buying patterns of my customers?
- Which one of my distribution channels is most profitable for me?
- What is the revenue trend of my business processes in the next quarter?
- What will be the impact of a new distribution channel to my revenue?
- Which are my most and least profitable customer segments?
- How can I predict trends in churn in my viewership?
- Which is the most profitable time slot for my new program in the scheduling grid?
- How can I effectively analyse test campaign results?

Source: KPMG in India Data and Analytics Research

Campaign Analytics

With growing costs and increasing number of ways to reach out to customers it is important that the M&E companies invest only in the most optimised marketing campaigns to prevent unnecessary leakage of resources. Campaign Analytics comes to the rescue of marketers to study the effectiveness of different marketing activities and take appropriate steps to maximise the return on marketing investments. This gives an opportunity for the media companies to select optimal investment amongst a combination of distribution channels to give the desired result. It also helps them in identifying the right kind of pricing combinations for the proposed promotional campaigns and get an idea of the ROI for different combinations of inputs values.

Content Analytics

Intellectual Property rights management is key for M&E organisations to better monetise content and expand to new markets. Effective use of property rights requires companies to have complete information on the intellectual property that they can sell in a particular region through a particular channel. Through analytics M&E organistaions can track metrics like license performance, contract period and derive insights on managing existing contracts, cross selling and up selling opportunities. This information can provide insights in executing better licensing deals and also helps ensure compliance.

Illustrative Viewership Analytics architecture to improve video profitability

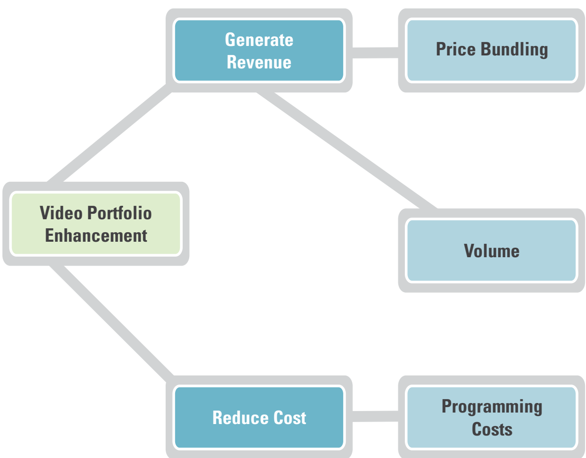
To improve the video portfolio, M&E companies use viewership analytics to identify the right combination of products, acquire more customers, engage with existing customers profitably and reduce the cost through better negotiation on the content fees.

Viewership analytics architecture

Presentation Layer	Reporting	Segmentation	Campaign Management	Viewership Forecasting
Analytics Layer	**Proprietary Viewership Data Model**			
	Channel clustering	Programing bundle enhancer	Next best activity engine	Retention decision engine
Data Integration Layer	**Viewership Data Mart**			
	ETL	Data staging	Data cleansing	Data aggregation
Data Sources	Viewership data	OTT servers	Customer profile	Third party feeds

Source: KPMG in India Data and Analytics Research

Analytics can generate value for any media company



Objectives	Description
Programming ROI	Understand the ROI, revenue and churn impact on revenue channels
Bundle Enhancement	Regulate bundles to improve overall video portfolio profitability
Cross Sell/ UP Sell	Increase (1) RGU/PSUs per customer and/ or (2) ARPU
Retention	Retain customers on the service and/or higher margin packages
Acquisition	Acquire new customers to the business
Carriage Fees Reduction	Improve ability to negotiate better content fees

Source: KPMG in India Data and Analytics Research

Illustrative Applications of Media Analytics

More than ever, M&E organisations are beginning to use improved analytical capabilities to identify new revenue streams and predict customers' response to price, package and promotions. M&E organisations are leveraging data analytics solutions to arrive at optimal pricing for their products, manage inventory allocation, increase TVTs and effectively engage their customers to increase the profits. Some of the business applications and their resultant benefits achieved by a few M&E organisations are presented below:

Rate Card Development

With a huge inventory in the form of day-of-the-week and part-of-the-day spread across a time period of one year, a leading Indian M&E advertising organisation was finding it difficult to manage thousands of potential rates for each and every advertising spot and its SKUs[3]. Through a structured analytical approach they were able to come up with spot-wise level and SKU-wise level pricing to maximise the revenue.

- Optimised rate cards, incorporated price sensitivity and a granular demand forecast
- Simulated the channel-wise potential revenues based on forecast adjustments and competitive pressures through what-if analysis dashboards
- Predicted future impacts on the rate card by integrating the forecasted customer demand for next year.

