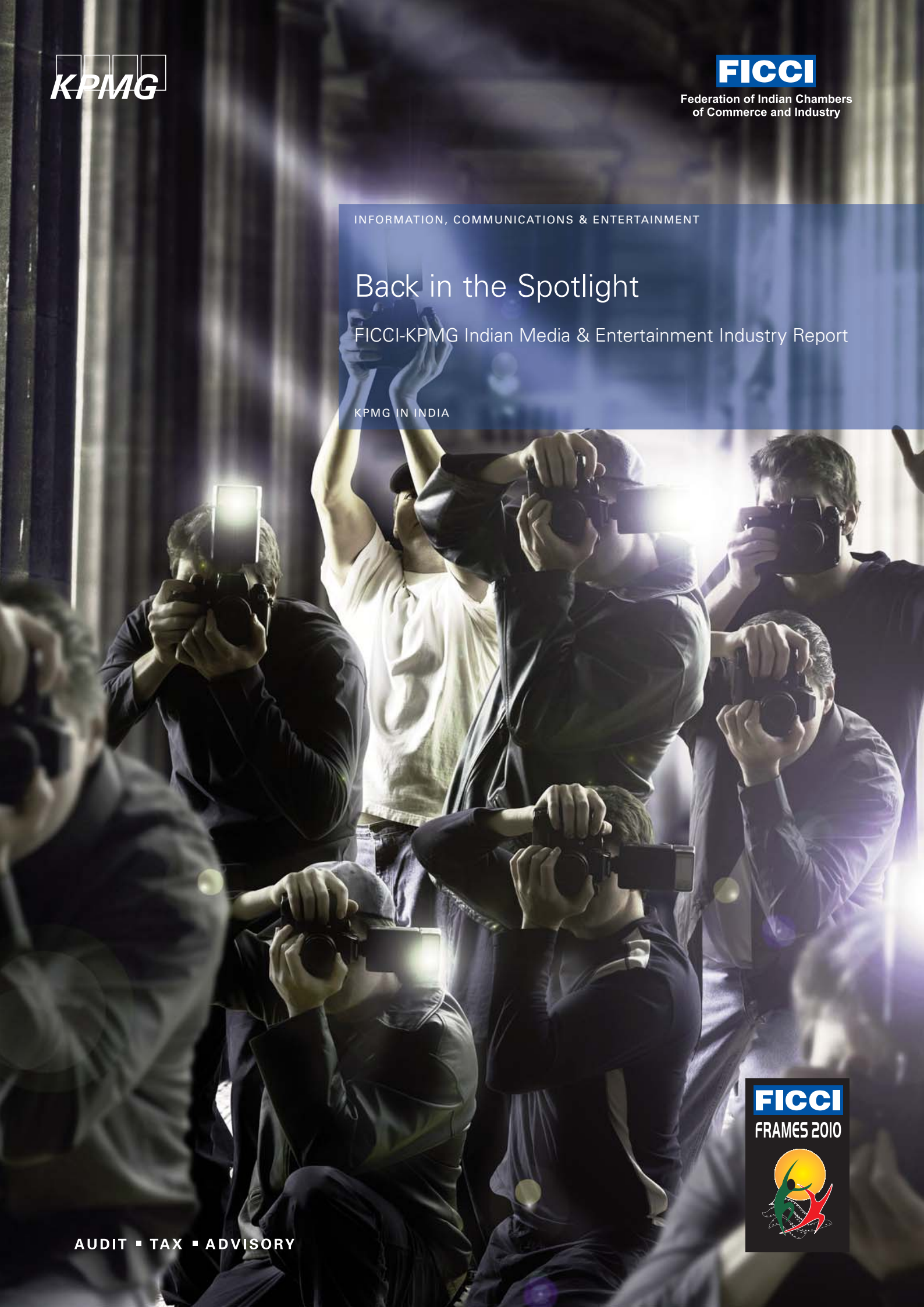


INFORMATION, COMMUNICATIONS & ENTERTAINMENT

Back in the Spotlight

FICCI-KPMG Indian Media & Entertainment Industry Report

KPMG IN INDIA



Back in the Spotlight

FICCI-KPMG Indian Media & Entertainment Industry Report

FOREWORD



Welcome to the 2010 annual edition of the Indian Media and Entertainment (M&E) industry report. FICCI takes this opportunity to thank KPMG, our Knowledge Partner, for having devoted precious time and resources to prepare this report at our behest.

Amidst the uncertain economic environment that was prevalent last year, the Indian M&E industry has weathered the storm and is showing signs of accelerating its growth.

The industry performance in 2009 was a consequence of not only the slowdown, but also several internal factors that lowered the pace of growth for the otherwise flourishing media and entertainment business in India. The multiplex strike, lack of quality content, delay in auctions for phase 3 FM radio and 3G mobile telecom licenses were some of the unexpected events that further impeded the development of this industry.

However, there were a several positives that brought in some cheer to the industry. While "3 Idiots" and "Avatar" created history in India through record breaking box office collections, the change in venue to South Africa had little impact on the third season of IPL and saw substantial growth in advertising revenue for the broadcaster.

The biggest highlight of 2009 was the lessons that the year presented to those in the media and entertainment business. The pressure on margins and curtailed media spend by advertisers brought a renewed focus on managing costs, innovation and creativity.

The improved market sentiment in 2010 has set the tone for a promising year ahead. The power to convert this sentiment into a reality will rest with the industry players and their ability to attract greater media consumption.

FICCI acknowledges the valuable inputs provided by the Media & Entertainment industry players who have graciously devoted time to share their views in helping KPMG put this report together.

Yash Chopra
Chairman
FICCI Entertainment Committee

Karan Johar
Co-Chairman
FICCI Entertainment Committee



The year 2009 is likely to be remembered as an inflection point for the India Media & Entertainment (M&E) industry. While subscription revenues grew, advertising revenues were impacted in line with the challenging economic scenario. On one hand, industry players revisited the basics and looked at sustainable cost optimization. On the other, they sought means to better connect with their customers. Leadership across segments was tested: some emerged resilient while others renewed their focus on their core business strategy.

On the whole, the year 2010 has been welcomed with a renewed sense of hope and a fresh perspective replete with the learnings of 2009. The GDP forecast at is 6.75 percent and 8 percent for the years 2009-10 and 2011-12 respectively looks promising. On the back of several factors, the overall M&E market in India is expected to grow at a compounded annual growth rate of 13 percent per annum through 2014 to reach INR 1.1 trillion. The untapped potential for growth in media reach, impact of digitisation and convergence, better consumer understanding, sustained efforts in innovation, and enhanced penetration of regional markets all augur well for the industry.

The Indian M&E industry has evolved significantly over the last decade and the pace of this evolution is only expected to increase going forward. With mobile phones becoming ubiquitous, rising mobile and internet penetration and increased use of search engines and social networking platforms, consumer patterns have witnessed a marked change in India. Throughout this report, we have sought to

capture the significance and potential impact of this change in consumer behaviour against the backdrop of an ever evolving industry.

The analysis presented in this report has been put together after extensive discussions with senior stakeholders of the Indian M&E industry. KPMG is grateful to them and all others who have helped us put this report together.

Rajesh Jain
Executive Director
Head - Media and Entertainment
KPMG in India

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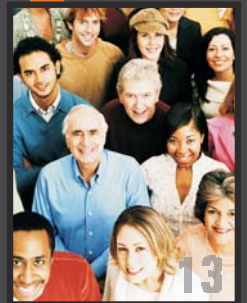
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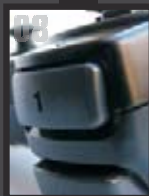
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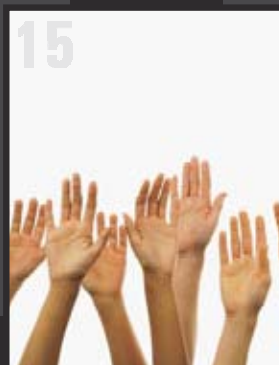
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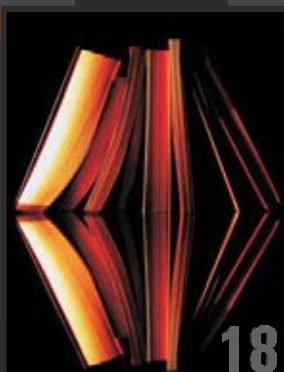


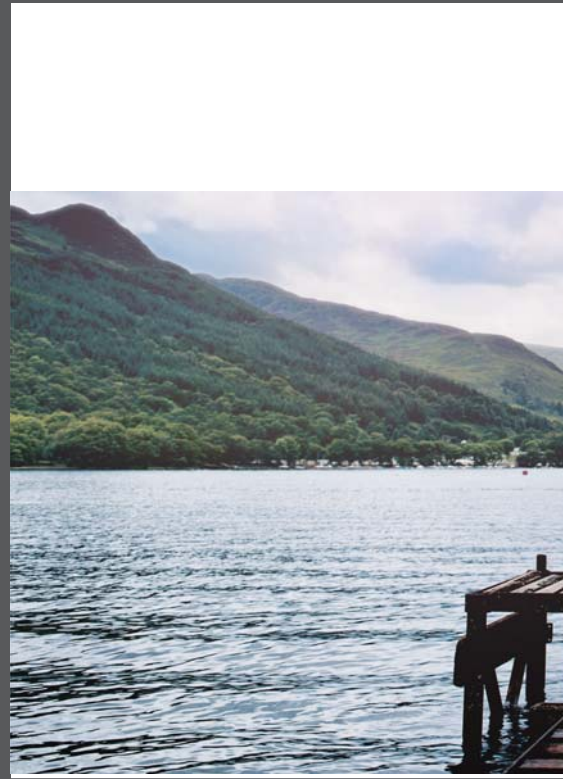
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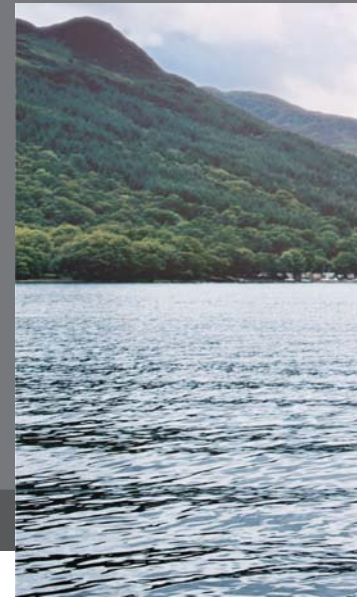


MEDIA AND
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INDUSTRY IN 2009
AN INTRODUCTION



MEDIA AND ENTERTAINMENT INDUSTRY IN 2009

AN INTRODUCTION



The year 2009 was one of slow growth, owing to recessionary pressure

Indian Media & Entertainment (M&E) industry went through a tough phase in last two years due to the economic slowdown which impacted businesses in the country. The industry which is dependent on advertising for almost 38 percent of its revenues, was hit due to shrinking ad budgets of the corporate world. However, the industry as a whole registered a very modest growth of around 1.4 percent in 2009 compared to 12 percent in 2008. It is poised for recovery in 2010, riding on the back of improved economic growth.

The year 2009 was a year marked with innovation and a focus on cost efficiencies across sectors, more as a necessity to combat the pressures on bottom line. Newer content formats and strategies adopted by the players in the industry helped ensure that customers had more choices which led to the evolution of the industry. Cost efficiencies which came about last year proved to be a silver lining for the industry in a bad year, and many of these measures are here to stay and could benefit companies in the long run.

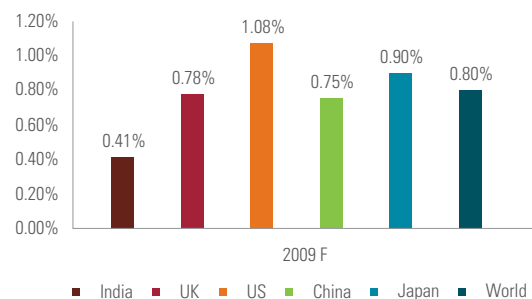
Some sectors were impacted more than the others like Films, Radio and Out of Home (OOH), registered a negative growth during the year. In 2010, they are expected to recover somewhat with a moderate growth rate. Print showed a flat trend and music grew moderately. TV industry showed a good growth rate, and Internet, Gaming and Animation, brought reasons to cheer for the industry with their growth rates touching double digits, albeit on a smaller base.

In spite of the economic slowdown, the industry witnessed a recovery in the last quarter of the year that is expected to continue going forward. The year 2010 is expected to see the industry coming out of the shackles of the slowdown and witness an increase in ad spends.

M&E industry in India is indicating potential for growth

Media spend in India as a percent of GDP is 0.41 percent. This ratio is almost half of the world's average of 0.80 percent and is much lower compared to developed countries like US and Japan. This indicates the potential for growth in spends as the industry in India matures. As we move towards a more brand-conscious society, this is likely to get reflected in the future growth rates.

Media spend as a % of GDP



Source: Worldwide Media & marketing forecasts, Group M, Summer 2009

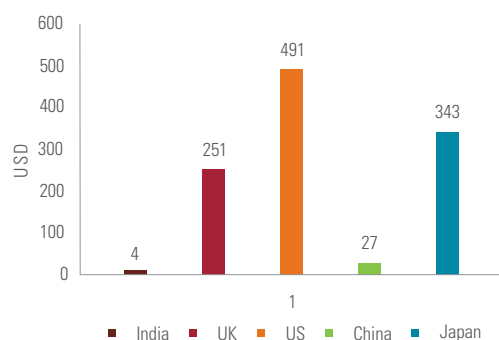
If we compare the contribution of India to the world in terms of population, it is second only to China at 22 percent¹. China's media spend ratio at 0.75 percent is much in line with the world average, whereas India lags behind. This is largely due to some of the media platforms being in a relatively nascent stage. As penetration increases and more audiences come in the fold of M&E industry, it is expected to see higher growth going forward.

The current media spend per capita for India is very low at USD 4 compared to the other countries. Even though it is challenging to reach the levels of countries like US, Japan and UK, due to a very large population base and lower spending power per capita, there is scope to follow China and enhance this ratio.

1. Worldwide Media & Marketing forecasts, Group M, 2009



Media spend per capita



Source: Worldwide Media & marketing forecasts, Group M, Summer 2009

With revised growth estimates for GDP at 6.8 percent in 2009 by IMF, which is higher than the world average and the expected recovery from the slow down, the M&E industry is expected to

grow steadily over the next five year period. The industry is looking at reaching newer target segments, geographies and mediums, while tapping the potential of the existing ones.

Estimates for the industry indicate robust growth over next five years

The overall M&E industry size grew from INR 579 billion in 2008 to INR 587 billion at a rate of 1.4 percent. The growth rate is expected to increase to ~11.2 percent in 2010, as the industry witnesses a recovery. The CAGR from 2006 to 2009 has remained at 10 percent and the industry is expected to grow at a rate of 13 percent in next five years.

TV and Print are the largest sectors of the industry contributing to greater than 70 percent of the revenues. Their dominance is expected to continue going forward. Sectors like Gaming and Internet have shown the highest growth rates due to the small base effect and the trend is expected to continue.

M&E Industry (INR billion)*	2006	2007	2008	2009	CAGR (2006-09)	2010P	2011P	2012P	2013P	2014P	CAGR (2009-14)
Films	78	93	104	89	5%	96	105	115	125	137	9%
Television	183	211	241	257	12%	289	337	382	448	521	15%
Print	139	160	172	175	8%	190	206	225	246	269	9%
Radio	6	7	8	8	9%	9	10	12	14	16	16%
Music	8	7	7	8	2%	9	10	12	14	17	16%
Animation & VFX	12	14	17	20	18%	23	28	33	39	47	19%
Gaming	3	4	7	8	38%	10	14	20	26	32	32%
Internet	2	4	6	8	56%	11	15	18	23	29	30%
Outdoor	12	14	16	14	5%	15	17	19	21	24	12%
Total Size	443	516	579	587	10%	652	742	835	956	1091	13%

Source: KPMG Analysis, Industry Discussions

*Taken for Calendar Years

Note: Numbers have been rounded to the nearest decimal

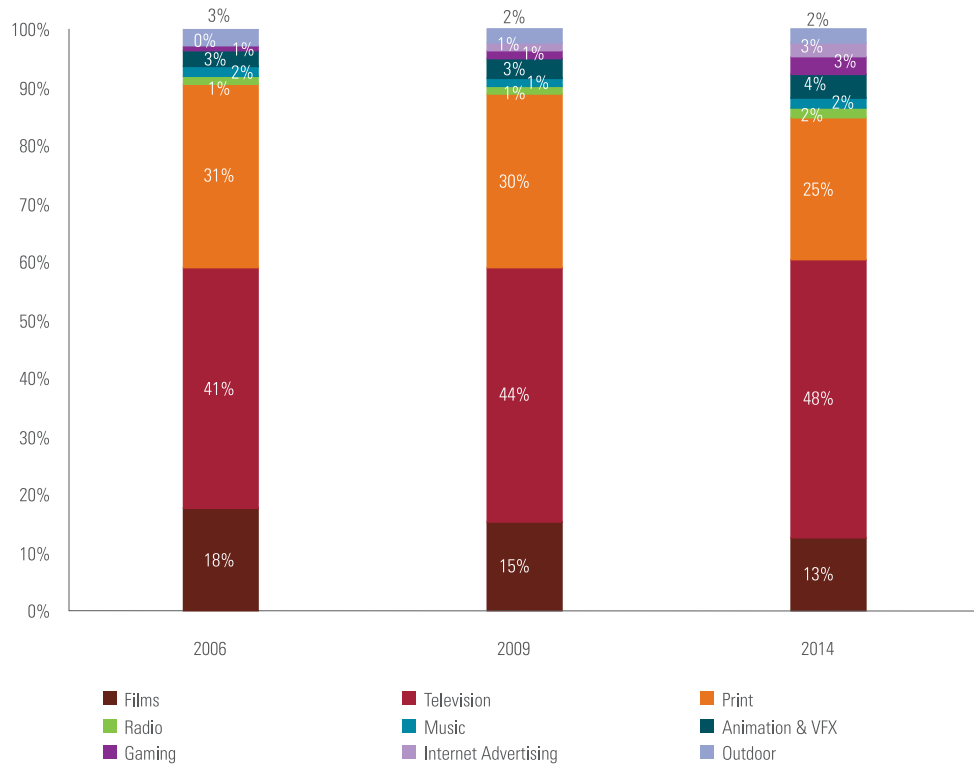
The subscription revenues for the two major sectors TV and Print, have grown at a rate of 11 percent from 2006 to 2009 and are expected to continue the growth going forward.

Subscription revenues (INR billion)*	2006	2007	2008	2009	CAGR (2006-09)	2010P	2011P	2012P	2013P	2014P	CAGR (2009-14)
TV and Print	176	200	222	241	11%	267	303	333	380	432	12%

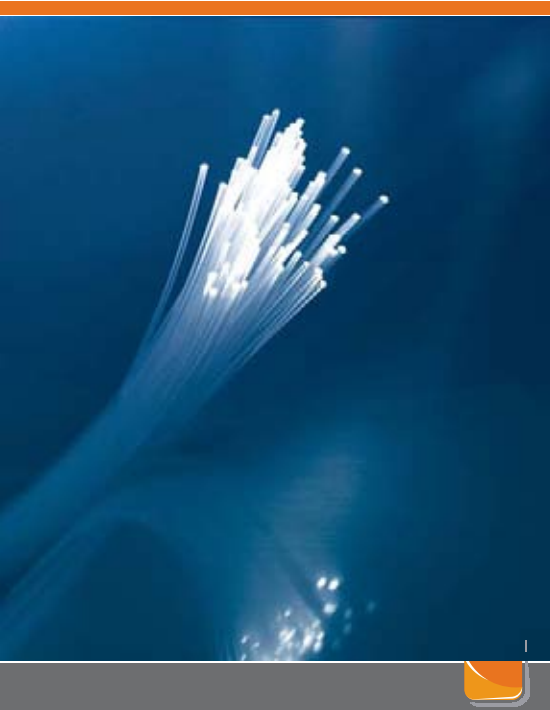
Source: KPMG Analysis, Industry Discussions

The contribution of Television to the overall revenues of the M&E industry has gone up considerably in 2009 compared to 2006 and is expected to continue increasing and achieve almost 48 percent of the total revenues in 2014. On the other hand, the contribution from sectors like Films, Print, Music and OOH has come down in 2009. Going forward, it is expected that the contribution from Films and Print may come down further in 2014, as the overall size of the M&E industry continues to grow. Television is expected to grow at a higher rate of 15 percent over next five years compared to an almost 9 percent growth in both the Films and Print sectors.

Percentage contribution of sectors



Source: KPMG Analysis, Industry discussions



Drivers for growth going forward

Digitisation to help in spreading the reach and impact of the M&E industry

Availability and penetration of newer distribution platforms like Digital Cable, DTH and IPTV, digitisation of newspapers, magazines, films and sale of online and mobile music are some of the ways in which the M&E industry has benefited from digitisation and the growth is likely to continue in years to come.

The digitisation of TV platforms has given way to better technology and picture and sound quality for viewers, more transparent distribution of revenues for stakeholders in the value chain and more bandwidth becoming available to broadcasters, giving them the opportunity to provide value add services. This could boost the availability of niche content in the future. Digital production in films has reduced film processing and storage costs and digital distribution and exhibition has led to enhanced picture quality, reduced costs, shortened release window and a wider reach. There is potential for the film industry to explore additional revenue streams like Pay Per View (PPV) and digital downloads, etc. in future. Digital music distribution is mainly restricted to the telecom segment, through ring tones and caller ring back tunes. With an increase in mobile and broadband penetration and the expected 3G rollout, the market for other digital distribution platforms such as full track downloads, streaming music and subscriptions, etc. might also open up.

Regionalisation to aid in the inclusion of untapped markets

The year 2009 continued to show growth in the regional markets and going forward, it is expected that Regionalisation is likely to be one of the significant factors driving growth with growing increase in literacy, consumption and disposable incomes in Tier 2 & 3 cities. Advertisers are also increasing focus on rural markets due to the saturation of urban markets. Demand for regional content is also growing.

Ad spends on regional TV channels is increasing and national broadcasters are looking at adding regional channels to their portfolios. The share of local advertisers on radio and in print is increasing. Corporates such as UTV, Reliance, and PNC, etc. are venturing into regional cinema in order to diversify. Multiplexes which were largely based in Hindi Speaking Markets (HSM), are now increasingly opening up properties in other regions. Over last few years, Hindi cinema has lost share to other languages in terms of the total films certified. Tapping of regional markets is growing in importance in the India strategy of international film studios which are releasing prints and doing dubbed language screenings in these markets. The untapped potential and latent demand in these markets is also leading to the roll out of Phase III radio licenses largely in Tier 2 and 3 towns and the OOH space is seeing increased investments in these cities.

Convergence and impact of the new media to benefit media players

Advertisers are looking at multiple delivery platforms for content to break through the clutter in existing platforms. This allows superior and more convenient technology to take over. New media is bringing about a revolution by merging the functionalities of customer end terminal devices like TV, PCs, Mobile phones, etc. For example, IPTV, online newspapers and magazines, podcasts, Wi-Max, new video formats, internet streaming, etc. are technological advancements leading to convergence of two or more media into a converged communication channel. This creates new and exciting methods of monetising content and attracting new media consumers. The advent of 3G is also likely to be a great catalyst to the convergence phenomenon by making the mobile phone a very handy tool for accessing video and audio formats.

This has increased the number of entertainment and information delivery choices available to consumers and intensified the challenges posed by audience fragmentation. The recent launch of I-Pad has the potential for becoming a delivery platform for news, entertainment,

etc. in future. We expect to see more content being customised for these new portable devices compared to the traditional stay-at-home devices. We expect to see new models for advertisement and subscription revenues emerge.

Consolidation leading to emergence of players with superior capabilities

The M&E industry is increasingly becoming fragmented in nature due to entry of newer players and newer customers and regions getting added. We have seen existing players expanding horizons by coming out of their traditional businesses and establishing a presence in other domains. Also, players from other sectors like IT, Telecom, etc. have entered the industry. Foreign players are also looking at increasing investments in their Indian portfolios. Growing regionalisation is also helping some regional players to become strong by tapping newer markets. Also, media players are looking at leveraging their content across platforms leading to the emergence of conglomerates.

These trends are giving rise to increasing competition and are expected to give way to consolidation of operations. Some of this has already started happening, with last year being a tough year seeing some of the smaller players finding it difficult to survive. The players which were able to weather the downturn are likely to look at enhancing their market shares. This could help in the emergence and growth of players with superior product, marketing, distribution, technological and innovation capabilities. In turn, this is likely to aid the growth in the overall market size and reach for the industry. Mergers and acquisitions activity in this space over the next two years is expected to significantly increase along with the level of participation by private equity players.

Competition expanding the market

In many cases, the entry of newer players in the market has had a positive impact on the overall market as it has helped in expanding the market size. This is likely to continue in future with new players emerging to capture newer set of audiences with advancements in their product, marketing and distribution to tap these customer segments.

To take the example of DTH, the entry of Sun which was a strong regional broadcaster in the business has expanded the overall subscriber base by tapping the entire Southern Pay TV market. Similarly, it has been proven that in some cases, the entry of a new TV channel has expanded the size of the overall market/genre. For example, the entry of 'Star Jalsha', expanded the GRPs of the Bengali GEC/News market. The leader in the segment lost GRPs and leadership but given the potential for growth in the market, it managed to moderately increase ad rates. The entry of 'Colors' also expanded the GRPs of the Hindi GEC market.

Institutionalisation of the HR function could help develop and manage talent effectively

The M&E industry relies heavily on its human capital for business success and differentiation, as it is talent driven to a great extent. The challenges experienced by the industry in recent times have drawn the attention of the decision makers to the HR issues. There is a need for strategic business focus on the HR function in order to achieve success. There are variations in the extent of institutionalization of HR practices across various sectors in the industry; however, the need for the organisational design and development and HR function optimisation is strongly felt in general. Leading HR practices for the industry would include effective induction for new hires, roles and responsibilities being linked to the organisation's strategic priorities, employee engagement and focus on development of talent.

The industry has dealt with a lack of supply of trained professionals in the sector for a long time. Investment in educational institutions providing specialised courses for skilled technicians is a step in the right direction to develop talent. Identifying and managing high



potential staff effectively by media players is also likely to be key to retaining talent in the industry. Balancing individual talent aspirations with the operating cost pressures is likely to become more important in the future.

Innovation across product, process, marketing, distribution and business model by media players

Innovation is essential for players to adapt to the changing market scenario, technology and consumer behaviour. If done rightly, it not only helps in making an impact in the increasingly competitive market place but also increases the overall market size by tapping newer customer segments and retaining the existing ones. It requires continuous investment in research and development and is an ongoing effort on the part of the players in order for them to be responsive to market needs and consumer choices.

An example of successful product innovation was the evolution of IPL as a brand, which effectively combined entertainment and sports. T20 format made the sport more popular and convenient to watch for cricket enthusiasts, whereas IPL not only brought male audiences to prime time TV viewership but also attracted female audiences and kids. In advertising, the Zoozoo campaign was a content innovation by Vodafone, that was different from the celebrity driven campaigns. It was successful in effectively reaching out to customers and creating good recall for the brand. Advent of social networking sites like Facebook, Twitter and LinkedIn is an innovation that enabled brands and advertisers to gather momentum and attract media and consumer attention.

The growing importance of pay markets in media business models

Traditionally, advertising revenues have had a strong hold in the M&E industry, but increasingly, subscription revenues are becoming important with consumers paying for media services. The media business models in India are undergoing a change with audiences becoming more willing to pay for content and value added services. Technology has brought about convenience and offered superior quality to consumers who have responded positively. The growth in ticket prices of movies at multiplexes, increasing number of Pay TV subscribers, increasing penetration of DTH with its user-friendly interface and technology, and introduction of Value Added Services (VAS) by media players are some examples of pay markets gaining importance.

Growth in this is likely to be driven by research in consumption trends, and a better understanding of the set of audiences who are likely to pay more for these value added services. This could facilitate going beyond basic monetisation of audience through ad sales.