Local Market Optimisation

To maximise the customer viewership across particular regions this media organisation utilised analytics to understand local market characteristics. Through a micro-market segmentation approach, the organisation was able to segment its customers with varying viewership needs – national, regional, local characteristics [4]. Based on the results obtained, the M&E organisation was able to build their expertise in inventory management more suitable for the local audience. This media company:

- Utilised historical inventory data and forecasts to optimise inventory allocation between national and local business
- Created dashboards to automatically allocate inventory between national and local markets
- Developed business processes to incorporate market optimisation tools in National and Local sales decisions processes

Proposal Optimisation

With too many factors to be considered in the development of a proposal to suit advertiser requirements, this new M&E broadcasting organisation struggled to determine the inventory mix and price that maximised the chances of converting a proposal amongst the advertisers[5]. With less information in coming up with effective pricing combinations for each product and its spot value, this organisation involved subject matter experts to design customised proposals with higher rate of conversions profitably. In addition to optimising the placement of commercials, it also:

- Utilised analytics optimisation techniques to meet or exceed the advertiser's requirements while allocating inventory in the most efficient manner, reserving higher value spots for future demand to come
- Incorporated price sensitivity, competitive pricing information and forecast of demand-to-come to determine optimal pricing for each individual proposal
- Developed comprehensive sales processes and change management plans to ensure sales force adoption of proposal recommendations

Cross-Channel Platform Optimisation

A leading M&E organisation uses different channels to provide content to cater to their customer needs[6]. They utilised sophisticated tools within each channel (television, web, mobile, etc.) to optimise the performance of that particular channel in silos. Because of this they were not able to efficiently sell an optimal bundle of spots across channels. Using cross-platform optimisation, the organisation:

- Unified and rationalised platform (TV, web, mobile) pricing and inventory to create a one-stop shop for proposals and quotes
- Developed cross-functional coordination between inventory management, sales and traffic to enable cross-platform decision making

Developed a one-stop monitoring tool to monitor the real time performance of their marketing campaigns across channels.

Financial Management Scorecard

In order to gain quantitative assessment of financial Management strengths[5] and weaknesses in comparison to the competition, this leading M&E broadcasting organisation utilised business intelligence

03. http://www.mobilecommercedaily.com
04. http://www.dvinfo.net/article/trip_reports/hpa-tech-retreat-2014-day-3.html
05. http://www.plunkettresearch.com/entertainment-media-publishing-market-research/industry-and-business-data
06. http://www.sys-con.com/node/2985414

and reporting platforms to arrive at a comprehensive scorecard for performance evaluation. Through the financial management scorecard, the organisation was able to benchmark the core business competencies of organisation, systems, analytical tools, processes and practices, and:

- Created a comprehensive view of the current state of revenue management through advanced visualisation dashboards
- Gained insights into competitive structure, techniques and strategies in the form of quantitative and qualitative metrics
- Incorporated recommendations for elimination of gaps and weaknesses into a transformational plan

Case in Point

Movie Industry Analytics

The movie industry is undergoing a transformation as both budgets and box office continue to climb. It is a high risk game for investors with huge amount of money riding on a movie. Analytics has come to the rescue of a lot of these investors in terms of being able to predict the revenue, based on the factors influencing the ROI.

Analytics allows production houses to go beyond simple focus groups or established financial modeling to determine how audiences might respond to a given film. From the past data they identify predict the box-office collection through advanced analytical modeling tools. Advanced analytical tools are being used to forecast revenue collection of a movie based on certain parameters. Some of these parameters include cast, genre, release date, release locations and other critical characteristics associated with the movie. These parameters are then compared with historical data to predict box-office revenue collections.

High budget movies are also accompanied by huge marketing budgets. As a recent development, digital marketing has come up as focus area in recent times. Social media allows movie trailers and videos to go viral within limited time. Analytics is being used to create a tab on the number of times the movie is being mentioned on social networking sites like twitter. Also, the information about demographic of users mentioning the movie is being collected to design the marketing communications.

Media and Entertainment analytics – way ahead for improved content monetisation and customer interest

With the advent of internet, the M&E environment is evolving at a rapid pace. To keep themselves abreast of this change, M&E organizations will have to adopt new approaches to their existing processes to deliver top class service to their customers. Some of the key ideas that will help them to change profitably are discussed below:

Content Management

The Internet has forced M&E content creators to reengineer content-related processes.