Consumer research to help ensure consumer-oriented media products and delivery

With increasing fragmentation of audiences and competition within and from outside media sectors, it is becoming difficult for players in the M&E industry to rely purely on past experience and creative expression. There is an increasing need for investments and focus on research in concept testing, new product development and delivery platforms. Companies are increasing spends on consumer research as the stakes have increased. Many players have a separate team within the organisation to concentrate on research as an ongoing process, whereas others take help of outside research agencies for specific projects/concepts.

In a market like India, the need for research is enhanced due to the inherent diversity in consumer preferences. Also, consumers are becoming more savvy and demanding.

Furthermore, in order to monetise pay audiences, products need to be developed with a consumer-oriented approach across pricing, distribution and promotion. This could not only help in growing the overall content market, but also help to target specific segments.

Focus on 360 degree connect with consumers

Players are looking beyond just the traditional mediums by reaching the consumers across multiple platforms in order to establish a stronger connect. They are taking the help of multiple touch points simultaneously to communicate to the consumer across platforms like TV, Print, Radio, OOH, Films, Internet, Mobile and Retail.

Recent examples of two very successful 360 degree marketing campaigns of films are 'Avatar' and '3 idiots'. 'Avatar' was released globally with one of the most successful digital marketing campaigns. '3 idiots' repeated the success story in India with innovative techniques and all-inclusive marketing strategy. TV channels for children also created a 360 degree communication platform to interact with kids through websites, phones, SMSes, polls and activation campaigns in schools, retail outlets, malls, cinemas, etc.

Conclusion

Growth in the industry is expected to be driven by growth in both subscription and advertising revenues. The subscription market is likely to be driven by enhanced penetration and expansion of digital delivery infrastructure. Rising disposable incomes of the working population and increased spend on discretionary items, not only in Tier 1 but also Tier 2 and 3 cities is expected to continue impacting the M&E industry favourably. Also, growth of newer delivery platforms with superior technology and functionality is likely to expand horizons for the M&E business. Aspirations of Indian players to go global and foreign players entering the industry are likely to help the industry target a double digit growth in next five years. The role of the new media is becoming increasingly important in the distribution portfolio of advertisers. A strong focus on talent development, consumer research and innovation can help players in differentiating themselves amidst growing competition.

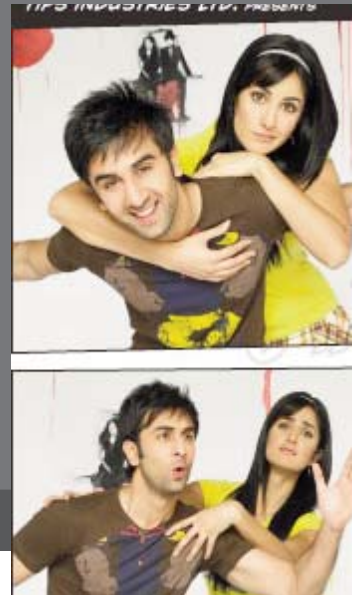




FILM

ON THE PATH TO RESURRECTION





Introduction

The Indian Film Industry enjoys mass appeal in India and forms one of the most important content feeder systems to the Music, Radio and Television segments.

The Indian Film industry eclipses Hollywood both in terms of number of films produced and theatrical admissions. The total annual theatrical admissions in Indian cinemas are around 3 billion, as compared to 1.5 billion tickets sold annually in the US¹. Despite these staggering numbers, Indian cinema trails Hollywood in overall revenues. While cheaper admission prices and the relative lack of multiplexes (the average theatre admission price in the US is nearly 7-8 times that in India) are two reasons that explain this gap, poor monetisation of various revenue streams and inefficiencies across the value chain have also resulted in suboptimal revenue.

Overall, 2009 was a difficult year for the film industry. While the multiplex – producer stalemate left the industry with significant losses, the general elections and the swine flu scare also kept audiences away in early 2009. Moreover, lack of good sustainable content affected the success ratio and fortunes of the industry.

However, the last quarter of 2009 brought some cheer to the industry. The success of films like 'Ajab Prem Ki Ghazab Kahani', 'Aadhavan', 'Vettaikaran' and '3 Idiots' boosted the industry's fortunes. Hollywood films like '2012' and 'Avatar' also did well at the box office².

The industry learnt some important lessons from the business cycle of 2009. Although the multiplex strike temporarily derailed the industry, it sowed the seeds of an open constructive dialogue between these two important stakeholders. This augurs well for the industry as it is expected to lead to a more collaborative approach towards business in the future. Further, poor profitability of films on account of mediocre content and high talent cost is expected to force the industry to be more cognisant of such issues and follow a more efficient approach in maintaining cost discipline while producing films. Continued interest by global studios in India, investments in technology such as 3D and digitisation, introduction of multiplexes,

coupled with strong government support against piracy is likely to help the Indian film industry strengthen its position in the years to come.

Events of 2009 and their impact going forward

Poor performance at the box office

There were 242 Hindi films (nearly 140 mainstream Hindi movies) released in 2009 as against 229 released in the previous year³. Although the number of films released in India in 2009 was higher than the previous year, the number of films that were successful at the box office has been far less. The year 2009 had only four blockbusters as compared to the seven blockbusters in 2008 and six in 2007³. Industry sources estimate that the percentage of successful films that were profitable to many of the stakeholders in 2009 was nearly half of that in 2008.

"The Film industry did not bear the brunt of a recession rather it bore the brunt of poor content and unrealistic budgets"



– Ramesh Taurani,
Managing Director - Tips Industries Limited

Multiplex strike and its after effects

The strike launched by Hindi film producers and backed by United Producers Forum lasted for two months and stalled several movie releases in multiplexes. As collections from multiplexes contribute a considerable percentage of a film's gross domestic theatrical collections, the lack of major films released during this period resulted in significant losses for the industry.

1. Crisis! M&E report, September 2009
2. Industry Interviews
3. KPMG Interviews



After the strike a number of films were released together, leading to the cannibalisation of revenues. The other significant fallout of this strike was the subsequent paucity of funds available to producers for their in-production films. A majority of the film producers were banking on post release revenues to fund their under-production projects, or market completed films. However this cash flow was delayed on account of the strike, forcing producers to postpone their planned releases.

New piracy laws in Maharashtra & Karnataka

The Maharashtra Prevention of Dangerous Activities (MPDA) act was amended and enforced from in 2009⁵. Similarly in Karnataka, the Karnataka Prevention of Dangerous Activities of Bootleggers, Drug-Offenders, Gamblers, Goondas, Immoral Traffic Offenders and Slum-Grabbers (Amendment) Bill, popularly known as the Goonda act bought film and video piracy under its purview in July 2009⁶. The industry expects the legislations to help curb revenue losses due to audio and video piracy in the two states.

Maharashtra and Karnataka are not the first states to pass such an act to tackle piracy; a similar law termed as the 'Goonda' act, was passed in Tamil Nadu in 2005⁷, which has met with some success in curbing piracy in the state⁸.

Expected fall in the number of Hindi film productions

While the overall number of Hindi films released did not fall, the number of new movie productions has been impacted. Since an average Bollywood movie typically takes between 10-16 months to produce, the number of movies released in 2010 end and early 2011 is likely to be impacted.

Cable and satellite rights - Closely linked to performance of television channels

Television broadcasters saw a revival in their advertisement revenues and utilisation levels leading to higher realisations for Cable and Satellite (C&S) rights in the later part of 2009⁹.

Many producers are finding it difficult to pre-sell the rights of their film, as broadcasters are increasingly acquiring the rights of a film post its theatrical release. As a result, the value of a film's C&S rights is now even more closely linked to its domestic box office performance. Many of these rights are not sold outright to a single broadcaster, but are syndicated to a number of TV channels. An example is of 'Ajab Prem Ki Ghazab Kahani' getting INR 4.5 crores for its premier sale to Colors¹⁰ and then being syndicated at an additional value to NDTV Imagine for second airing rights.

A number of film producers are also doing bulk deals where a film portfolio rather than a single movie is sold to the broadcasters. For instance, in December 2009 UTV entered into a deal based on which Colors would air the first show of a selective library of their films after which NDTV Imagine would air the second showing¹¹.

Release on DTH – A new revenue stream

Bollywood has so far followed a very traditional distribution model, with limited focus on alternative platforms. The DTH platform offers a new revenue stream for producers to monetise their filmed content. Progressive producers view the direct-to-home (DTH) platform as a means of supplementing their overall revenues, rather than as a threat to theatrical revenues, as the perception is that the big screen viewing experience cannot be compared with that of the small screen⁹.

A number of films such as Slumdog Millionaire, Aa Dekhen Zara, Main Aur Mrs. Khanna and Ajab Prem Ki Ghazab Kahani were released on DTH this year within weeks of their domestic theatrical release.

Although revenues from DTH releases currently comprise a small portion of overall revenues, the industry is optimistic about its future potential.

5. http://www.business-standard.com/india/search_news.php?search=MPDA%20Act&select=keyword
 6. http://www.dnaindia.com/bangalore/interview_people-will-now-head-back-to-cinema-halls_1279346
 7. <http://www.radioandmusic.com/content/editorial/news/music-industry-embraces-mpda-act>
 8. KPMG Interviews

9. Industry Interviews
 10. Economic Times, December 2009
 11. www.utvnet.com/media-hub/press-releases/pdf/press-release-129.pdf



Rationalising of talent costs and emerging business model

In 2009, producers reported a 20-40 percent reduction in talent costs as compared to 2007-2008¹². A new trend that has emerged is that of a profit-sharing model between actors and production companies, wherein top actors take a small upfront fee and a share of profits in lieu of the larger portion of their fee. This model allows the economics of a film to work better by improving the risk bearing capacity of producers¹³ and linking actors' remuneration to a films commercial success.

Efficiency in production

The high cost base without a corresponding increase in revenue for films green lit in 2007/08 forced producers to look for innovative ways to cut costs and improve production efficiency. For example, producers chose to shoot in outdoor locations closer to home rather than in far off exotic locations and initiated active budget monitoring and cost control processes. Producers also made use of subsidies and co-production treaties in place to arrive at a cost effective and quality conscious model. These lessons learnt are likely to hold the industry in good stead in the future.

Innovative marketing and promotions

With decreasing theatrical windows, the importance of progressive marketing and promotions is growing. An integrated marketing campaign by the producers, distributors and exhibitors to attract audiences and drive better monetisation within the limited theatrical windows available today is critical for the industry.

“Every movies is a brand unto itself...it is not enough to create a product, the marketing, promotion and timing of a movie is crucial to the success of a movie”



– Anil Arjun,

CEO - Reliance Media Works

12. Industry Interviews

13. The Financial Express: 13 June 2008 edition: “Production houses keen on sharing profits with top actors”

The Slumdog Millionaire phenomenon

Showcasing India on the global stage

'Slumdog Millionaire', a rags-to-riches story of a young slum-dweller in India, received global recognition and accolades after its release. The film ultimately went on to win eight of the 10 Academy Awards it was nominated for¹².

While Slumdog Millionaire was not an "Indian" film in the sense that it was internationally produced, directed and distributed, it has had a significant impact on the Indian film industry.

- **Recognition of Indian talent:** The movie won multiple Oscars including best original score (A.R Rahman), best original track (A.R Rahman and Gulzar), and Best Sound Mixing (Resul Pookutty) thereby shining the spotlight on Indian creative and technical talent¹²
- **Mainstream acceptance of India-themed content:** The film reached such a level of popularity that words such as "Jai Ho" were catapulted into the international lexicon. Wall Street Journal critic Joe Morgenstern referred to Slumdog Millionaire as, "the film world's first globalised masterpiece."¹³ The implication that a market for crossover films exists in the Western world was noted by Indian filmmakers
- **Increased acceptance of Hollywood dubbed versions:** The dubbed version of the movie was one of the top grossers in India last year and strengthened the acceptance of dubbed Hollywood movies
- **Innovative distribution:** The film became one of the first movies to be released on DTH just a few days after its India release, monetising a fast growing distribution platform¹⁴.

The global acceptance of Indian talent is encouraging and may usher in a new era where collaborations with international productions, increased acceptance of Indian themes and subjects may drive greater audience reach and profitability for Indian films

Indian M&E goes global

The trend that was witnessed in 2008, of certain Indian companies acquiring stakes in global companies, continued in 2009. This trend however is likely to be selective going forward and cannot be construed yet as 'Bollywood going global', as some in the industry and the media have dubbed it.

Global investments by Indian players in 2009

- Sanraa Media signed a MoU with US-based WSG Films to form a joint venture company. The joint venture company may front end the Indian Studio in Hollywood and USA to work on global co-production deals for animation and VFX projects¹⁵
- Reliance MediaWorks partnered with In-Three for 2D to stereo 3D conversion¹⁶
- Reliance Big Pictures' forayed into Hollywood through a joint venture with director Steven Spielberg with an initial funding of USD 825 million¹⁷.

12. <http://timesofindia.indiatimes.com/articleshow/4173337.cms>

13. The Wall Street Journal, 14 November 2008 edition: "Slumdog finds rare riches in poor boy's tale"

14. <http://www.business-standard.com/india/news/tata-sky-to-premiere-slumdog-millionaire/55176/on>

15. <http://www.business-standard.com/india/news/sanraa-media-to-form-jvus-based-wsg/10/40/72472/on>

16. http://www.reliancemediaworks.com/RMW-In-Three_resrelease.html

17. http://www.businessweek.com/globalbiz/blog/eyeonasia/archives/2009/07/steven_spielber.html

Global M&E companies eyeing the Indian market

The year 2009 witnessed a number of global film studios strengthening their Indian film portfolios.

Indicative investments in India by global film studios in 2009

- Fox Star Studios produced the experimental 'Quick Gun Murugan'. Karan Johar's Dharma Productions and Shah Rukh Khan's Red Chillies Entertainment also finalised an arrangement with the Murdoch-owned Fox studios mid last year for 'My Name Is Khan'¹⁸
- Warner Brothers continued its tryst with Bollywood by producing the Akshay Kumar starrer 'Chandni Chowk to China'. The studio is expected to release more Indian films in 2010¹⁹
- Carey Fitzgerald's High Point Media Group is collaborating with Prithvi Nandy Communications for the latter's first horror film 'The Accident'¹⁹.