- New content types require newer content management capabilities.
- Designing the 'next best product' can be done through implementing analytics solutions on past data.
- Search and browse requirements need metadata tagging and SEO.
- Many publishers (e.g. newspapers) don't charge for public content. This is expected to pave way for newer ways of content monetisation.
- Educational publishers are often affected by inclusive governmental regulations.
- The concept of helping the reader achieve his specific objective is expected to be the key to retain customer interest.

Distribution Channel

The emerging digital world requires new methods of distributing content.

- Identifying the optimum distribution channel mix is expected to reduce a lot of operational expenditure for the media and entertainment organisation.
- With the advent of kindle and smart phones, 'any content on any device at any time' becomes the expectation.
- Providing an active role for the readers in defining their products could decide the success rate of the distribution channel.
- Social media offerings could help the media and entertainment organisations to track customer preferences at a channel level.

Usage Monitoring

Rights and Royalty Issues go up as content becomes easily accessible.

- Data on content usage will likely help media and entertainment organisations to develop targeted products and services.
- Content access and rights/royalty issues can be better addressed through 'big data' analytical capabilities.
- Influx of user-generated content, or content from other publishers, in custom publishing products requires analytical abilities to analyse content usage.

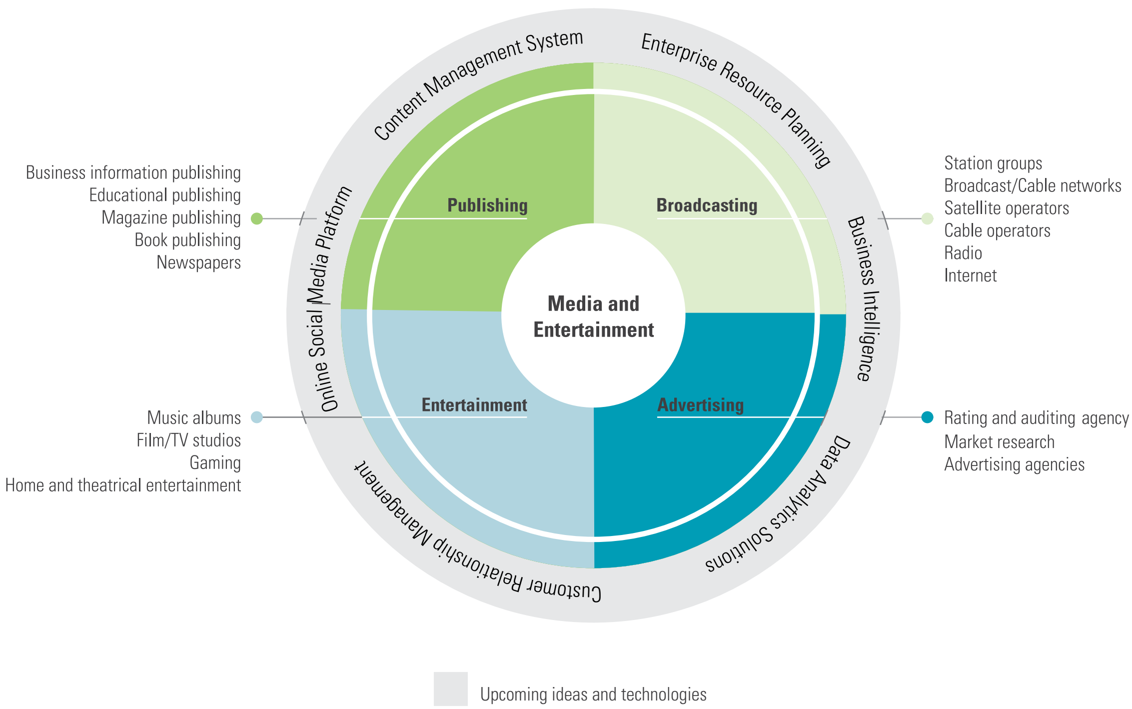
Customer Management

Data analytics can emphasise product and service definition and management processes, apart from sales and marketing.

- Data analytics allows newspapers/magazines to more effectively target advertising at consumers.
- Consumer privacy issues could emerge because of behavioral monitoring.
- Higher education publishing sees opportunities to extend services beyond courseware to admissions, alumni, student placement services.
- Boundaries between Customer Relationship Management (CRM), Enterprise Resource Planning (ERP), Learning Management System (LMS) and data analytics capabilities can continue to blur.
- Competitive differentiation could demand sophisticated data analysis and reporting tools.

New ideas and technologies that are shaping the Media and Entertainment environment

KPMG in India - Data and Analytics point of view



Source: KPMG in India Data and Analytics Research

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