International film studios continue to capitalise on the potential of their Hollywood portfolio in the Indian marketplace by releasing a larger number of prints and increasing the number of dubbed film screenings in regional Indian markets.

3D - An encouraging response

While 3D films have been in the industry for a while, it is only now that they are gaining prominence. A case in point was Avatar, James Cameron's epic 3D film which opened to packed theatres in India and abroad²⁰.

Encouraged by the response that Avatar received in India, many Indian producers are also planning their own 3D films targeted to the Indian audiences. Their aspirations are well supported by technology providers who are in the process of implementing 3D compliant projection systems.

Size and growths

While the filmed entertainment sector had grown by over 15 percent between 2006²¹ and 2008, last year witnessed a significant de-growth for the industry. In 2009 the industry is estimated to have declined by nearly 14 percent to INR 89.3 billion* from INR 104.4 billion in 2008. This was largely on account of lower domestic theatrical collections in 2009 compared to the previous year.

"2009 was a year of correction... the returns did not justify the costs incurred to acquire content. The market had changed dramatically between 2007 and 2009"



– Sandeep Bhargava,
CEO - Indian Film Company

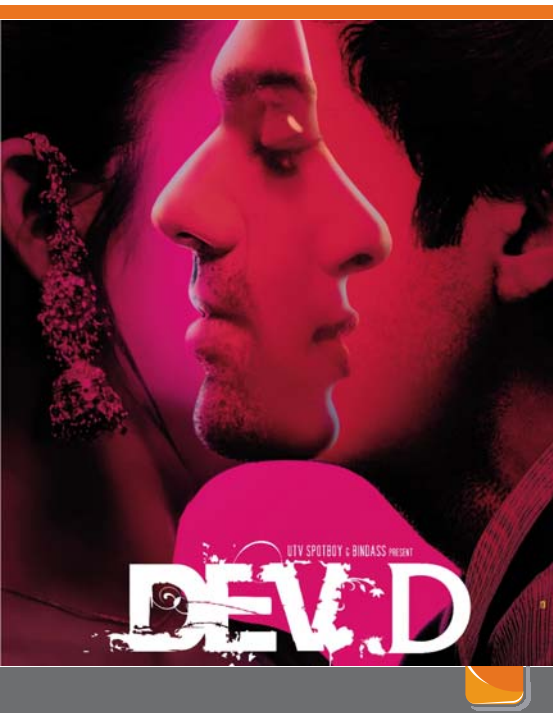
18. Industry Interviews

19. <http://www.screendaily.com/festivals/toronto/toronto-news/high-point-and-prithvi-nandy-team-up-on-the-accident/5005649.article>

20. http://www.dnaindia.com/entertainment/report_avatar-beats-titanic-at-the-global-box-office_1339921

21. KPMG-FICCI Frames report 2009

Note: *Previous year figures have been regrouped to exclude the rental market due to lack of accurate data



Overseas theatrical revenues were also significantly impacted last year, de-growing by nearly 30 percent in 2009 over the previous year. As a result of the worldwide economic downturn, dearth of good quality content, and lower number of films with stars such as the Khans, Akshay Kumar, Hrithik Roshan, etc. that traditionally do well in overseas market led to a decline in the overseas theatrical revenues. Increased number of illegal downloads over the internet due to higher broadband speeds also adversely impacted overseas collections.

“Overseas revenues have been impacted due to rampant online & physical piracy, with consumers in the habit of watching pirated movies at home rather than going to the theatres”

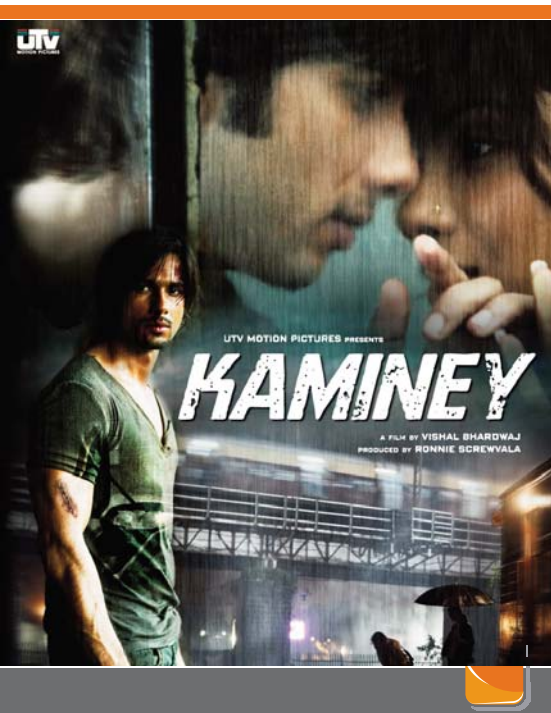


– Siddharth Roy Kapur,
CEO - UTV Motion Pictures

Though the previous year witnessed a decline for the filmed entertainment industry, the trend is likely to reverse in 2010 to grow at a CAGR of 8.9 percent to reach INR 136.7 billion by 2014. The key growth drivers include:

1. Multiplex occupancy levels which were adversely impacted last year due to the strike are expected to increase again in 2010
2. Growth in domestic theatrical revenues which are likely to be driven by the increasing number of multiplexes that are expected to come up over the next few years
3. Rising number of digital screens in the country enabling wider releases of films may lead to higher theatrical revenues and help reduce piracy
4. The revenues from the sale of Cable and Satellite rights which were impacted last year due to pressure on advertisement revenues for broadcasters and the poor performance of a number of new Hindi GEC channels; are expected to increase in the future on account of the improving economic situation. This was evidenced over the last quarter of 2009, when film rights for a few Hindi blockbusters were sold at higher prices as compared to the earlier part of 2009
5. With increasing penetration of mobile handsets in the country and producers looking at monetising opportunities presented by imminent 3G services are expected to add to the revenues.

It is however expected that the industry will grow at a rate of 8% in 2010; and then grow at a CAGR of 9% between 2010 and 2014 in the subsequent years. In 2009 the total number of new movie productions was adversely impacted, this is likely to result in fewer releases in 2010. As the number of new productions returns to the levels witnessed in 2007-08, subsequent years should see a higher growth rate.

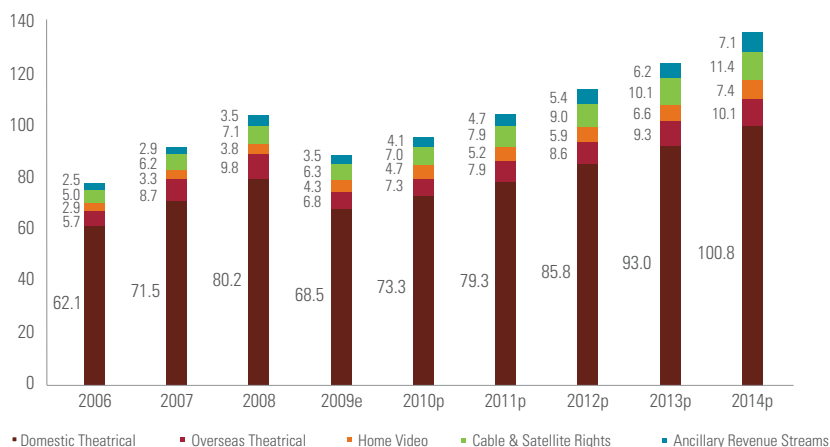


"Going forward, there will need to be a renewed focus on content...the success of '3 Idiots' has proved that the revenue potential of well received films has gone up considerably."



– Siddharth Roy Kapur,
CEO - UTV Motion Pictures

Growth rate of the industry



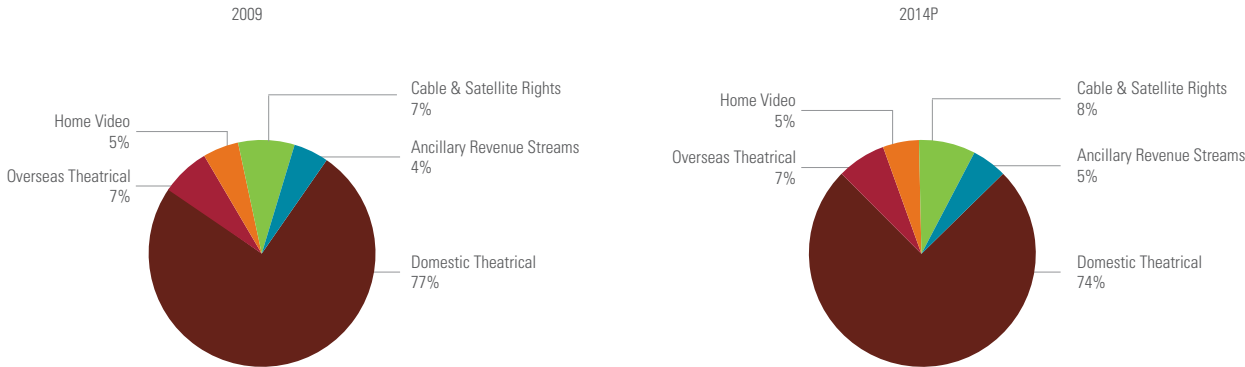
Source: KPMG Interviews, KPMG analysis
Note: *Previous year figures have been regrouped to exclude the rental market due to lack of accurate data

Indian Film Industry											
	2006	2007	2008	2009e	2010p	2011p	2012p	2013p	2014p		
Domestic Theatrical	62.1	71.5	80.2	68.5	73.3	79.3	85.8	93.0	100.8		
Overseas Theatrical	5.7	8.7	9.8	6.8	7.3	7.9	8.6	9.3	10.1		
Home Video*	2.9	3.3	3.8	4.3	4.7	5.2	5.9	6.6	7.4		
Cable & Satellite Rights	5.0	6.2	7.1	6.3	7.0	7.9	9.0	10.1	11.4		
Ancillary Revenue Streams	2.5	2.9	3.5	3.5	4.1	4.7	5.4	6.2	7.1		
Total Industry Size	78.2	92.7	104.4	89.3	96.5	105.1	114.6	125.2	136.7		

Source: KPMG Interviews, KPMG analysis
Note: *Previous year figures have been regrouped to exclude the rental market due to lack of accurate data

While the share of the domestic theatrical revenues to the industry's revenue is expected to decline marginally, it is expected to remain the dominant revenue source for the industry contributing as much as 74 percent of the total revenues in 2014.

Share of domestic theatrical revenues



Source: KPMG analysis

“The media industry is an experiential economy, companies need to enhance the overall customer experience and this includes both engaging content as well as better infrastructure to attract and retain customers”



– Amit Khanna,
Chairman - Reliance Entertainment

Production

The Indian Film Production segment is highly fragmented with a large number of individual and corporate production houses and film funds.

There is a dearth of bankable male stars in the industry, underlying the need for new talent discovery. Poor content is often cited as the reason for the low success ratio for films. This highlights the need for trained scriptwriters and investments in research and development to develop and market content mapped to distinct target audience segments.

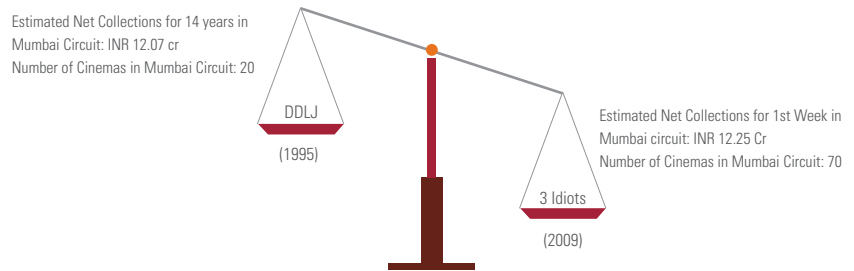
“A partnership between a film fund and an independent production house is a win-win situation for both parties. Additional funding assists the production company increase its film portfolio and in turn earn higher returns and reduce risks, a film fund gets better visibility on the entire creative process and is better able to manage cost and timelines.”



– Sanjay Bhattacharji,
Key Management Consultant - Cinema Capital Venture Fund

Over the last decade, the scale of Indian films has gone up dramatically and new revenue benchmarks are being set every year. A case in point would be a comparison of the revenues till date of 'Dilwale Dulhania Le Jayenge' (one of India's longest running films) to that of '3 Idiots' in its opening week as illustrated in the graphic below.

Comparison of the revenues



Note: The above figures are not inflation adjusted

Source: Industry Interviews and KPMG Analysis

Of late, the consumer behaviour suggests that viewers are willing to pay a premium for top quality content. For instance, '3 Idiots' had an average ticket price increase of about Rs.30 in multiplexes²². Audiences' willingness to pay higher for quality content should therefore act as a lever for the industry to focus more on content.

Additionally, given the high potential of international markets, Indian filmmakers are increasingly aiming for a wider release for their films. For instance, '3 Idiots' was released overseas with nearly 400 prints worldwide of which 210 were in the US²² alone. Furthermore, cable and satellite rights have rebounded and have shown above average returns for films that have performed well at the domestic box office. However, physical and online piracy continues to be a challenge for the industry and has impacted both theatrical and home video revenues.

Going forward, the economics of film production are expected to be favourable if the following enablers are in place:

- Costs are kept under control and production efficiencies are maximised
- Offerings are effectively monetised on emerging platforms like cable, DTH, IPTV, etc. reducing dependence on a film's box office performance
- Increasing addressability and digitisation in cable can help pay per view revenues
- Device led growth, led by the proliferation of devices such as 3G enabled mobile phones, and interactive set top boxes fuels the need for content which in turn can result in newer business models
- The Exhibition industry is likely to grow due to the addition of miniplexes and multiplexes

²² Industry Interview



“Corporates are here to stay and the industry will get more organised as a result of this”



– Sanjeev Lamba,
CEO - BIG Pictures

Distribution

As with many industries, distribution plays an important role for the film industry in facilitating the delivery of content to film viewing audiences.

In the film business, India is divided into one overseas and six major domestic territories which are further sub divided into 14 territories²³. Distributors buy the rights of a film for a particular territory and recover their costs from the exhibition of the film.

The acquisition of rights is based on the perception of the films’ chances of success at the box office. Primary drivers of this perception are the ‘buzz’ surrounding the film, reports on the film from various industry sources, and the team behind the project including the star cast, director and production house.

In recent times, many large players have developed an integrated presence in film production and distribution in order to increase their control and bargaining power in the industry value chain. This has led to a decline of the independent distributors who are increasingly aligning themselves with corporate distribution houses. Despite this trend, last year we saw independent producers using independent distributors to release their films which did not find corporate buyers due to the high acquisition costs.

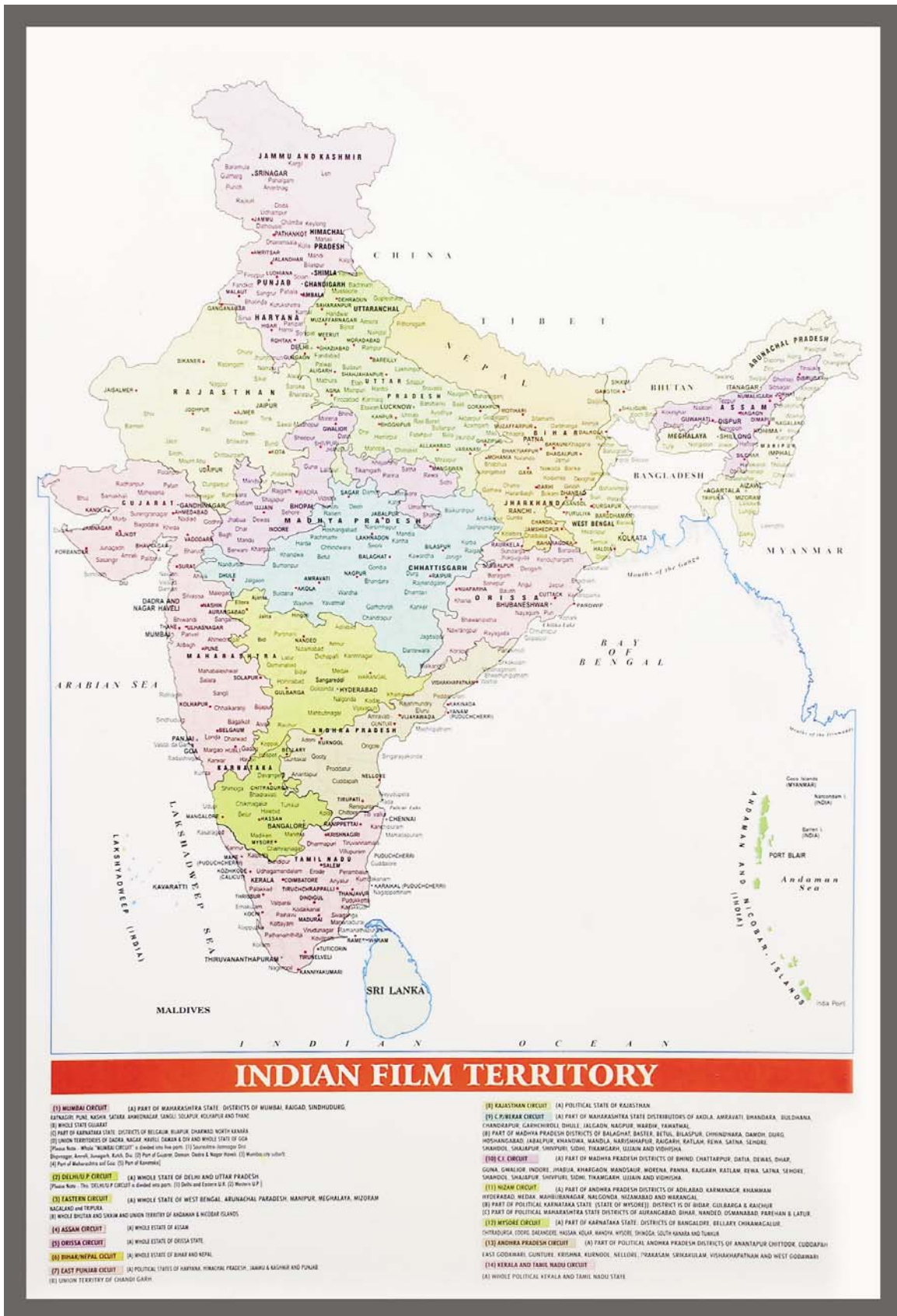
“Corporatization of the film industry has seen the decline of independent distributors, who are now aligning themselves with corporate distribution houses to remain in business.”



– Rajesh Thadani,
Independent Distributor

23. Industry Interview

The primary distribution territories for Indian films are illustrated in the chart below:



Source: E-City Digital Cinemas

Each major territory has at least 15-20 distributors who compete for the distribution rights for a particular territory. However, not many territories are equal in terms of costs and revenue potential. The Bombay territory is generally the benchmark used for pricing other territories.

Indicative revenue contribution from domestic film territories for Hindi films	
Territory	Percent
Bombay (Mumbai, Thane, Western Maharashtra, Gujarat)	40%
Delhi and UP (Delhi City and UP)	20 - 22%
Punjab (Punjab, Haryana, J&K, Himmachal)	7.5 - 9%
Rajasthan	5 - 5.5%
C.I. (parts of Madhya Pardesh)	3.5%
CP Berar (majority of MP, all Chhattisgarh, East Maharashtra)	5 - 5.5%
Bihar and Jharkhand	1 - 2%
Bengal	4.5 - 5%
Assam	0.5%
Orissa	0.5%
Nizam and Andhra (South East Maharashtra and all AP)	5 - 5.5%
Mysore (all Karnataka)	3.5 - 4.5%
Tamil Nadu and Kerala	1 - 1.5%
Nepal	0.25%

Source: Indian Film Company

Overseas distribution

Overseas rights are generally sold on an outright basis. The producer may either sell it to a distributor with a global presence or sell by major international territories e.g. US, UK, Middle East, Africa, etc.

Indicative revenue contribution from international film territories for Hindi films	
Territory	Percent
USA and Canada	30 - 33%
UK and Europe	30 - 33%
UAE	15 - 20%
Australia and New Zealand	20 - 25%
Pakistan	
South East Asia (Fiji, Singapore, Malaysia, Indonesia)	
Africa (South Africa, Kenya)	

Source: Indian Film Company

Traditionally the US market followed by UK has been the major contributor to the overseas revenues for Indian films. However in recent times, the Middle East territory which includes the UAE, is growing in importance.



Exhibition

With the growing relevance of multiplexes over the last few years, the Indian film exhibition industry has undergone a metamorphosis. The first multiplex came up in Delhi in 1997 and today the total number of multiplex screens in the country stands at over 800²⁴.

Over the last few years multiplexes have brought back audiences to the theatres. As compared to the poorly maintained condition of many single screen theatres, multiplexes offer an enhanced viewing experience that has attracted audiences despite higher ticket prices. Growing disposable incomes, favourable demographic changes, increase in the number of films targeted at niche audiences and entertainment tax benefits granted by various states have contributed to the growth of multiplexes.

“Single screen theatre owners are battling a high tax regime and need timely governmental intervention without which their survival is difficult”

– **Ram Vidhani**,
President - Cinema Owner & Exhibitors association of India

Even though multiplexes typically have lower capacity per screen as compared to a single screen theatre (nearly 300 for multiplexes compared to 500 for single screens) they currently contribute around 25 percent of the total domestic theatrical revenues for the overall Indian film industry and as much as 60 percent for Hindi films^{24, 25}. This is due to the fact that ticket prices and occupancy levels are much higher in multiplexes. The ticket price in multiplexes is nearly four to five times that in single screens while the occupancy in multiplexes is approximately 30-35 percent compared to nearly 20-25 percent in single screen theatres.

“We don't wait for people to come to the box office; we take the box office to them by providing services such as, tele-booking, home delivery of tickets, online, SMS & GPRS bookings, thus making the process of booking tickets easy and convenient for the consumer”

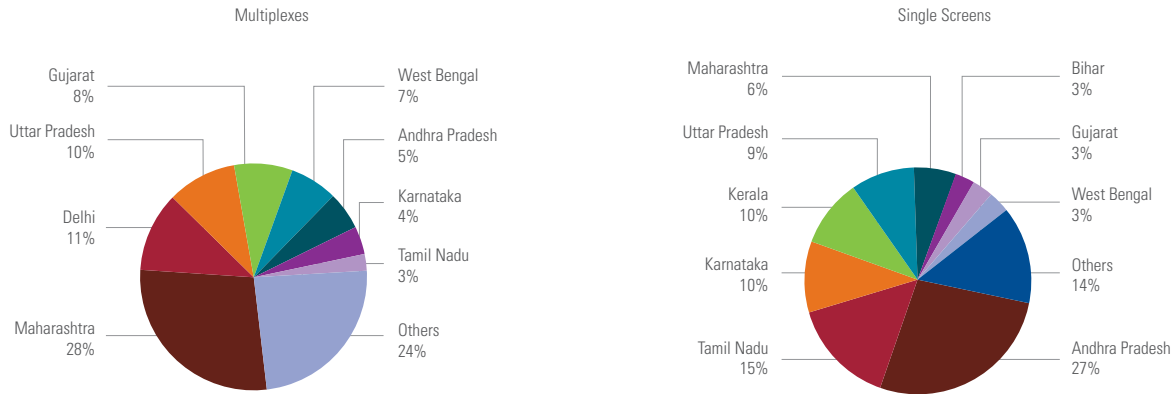


– **Alok Tandon**,
CEO - Inox Theatres

However, in South India single screens have a stronghold and the four southern states account for nearly 60 percent of the single screen theatres and only 10 percent of the multiplexes in the country.

24. Industry Interviews
25. KPMG Analysis

Distribution of multiplexes and single screens in India



Source: Industry Interviews and KPMG Analysis

Multiplexes, with lower average seating capacities and a differentiated viewing experience, have led to producers experimenting with film content for niche audiences. Multiplexes also offer more choices to audiences due to the flexibility in pricing and programming.

With multiplexes playing such a critical role, understandably the producer-multiplex impasse had a deep impact on the entire industry. The key reason for the standoff was the revenue sharing norms between multiplexes and film producers with multiplex owners demanding a higher share of the revenues. As per the final settlement, producers are likely to retain the rights of distribution of the films whilst exhibitors are to control the showcasing rights. The revenue share between multiplex exhibitors and producers is likely to be as follows:

Pre-Standoff			Post-Standoff		Movie earns < 17.5 INR Cr		Movie earns > 17.5 INR Cr	
	Producers	Multiplex	Producers	Multiplex	Producers	Multiplex	Producers	Multiplex
Week 1	48.0%	52.0%	50.0%	50.0%	52%	48%		
Week 2	38.0%	62.0%	42.5%	58.0%	45%	55%		
Week 3	30.0%	70.0%	37.5%	65.0%	38%	62%		
Week 4			30.0%	70.0%	30%	70%		

Source: Hindustan Times, April 17, 2009, Dow Jones International News, June 11, 2009.
 Note: * - Indicative, percentage sharing varied depending on the bargaining power of the producer

Recently the industry has also seen the launch of miniplexes (a multi-use theatre with two screens, seating capacity of approximately 75 per screen and price point of nearly INR 80 per ticket). These miniplex operators have aggressive roll out plans of having over 500 miniplexes across the country in the next few years²⁶.

Over the last year and a half, falling consumer confidence and slow down in the real estate sector, led to nearly many of the major multiplex chains delaying their expansion plans. However, the long term multiplex story is still intact; and by 2013 the number of multiplex screens in India will likely cross 1,600²⁷.

26. <http://economictimes.indiatimes.com/features/business-of-bollywood/Now-multiplex-experience-at-a-miniplex/articleshow/5490487.cms>
 27. Crisil: Media & Entertainment Report 2009



While the multiplex industry has witnessed significant growth over the last few years, there has been a steady decline in the number of single screen theatres. The key reason for this decline is the inability of single screen owners to compete with multiplexes owing to the differential entertainment tax structure and viewing experience. Lack of organised funding also inhibits the refurbishment efforts and growth of the single screens. Digitisation of screens has provided some respite to the single screen owners since they are now better able to manage their operating costs.

The rising number of digital screens also provides the film industry with a larger number of release centres. While earlier an average film released in approximately 250 centers, increased penetration of digital screens is enabling filmmakers to release their films in 700 to 800 centers on an average due to lower costs and ease of logistics²⁸. Our interactions with a few leading digital technology providers in India such as UFO Moviez and Real Image indicate that the total number of digital screens in the country is currently over 3,000. As per industry sources, the number of digital screens is expected to increase significantly in the future as producers and distributors start to utilise more number of digital screens to ensure a wider release of their films, reduce print costs and piracy.

The Hollywood story

The last few years have seen the emergence of some Hollywood films as a competitor to Indian films. Dubbed Hollywood films are gaining increased acceptance with a wider Indian audience base.

As per industry discussions, last year nearly 60 foreign films were released in India, which did a combined business of nearly INR 380 crores at the Indian box office²⁹. Increasingly, Indian producers are also considering the release dates of big Hollywood films while planning the release strategy for their films.

Key growth drivers for Hollywood films in India

1. **Dubbing in multiple languages** provides a wider audience base of Hollywood films released in the country
2. **Rising number of multiplexes** is bringing in new audiences due to enhanced consumer experience. Also lower seating capacities at the multiplexes translates into better occupancies for such films compared to single screens and thereby allowing multiplex operators to offer a longer exhibition window and playing time
3. **Focus on technology** such as 3D and 2K is helping the Hollywood industry differentiate itself from their Indian counterparts, both in terms of content as well as visual experience.

While Hollywood films are increasingly making their mark in India, they continue to face the following challenges that is expected to inhibit rapid growth.

²⁸. Industry Interviews

²⁹. Industry sources

Key challenges for Hollywood films in India

- 1 **Shorter exhibition window** at the theatres for Hollywood films significantly impacts the true potential of Hollywood movies in India. On an average, a Hollywood movie releases in India with a mere 50 prints and furthermore, on an average is able to get only three shows per screen in the first week of its release.³⁰
- 2 **Release costs** (print and advertisement) for Hollywood films are on an average 40-45 percent of their expected revenues³⁰. Even with such a high share of revenues, the absolute amount that Hollywood film distributors are able to spend on print and advertising(P&A) is much lower compared to Hindi films due to their lower revenue potential in India. Also less headroom to increase P&A spends (due to already higher share of expected revenues) further compounds the challenge when competing against Indian films with higher marketing budgets.
- 3 **Absence of star presence during marketing campaigns** puts Hollywood movies at a disadvantage as compared to Indian films.
- 4 **Piracy** significantly impacts Hollywood films in the country. Any gap between the international and Indian release of Hollywood films provides ample time for pirated versions of movies to enter the market thereby impacting theatrical collections.

There is headroom for growth of Hollywood movies in India, provided studios grow their audience base by dubbing in more regional languages, implementing innovative marketing strategies, investing in some star-driven marketing campaigns and maximising playing time.

“Key driver for Hollywood films in the future will be developing newer markets with more dubbed versions and growing the number of screens in 'B' and 'C' tier cities”



– Kercy Daruwala,
MD - Sony Pictures India

New technology and its impact

Impact of the digital revolution

The emergence of digital technology has been a positive disruptive force for the film industry and has transformed many aspects of the film value chain including production, marketing, distribution and exhibition.

³⁰. Industry Interviews



“As digitisation increases, it is imperative for us to create a secure digital ecosystem to safeguard our content. As an industry this will require a mindset shift and will require us to work together to keep our content secure”

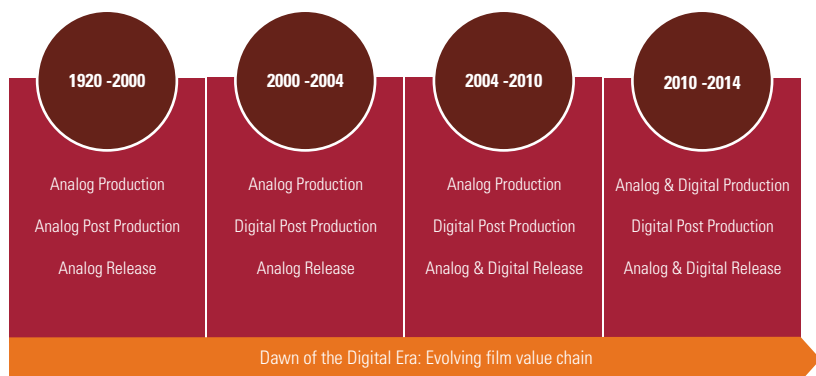


– Anil Arjun,
CEO - Reliance MediaWorks

Digital production

The increasing number of films that are being shot in the digital format is likely to pave the way for digital production, digital post-production, and digital release (DDD) structure. For instance, in 2009 Sathyam Cinemas and Real Image Media announced their first Tamil film production Thiru Thiru Thiru Thiru. The film was reportedly India’s first end-to-end digital movie that was shot, color-graded, and released entirely in the digital format³¹.

Globally, digital production has progressed in leaps and bounds in 2009 with Slumdog Millionaire becoming the first movie shot mainly in a digital format to be awarded an Academy Award for Best Cinematography³², and Avatar, the highest grossing film of all time³³, receiving accolades for its visuals that were shot and displayed using digital technologies.



Source: UFO Moviez

Digital distribution and exhibition

In India, players such as Real Images, UFO and E-City are estimated to have equipped close to 3,000 theatres³⁴ across the country with digital technology and have aggressive expansion plans for the next 3 years³⁵.

31. The Hindu, 6 June 2009 edition: “Digital dream come true”
 32. Silicon Imaging press release, 31 January 2009
 33. <http://news.bbc.co.uk/2/hi/8482058.stm>

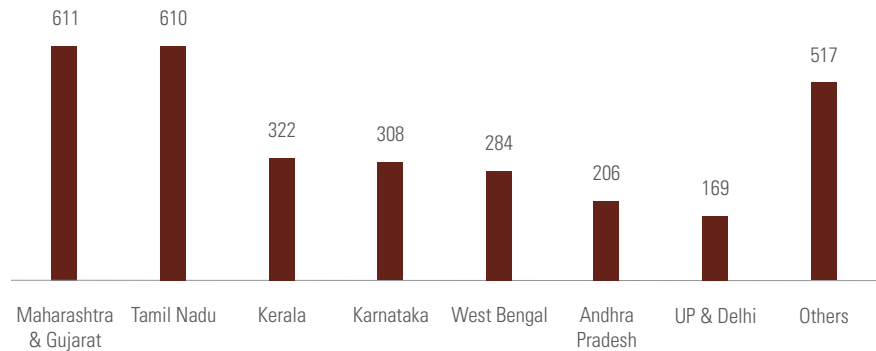
34. KPMG interview with E-City
 35. UFO Moviez (www.ufomoviez.com); Real Image (www.realimage.com)

“Distributors today plan their release strategy first using digital prints because of the cost effective and wide spread release, with the release on analogue print decided thereafter to complement the release strategy. Doing this provides them a greater leverage to spend more on marketing and publicity without increasing the overall release cost”



– Mr. Sanjay Gaikwad,
CEO & Executive Director, UFO Moviez

Digital screens by state



Source: UFO Moviez, Real Image, KPMG analysis
Note: The above figures are for UFO Moviez and Real Image only

In India, DCI compliant 2K digital technology (D cinema) competes with the more widely prevalent 1K digital technology (E-cinema). As per industry estimates, the number of E-cinemas screens is nearly 14 times the number of D cinemas.

“Digital Cinema de-risks the entire value chain...and finally brings predictability, addressability and accountability to the business of Cinema”



– Arvind Rangnathan,
CEO - Real Image Media Technologies Pvt. Ltd

The numerous advantages offered by digital cinema that have contributed to its increased penetration are illustrated in the table below

The advantages of digital cinema

Benefits	Producer	Distributor	Exhibitor	Audience	Nation
Savings in print costs	Nominal one time investment for digital prints. Also provides the possibility of releasing old films.	No investment for digital prints.	No investment for digital prints.	No increase in ticket costs.	Savings in foreign exchange in importing film stock.
Wide release of film	Early release in many of the centers protects film from piracy and adverse publicity.	No investment for digital prints allows distributor to give as wide a release as possible with no extra costs.	Digital distribution reaches even rural centers on the day of release.	Audiences in rural and remote areas can get access to new releases on the day of release.	Increase in cinema collections implies increased entertainment tax revenues.
Durability of media	Unlike optical prints, digital prints do not deteriorate in quality.	No expenses on reprints in case of a hit film and no loss in case of a flop.	No hassles such as bad quality prints, delivery dates, etc.	Good and uniform viewing experience.	Good quality prints are likely to result in increased collection.
Curb on piracy	Digital content protection software restricts piracy.	Digital content protection software restricts piracy.	Enhances a film's theatrical potential in the initial period thus increasing revenues.	Access to good quality theatre viewing in the early part of a film's life.	Curb on piracy may increase cinema collection.
Promotes niche cinema	Producers are able to experiment with newer genres of cinema.	No risk situation since investment in prints and copyright is minimal.	Provides access to newer variety of cinema.	Provides access to newer variety of cinema.	Encourages film production and enhances revenue potential.
Promotes regional films	Opportunity to invest in regional films.	Generates newer revenue streams.	Provides access to newer variety of cinema.	Provides access to newer variety of cinema.	Encourages film production and enhances revenue potential.
Lower break even point	A wide release fosters early recovery of money.	Early recovery of investments in copyright print and publicity.	Decreased expenses on account of running cost of theatres.	Encourages producers to make interesting and meaningful cinema.	Production of more films can increase cinema collections.

Source: UFO Moviez

Digital technology provides exhibitors with the opportunity to garner additional revenues through alternative content offerings such as cricket matches, award shows, etc. For instance, Big Cinemas entered into an agreement with More2Screen, a London-based alternative content provider to screen operas and classical concerts in Indian cinemas. The pilot project was well received particularly in Tier 2 and 3 towns³⁶.

This trend is expected to continue in 2010, with UFO Moviez, a digital satellite cinema network, telecasting Indian Premier League 2010 matches live across 1,000 screens in the country³⁷.

"We are encouraged to see new technological trends such as digital cinema and 3D gaining pace in India. They would definitely fire up the growth in the entertainment sector"



– Atul Goel,

Managing Director - E-City Ventures

36. KPMG interview with Big Cinemas

37. Industry Interviews



Digital marketing

Filmmakers are supplementing their traditional promotional activities with a comprehensive digital marketing strategy in a bid to generate additional buzz around their film. For instance, the producers of '3 Idiots' embarked on a 360 degree integrated campaign that tapped into many mediums including social networks to market the movie³⁸. This strategy of developing an audience for the film through an integrated effort in publicity, promotion and co-branding was instrumental in the films overall success at the box office.

Additional revenue streams emerging through digital platforms

The evolution of digital technology has provided filmmakers with additional revenue streams. Filmmakers are delivering film-based content like music, videos, images and games on mobile phones and the internet. For instance, Illuminati Films and Eros International tied up with Hungama Digital Media to launch a game based on their movie "Love Aaj Kal" that can be accessed on the internet and mobile platforms³⁹.

Filmmakers are also opting to monetise their content by releasing movies on the DTH and cable platforms through 'Pay Per View' services soon after their theatrical release. Releasing films on the internet is another trend adopted by filmmakers. For instance, "Striker", a film made by Indian Film Company (IFC) was released internationally on YouTube on the same day as its theatrical release³⁸.

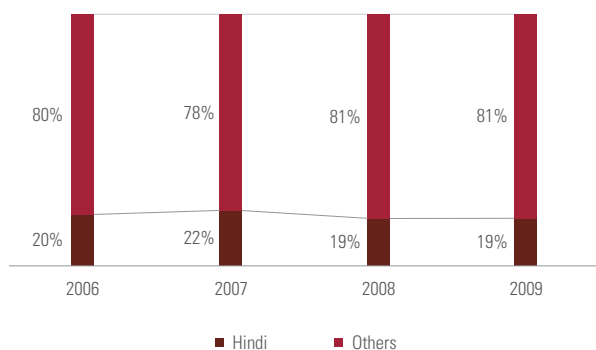
Technological advancements used effectively can be a key growth enabler for the industry; the industry needs to proactively embrace technology which may fuel their growth plans.

Regionalisation

While mainstream Indian cinema is dominated by Hindi cinema, other Indian languages are an important growth driver for the Indian film industry. As a result, national players especially multiplex owners are expanding their regional footprint. This sector is also witnessing increased corporate investments. One of the key factors driving this interest is the huge opportunity that the relatively under-penetrated regional market provides.

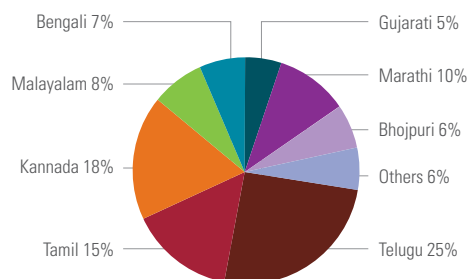
The regional film industry was relatively lesser impacted by last year's multiplex strike that affected the Hindi film industry as single screens dominate the Southern landscape. Over the last few years, the share of Hindi films to the overall films certified has declined. In regional cinema, south Indian language films continue to be the largest contributors in terms of the number of films certified.

Certified films by Indian languages



Source: Ministry of Information and Broadcasting, KPMG analysis

Certified films by regional languages



38. Industry Interviews
 39. <http://www.gaminghungama.com/single/play-love-aaj-kal.php3>

Regional films have in the past received global critical acclaim e.g. films by Satyajit Ray, Adoor Gopalakrishnan, etc. This trend continues with regional language films today. For instance, “Harishchandrachi Factory”, a Marathi film was nominated as India’s official entry to the 2009 Oscars⁴⁰; a Konkani film “The Man Beyond the Bridge” won an award at the 2009 Toronto International Film Festival⁴¹. Another Marathi film “Mee Shivaji Raje Bhosale Boltoy” was one of the few Indian film last year to have celebrated its silver jubilee in India⁴².

Apart from favourable socio economic and demographic factors facilitating the growth of the regional film industry, other key growth drivers include the following:

Key growth drivers

- **Increased multiplex penetration** in regional markets in the near term is expected to fuel growth of the regional film industry. Many multiplex owners have announced aggressive growth plans in regional markets. This is expected to translate into higher revenues due to higher pricing and improved occupancy for regional films.
- **Increased digitisation of single screen theatres** is helping the regional film industry in terms of wider release and the opportunity to capture theatrical revenues within shorter windows. This is expected to have a positive impact on revenues. Additionally, since a majority of theatres in the south are single screen, increased digitisation is enabling a reduction in print costs and therefore improved profitability.
- **Organised funding** is increasingly making its presence felt in the regional film industry, especially in the south. Various production houses such as PNC, UTV, Reliance, etc. as well as private equity funds have shown interest in this segment.
- **Increased focus on marketing** with greater spends on publicity and distribution, is helping the regional industry reach out to an increased audience base.
- **Improvement in production quality** especially in the southern film industry is attracting a new audience segment, who is willing to pay a premium for content with better aesthetic value.

Key challenges

- Rising talent and production costs is making a number of projects unviable. The talent cost in some cases, can constitute 40-60 percent of the total cost of a south Indian language film. Since regional cinema especially in South India is heavily dependent on male star power to attract audiences, high and rising talent cost poses a substantial challenge to film producers
- Continued reliance on domestic box office as a revenue source not only makes such films risky but also prevents filmmakers from effectively monetising their movies to its full potential
- Competition from Bollywood movies poses another challenge in certain regional markets such as Gujarat, Rajasthan, etc. where Hindi is well accepted. A large number of regional film producers in these markets are not able to secure adequate playing time at the theatres to be commercially viable thereby adversely impacting the segment
- Regulated ticket prices in certain parts of south India stymies the full potential of domestic box office revenues. Regulations freeing price control and letting markets decide the ticket price, is expected to have a positive impact on the segment.

40. http://www.dnaindia.com/entertainment/report_harishchandrachi-factory-india-s-entry-for-oscars_1291725

41. <http://movies.indiatimes.com/News-Gossip/News/The-Man-Beyond-the-Bridge-gifts-back-cinema-its-silence/articleshow/5192665.cms>

42. <http://www.thefilmstreetjournal.com/2010/01/%E2%80%98idiots%E2%80%99-brings-cheer-other-idiots-don%E2%80%99t/>

The regional industry stands at a threshold where it has an opportunity to convert its increasing recognition into higher revenues and acceptance, both in India and globally. To enable this, the regional film industry needs to reach audiences beyond their respective state borders.

“With the proliferation of the internet and better connectivity, we could see the Indian Film industry being adversely affected. It is imperative for us to take a strong stand against piracy backed by governmental support and strict enforcement of anti-piracy laws.”



– Harish Dayani,
Chief Executive - Entertainment Division, Moser Baer



Key sector challenges

- **Poor Content:** Lack of quality and compelling content, highlighting the need for more focus on content and scripts
 - **Piracy:** Piracy continues to be a major concern for the film industry particularly the Hindi film industry. Technological advancements such as digitisation of film content and delivery has helped arrest piracy to a great extent. However, a concerted Public Private Partnership is needed to tackle the deep rooted bane of piracy
 - **Access to institutional funds:** Individual players have limited access to institutional funds which makes it difficult for them to grow beyond their limited means of raising capital for projects
 - **Talent popularity and perception:** Negative change in the popularity of the leading pair can adversely impact the films business prospects
 - **High talent costs:** Talent Costs continue to demand a large portion of the overall budget. It is encouraging to see top talent partner with producers to take a percentage of profits rather than a stiff upfront fee, which strengthening the overall economics of the film
 - **Poor consumer understanding:** Despite being an industry that caters solely to end consumers, the film industry pays limited attention to understanding changing customer needs. Due to this many players across the value chain do not segment their intended audience base and do not reach out to their target audience. Going forward, the industry needs to understand their customer base and market their offering to the intended audience to garner better returns
 - **Cost inflation:** Over the last few years costs have increased dramatically however, the associated revenues have not kept pace with the cost inflation. Going forward, the industry needs to enhance its production efficiencies and manage costs, especially talent costs
 - **Lack of good scriptwriters:** A script serves as the backbone of the film, if that is weak then no amount of marketing or high production values may be able to salvage the film. Stale content is one of the key reasons for the failure of a project. Going forward there needs to be an industry initiative to better train scriptwriters and place a greater importance on research and development to enable only quality scripts being made into films
 - **Intellectual Property (IP):** Poor enforcement of intellectual property laws hinders the ability to monetize creative works of the entire industry.
- **Limited bankable talent:** There are few bankable stars in the industry underlying the need for new talent discovery
 - **Lack of control on the film making process:** Lack of visibility on a project's progress at times could lead to cost and time overruns.
- **Cannibalisation from diverse platforms:** The shelf life of movies in theatres has seen a steady decline. The growing importance of alternate distribution platforms like DTH, satellite television and the soon expected 3G enabled mobile handsets are a threat to the profitability of theatres
 - **Declining footfalls and occupancy rates:** A direct impact of poor content is that consumers are getting selective about the films they watch in theatres which has led to a decline in the foot falls and occupancy rates for theatres
 - **Unfavourable regulations:** Regulations differ from state to state making it difficult for a chain to operate on a Pan India basis, underlying the need for central jurisdiction. Also, archaic rules framed as back as 1953 require nearly 40 licenses and up to 3 months for a multiplex to start operations
 - **Controlled ticket rates:** Ticket prices controlled to varying degrees across states. For example in Tamil Nadu 10 percent of the many seats have to be sold at INR10 only and the rest cannot be sold above INR 120. Allowing market to determine the ticket rates would provide more flexibility to the exhibitors
 - **Soft targets for miscreants:** The film industry is seen as a soft target for terrorists and miscreants as they can hold the entire industry to ransom if the domestic theatrical releases are impacted due to any reason. The industry needs to beef up security to combat this threat and train security personnel adequately
 - **High tax regime for single screen theatre:** Unfavourable entertainment tax regime for single screen theatres as compared to multiplexes is putting their business model at risk. Lowering such taxes is critical for the single screen theatres to survive and allow cinema viewing be affordable for the masses.
- **Clubbing of movie releases:** Due to the recent clubbing of movies it has become hard to negotiate a fair run and get the correct show timings from exhibitors who control the last mile.
 - **Exorbitant acquisition costs:** The costs to acquire a territory have risen sharply over the last few years revenues however have not grown at the same pace making it difficult for distributors to acquire films at a price which makes business sense
 - **Ticket pricing:** Due to the high prices of multiplex tickets it is felt that an average middle class family cannot afford to see many films in the theatre, which forces them to choose between alternatives.

“A good creative person looks at market research as an input to their creativity rather than as a threat”



– Vispy Doctor,
Director - Ormax

Sector specific regulatory snapshot

The year 2009 did not see much activity on the regulation front in the film industry. There have been talks of constitution of an Export Promotion Council in order to promote the development of export markets for Indian films. The Government has also initiated action on some of the recommendations of five core groups which had been set up by the Government to ensure all round development of the film industry.

Apart from the above, there has been a strong demand for a co-production agreement with the US on lines of similar agreements which the country has with UK, Italy, Germany, etc⁴³.

Limited Liability Partnership ('LLP')

The enactment of the Limited Liability Act, 2008 ('LLP Act') and its subsequent notification on 1 April 2009 led to the creation of an alternative corporate business vehicle - Limited Liability Partnership.

LLP blends the benefits of limited liability of a company with the organizational flexibility of a general partnership firm (less onerous compliances and limited disclosure requirements).

Though LLPs is a recent phenomenon in India, such legal forms have been extensively used in the film sector in other jurisdictions for attracting funds and undertaking collaborations, since these help in limiting the liability of each partner.

In terms of the Indian tax law, the provisions applicable to a firm have also been extended to an LLP. Unlike LLPs in several other countries, Indian LLPs do not enjoy a pass through status. Accordingly, where a foreign partner receiving share of profits from an LLP that has suffered tax in India, claiming tax credit in his home country may pose a problem (in the absence of express provision relating thereto in the tax treaties).

It may also be noted that the extant Indian Foreign Policy regulations do not apply to LLPs. While the LLP Act allows foreign companies/ LLPs incorporated outside India to become partners in Indian LLPs, foreign investment in such entities is still to be provided for in the Indian Foreign Policy regulations. Suitable amendments to allow investments from foreign entities as well as foreign investments by Indian LLPs outside India are awaited.

43. As per information in the press



Industry Regulatory Wishlist

1. Service tax exemptions

- Grant of exemption from levy of service tax on licensing of trademarks for film-related merchandise, since such transactions are already subject to VAT.
- Extension of service tax exemption on post-production services rendered by Indian service providers to foreign studios.

2. Different states, different regulations

- Presently, cinema being a State subject makes it difficult to operate on a pan-India basis on account of different regulations. Accordingly, cinema should be brought under Central subject in order to bring in uniformity across the country.

3. The bane of multiple licenses

- On an average, a multiplex requires at least 40 licenses to start operations and the period of acquiring licenses takes anywhere up to 3 months. A single window clearance mechanism would go a long way in encouraging the industry.

4. Controlled ticket rates

- The practice of controlling ticket rates by some states makes it difficult to keep pace with increasing rentals, taxation and other burdensome regulations. Accordingly, the determination of ticket rates should be left to market forces.

5. Multiple taxation

- Numerable taxes (e.g. service tax, advertisement tax, value added tax, show tax, etc.) lead to a cascading effect of indirect taxes. There is an urgent need to rationalize taxes and thereby, increase transparency and better reporting.

Way forward

The year 2009 was a rollercoaster year for the film industry and as the curtains came down on 2009 the adage "All's well that ends well" sums up the mood for the industry.

Key learning's and way forward for the industry	
	Good content will drive up industry realisations as '3 Idiots' demonstrated. A film that is strong on content, is well cast and marketed can earn good returns and expand the market. The old adage that 'Content is King' never rang so true with audiences being more demanding and discerning.
	Improved understanding of the audience tastes, preferences and consumption behavior is likely to be essential in better marketing and distribution of a film. This can help the industry develop films based on audience tastes and then distribute and market based on consumption behaviour and preferences.
	The industry needs to embrace technology as it positively impacts all parts of the value chain. Investing in technology benefits stakeholders by enabling the industry to reduce overall production costs, reduce production time, improve picture quality, manage print costs, better marketing, increased monetisation of various revenue streams, etc. Business model innovation is set to become critical for any serious player hoping to thrive in the years to come.
	Cost optimisation and maximising production efficiencies while maintaining their core capabilities is likely to be the mantra going forward for the film industry to remain profitable and achieve their growth targets. Companies need to foster process innovations leading to newer business models which are likely to emerge as a necessity of doing business in the digital age.
	Film business is a serious business where a lot of money is riding on a film's success. Inaccurate reporting of collection figures is misleading and needs to be corrected so that there is greater transparency and credibility in the system, thereby ensuring that revenues flow through to the intended constituents in the value chain.
	Constructive dialogue amongst various industry stakeholders is critical. The multiplex-producer impasse affected not only the two warring parties but impacted everybody in the value chain. Going forward the industry needs to collectively keep the channels of communication open and look for alternate means of any dispute resolution.
	With the number of movies released increasing every year and film makers focusing increasingly more on technical aspects, we believe formal education to impart technical and acting skills in filmmaking will help the industry sustain its growth and possibly even enable it to grow and at a much higher rate.
	We should leverage the existing infrastructure in an effort to grow the overall domestic theatrical collections. This is likely to incumbent upon single screen owners upgrading their facilities on a priority basis and luring customers back to single screen theatres.

The film industry is set for interesting times ahead with huge opportunities for first movers in the digital economy. In order to remain in the driver's seat, film companies cannot afford to rest on their laurels but have to re-invent themselves and their business models to meet changing consumer patterns.



TV

THE GROWTH STORY





TV is the largest segment of the Indian M&E industry with a size of INR 257 billion in 2009^{2,3}. The industry has transformed itself in the last few years with a reach of almost 500 million TV viewers¹. The overall penetration of the TV households has increased from ~50 percent five years back to ~60 percent now². Hence, TV remains an attractive medium due to its large reach and potential for increase in penetration.

The number of channels has increased from 120 in 2003 to over 460 in 2009¹. The number of genres and niches expanded as well with increased presence in news, kids, infotainment and lifestyle. The industry also saw significant growth in the number of regional channels. In addition to broadcasting, TV distribution evolved greatly with the growth of digital mediums and associated offerings to viewers like Digital cable, DTH and IPTV.

2009 – The year gone by for Television

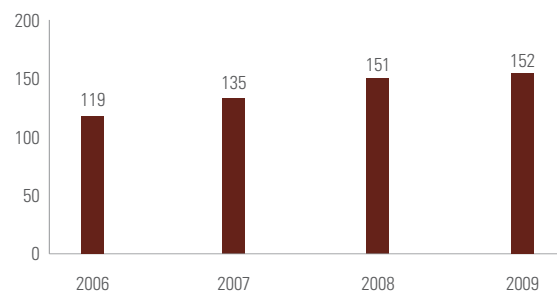
Even though the M&E industry faced a tough year in 2009 due to the global recessionary pressures and the resultant reduction in advertising budgets, television as a medium showed mixed results. In the midst of sluggish growth in advertising revenues, especially in the first half of the year, the industry had reason to cheer as growth in TV penetration and increase in number of channels managed to keep the TV viewers engaged with newer content and formats.

The year 2009 proved to be a year full of surprises as the first half saw IPL shifting outside the country, another Hindi GEC being added in the middle of the slowdown, and the nine year reign of Star Plus being ended by a recent entrant - 'Colors'^{3,4}. There were fluctuations throughout the year for the spot for Number one player in the Hindi GEC market. The year ended with Turner taking a majority stake in 'Imagine', Bloomberg tying up with UTV for a business channel and Videocon d2H becoming the latest entrant in the already competitive Direct to Home (DTH) market with the pan India launch of its services^{3,4}.

Amidst all this, the biggest story of the year was clearly digitisation, where DTH led the digital distribution foray by adding close to 6 million subscriber homes^{2,3}. The total number of TV households grew from 123 million in 2008 to 129 million by the end of 2009, showing an increase of 5 percent. The total number of C&S households grew at a faster rate of 10 percent from 86 million to 95 million².

The average time spent on watching television remained largely flat. The number of advertisers on TV increased from ~8500 in 2008 to ~9400 in 2009^{3,4}. Out of this, ~4600 were new advertisers on TV indicating strong interest from advertisers even in times of recession. Also, TV's share of ad spends was ~40 percent in 2009 indicating its nature as a powerful medium for advertisers.

Average Time spent Watching television



Source: TAM Peoplemeter Systems; TG: CS 4+ years; Markets: All India

The industry added newer target groups beyond the housewives in 2009 as IPL and reality TV became popular. The growing affinity of the film fraternity towards television in terms of the increasing celebrity-based shows on air and the number of appearances made by the Bollywood actors on television also helped in increasing the impact.

1. TAM
2. KPMG Analysis
3. Industry Discussions
4. News Articles



Bollywood Celebrity based shows on TV

2008	2009
Kya Aap Panchvi Paas Se Tez Hain? (Shahrukh Khan)	Bingo (Abhishek Bachhan)
Fear Factor (Akshay Kumar)	Dance Premier League (Rani Mukherjee)
Bigg Boss (Shilpa Shetty)	Lift Kara De (Karan Johar, Bollywood Celebrities)
	Big Boss 3 (Amitabh Bachhan)
	Roadies 7 (Irfan Khan)
	Fear Factor (Akshay Kumar)
	Entertainment Ke Liye Kuchh Bhi Karega (Anu Malik, Farah Khan)
	Tere Mere Beach Mein (Farah Khan, Bollywood celebrities)

Source: TAM, News Articles, KPMG Analysis

As per discussions with industry participants, ad prices dropped from September'08 to April'09 due to the impact of economic slowdown, but the demand picked up by year end. There was an increase in marketing budgets for advertisers in the second half of the year. The year was tough for TV channels, to begin with, due to the increasing competition as advertisers were strictly choosing vehicles based on reach driven metrics like GRPs. However, the recovery from June onwards was faster than expected.

Some players in the industry presented a different perspective on the downturn citing the efficiency which came about in production budgets. If sustained, it could prove to be a boon for the industry. In spite of the cut down in budgets, players did not compromise on quality content.

"With recessionary trends, there was increased focus by advertisers on performance, and reach oriented content, which resulted in reduced investments in new or innovative content to manage risk"



– M K Anand,
CEO - UTV Global Broadcasting Ltd.

"Efficiency came about on the production side due to recession. Budget were cut by 1/3rd but the quality of programming was not impacted"



– Puneet Kinra,
CEO - Balaji Telefilms Ltd.

"As the Indian economy rebounds, Indian TV industry is already on its way to recovery. For international players in fact India is one of the regions from which growth is being projected. The first half the year 2009 saw reduced marketing spends, but the positive for the television industry during this period was that it was able to showcase its potential and effectiveness for reaching the right audiences"



– Preet Dhupar,
Director Finance and
Operations - BBC World
(India) Pvt Ltd

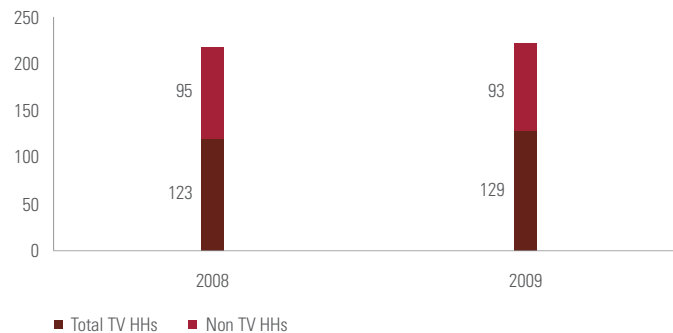


Subscription

Penetration is increasing with the growth in the number of TV households

The number of TV households grew at a rate of 5 percent to reach 129 million in 2009 compared to 123 million in 2008. The penetration of TV in the country grew from 56 percent in 2008 to 58 percent in 2009⁵. Currently TV penetration in India is much lower as compared to some of the developed markets which are almost fully penetrated. Hence, the numbers have potential headroom for growth.

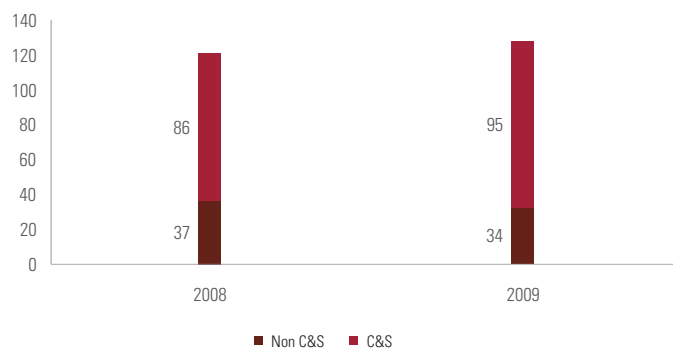
Growth in No of TV households in India



Source: KPMG Analysis, Industry Discussions

The penetration for Cable & Satellite (C&S) households increased from 70 percent of total TV households in 2008 to 74 percent in 2009. The overall number of C&S households reached 95 million registering a growth of 10 percent⁶. A large part of this growth came from the digital homes being added.

Growth in No of C&S households



Source: KPMG Analysis, Industry Discussions

Digitisation enhanced the reach of the subscription market

Digitisation has added value to the industry as it provides better quality transmission with the possibility of interactive and value added services. It also releases bandwidth which can be used to broadcast more channels in the same space. This can enable more niche content being available in the future using the same network or spectrum. Digital distribution comprises of services which are being provided by the digital cable, DTH or IPTV platforms as opposed to the traditional analog cable which still dominates the Indian market. The

5. Industry discussions,
6. KPMG Analysis

number of digital cable subscribers reached an approximate size of 4 million in 2009⁷. Apart from the government’s attempt to gradually shift towards digital by making it mandatory to adopt CAS in certain areas, voluntary CAS adoption also grew as consumers realised the benefits of going digital. The number of analog cable subscribers is witnessing a decline with the increasing penetration of digital distribution systems.

“The next decade will be a digital decade, driven largely by consumer demand for digital quality and triple-play and value added services. As digital penetration grows, niche programming will evolve as it can cater to specific customers who are willing to pay for the same”

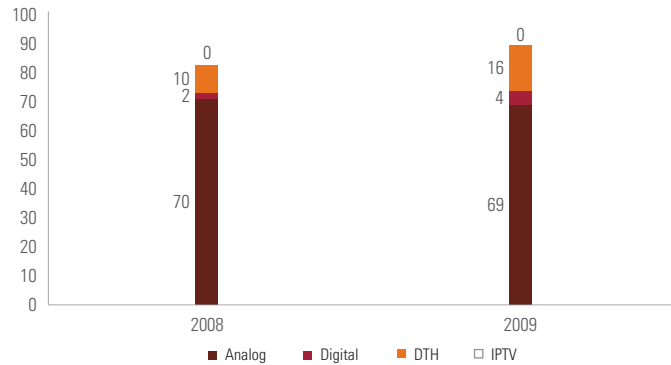


– Ashok Mansukhani,
Director - Hinduja Ventures and President, MSO Alliance

DTH was one of the biggest contributors to the digitisation story. As per our discussions with the industry, it displayed rapid growth to reach 20 million gross subscribers by the end of 2009. The number of subscribers excluding the churn stands at 16 million. Going forward, the amount of churn is expected to be at least 3 to 5 percent of the overall DTH subscriber base per month⁸.

Pay TV Subscriber base

No of pay TV subscribers



Source: Estimates provided by TAM, Industry discussions, KPMG Analysis

The advantages of DTH as a platform includes a user-friendly interface and a large no of channels as compared to the analog platform. It is likely to continue to increase penetration. We estimate that the DTH subscriber base could reach 43 million by 2014^{7,9}.

The good news is that many DTH subscribers are coming from states with class 2 and 3 towns and not just metros. For example, in Rajasthan and Maharashtra, the platform has found acceptability in a lot of small towns and cities. In a state like Assam, where cable is difficult to install due to the mountainous terrain, DTH is gaining strong ground and reached a growth rate of ~25 percent⁹.

The DTH industry is currently looking very competitive with six players already in the market, excluding state-owned Doordarshan’s Apana DTH, which is a free platform^{8,9}.

7. KPMG Analysis
8. Industry discussions
9. News Articles

“Digitalisation, equitable pricing and level playing fields could change the scenario for growth of DTH in India”



– **Tony Dsilva,**
COO -Sun Direct

“Currently from almost 60 percent revenues for the industry coming from analog, it will move to a level where digital revenues will overtake and their share in the pie will become higher in the next two years. However, the analog platform will never become completely outdated and will co exist with digital cable and DTH.”



– **Siddharth Jain,**
VP and Deputy GM - Distribution & Business Operations,
South Asia for Turner International India Pvt. Ltd.

IPTV in India is currently being offered by MTNL, BSNL and Bharti Airtel. The technology is promising due to its superior quality and interactive service but the reach is limited to households having broadband connections. In a country like India where internet penetration is low, the uptake is likely to be slow. Also, IPTV has had limited success globally and hence it is likely to take some time before the platform can taste success.



Advertising

FMCG, Telecom and Auto were the sectors with the highest spends on TV advertising

The television industry was trying to recover from budget cuts by advertisers in 2009, but there were sectors and brands which kept the TV advertising market alive. While sectors such as Financial Services, Consumer durables, etc. cut down their spends on advertising, FMCGs like HUL, Reckitt Benckiser, Coca Cola, ITC, Cadbury, P&G, Pepsi, Marico, etc. maintained their ad spends¹⁰. The pie shifted in favour of FMCGs as they reported robust financial results and continued to advertise on a mass medium like TV. Telecom and Auto were other sectors which continued their ad spends. General elections also helped in the growth in ad volumes in 2009.

The top 10 sectors accounted for ~60 percent of the overall TV advertising share during 2009. According to TAM Adex, FMCG contributed to 40 percent of the overall TV advertising volumes. FMCG categories included food and beverage, personal care and hygiene, hair care, personal accessories, personal healthcare and household products.

Top 10 sectors advertising on TV			
Top Sectors	2009 (% Share)	2008 (% Share)	Difference
Food & Beverage	14	13	+1%
Personal Care/Personal Hygiene	11	9	+2%
Services	6	6	-
Telecom/Internet Service Providers	5	6	-1%
Hair Care	5	5	-
Auto	4	4	-
Banking/Finance/Investment	4	4	-
Personal Accessories	4	4	-
Personal Healthcare	3	3	-
Household Products	3	3	-
TOTAL	59%	57%	+2%

Source: TAM Ad Ex

“Consumption kept the Indian economy going in 2009. Companies like Unilever, P&G, Marico, Cadbury’s, etc. helped in the television inventory consumption. Telecom players like Airtel, Vodafone, etc. have become the new FMCGs in terms of their brands and, by implication, advertising spends.”



– Paritosh Joshi,
CEO - Star CJ Home Shopping Network

10. Industry Discussions, TAM Adex

2009 saw the highest growth in number of brands being advertised on TV in the five year period. HUL with the maximum number of brands maintained its position as the number one advertiser on TV¹¹.

Top Advertisers on TV	Rank in 2007	Rank in 2008	Rank in 2009
Hindustan Unilever Ltd.	1	1	1
Reckitt Benckiser (India Ltd.)	2	2	2
Coca Cola India Ltd.	4	5	3
Cadburys India Ltd.	14	10	4
ITC Ltd.	12	4	5
Smithkline Beecham	9	8	6
Procter & Gamble	10	7	7
Bharti Airtel	6	3	8
Pepsi Co	5	6	9
L'Oreal India Pvt Ltd.	-	-	10
Vodafone Essar	34	9	-

Source: TAM Ad Ex

In telecom, BSNL 3G and Tata Docomo were the new entrants and Airtel maintained its position amongst the top 10 advertisers. In Auto, brands like Mahindra Xylo and Fiat Linea joined the list of new brands which started advertising in the second half of 2009. Audi and Volkswagen also came in and Volkswagen's TV campaign added to the growth of the advertising industry¹².

Ad volumes on TV increased, whereas the rates remained flat in 2009

In terms of volumes, TV advertising recorded a growth of 31 per cent in 2009 compared to the same period in 2008¹². The rates remained flat or dropped in the first half of the year. Also, compared to print, where the ad volumes have increased only marginally over last two years, TV has shown a healthy growth rate.

Growth in Ad volumes across TV, Print				
	2007	2008	2009	CAGR
TV - Duration of Ads in Hours (in'000)	94	114	149	26%
Growth %		21%	31%	
Print - Volumes in CC (in million)	172	177	183	3%
Growth %		3%	3%	

Source: TAM AdEx Data analysis

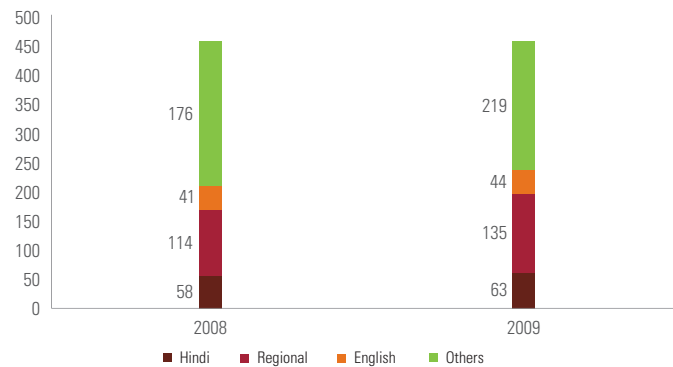
11. TAM Adex

12. TAM Adex data analysis

The ad inventories have gone up due to new channels being added and due to increase in commercial time per hour of programming. The trend of increase in ad volumes might see a setback due to the recent suspension of receipt of applications for new television channels by the Ministry of Information and Broadcasting (MIB) due to limitation of spectrum and transponder capacities. However, some inventory might be added due to the increase in Free Commercial Time (FCT) by channels.

There were new channels which were launched in the past two years in both the GEC and non GEC space. Hindi GEC saw the advent of Colors, NDTV Imagine, 9X and Real whereas the non GEC genre saw launch of channels like UTV Action movies in 2009 and Discovery Turbo and Discovery Science in early 2010. Twenty one new regional channels were added with comedy as a genre being explored for the first time in Tamil, Telugu and Kannada with three new comedy channels. The total number of active channels increased from 389 in 2008 to 461 in 2009.

Total Active channels on TV



Source: TAM; Others include channels which are not captured by TAM

FCT in the Hindi GEC space reached a level of 17 minutes per hour during prime time, up from 12 minutes in early 2000's. The break time has gone up from 10 minutes per hour to 14 minutes. Since FCT is already high, further growth for broadcasters is likely to come from their ability to command higher ad rates.

Time spent on Commercials (In minutes) per hour of programming during Prime time

	Promotional Time	Break Time	Total FCT
2000	2	10	12
2009	3	14	17

Source: KPMG Analysis, Industry discussions

Genres

More than 50 percent of the viewership share in HSM is dominated by Hindi GEC and movies combined. However, in the South Regional GEC alone captures close to 50 percent.

Viewership share (%) by genres									
Genres	All India			HSM			South		
	H1'08	H1'09	Difference	H1'08	H1'09	Difference	H1'08	H1'09	Difference
Hindi GECs	22	25	+3	34	36	+2.0	4	4	-
Hindi Movies	12	12	-	17	17	-	4	4	-
Hindi News	4.6	3.8	-0.8	7	5.7	-1.3	0.5	0.4	-0.1
Infotainment	0.9	1.1	+0.2	1.1	1.3	+0.2	0.6	0.8	+0.2
Kids	5.8	6.1	+0.3	6	6.8	+0.8	5.4	5	-0.4
Music	2.6	2.4	-0.2	3.6	3.2	-0.4	0.9	0.9	-
Regional GECs	26	24	-2	10	11	+1.0	51	49	-2
Regional News	2.6	3.4	+0.8	1.5	2.1	+0.6	4.4	5.8	+1.4
Sports	3.2	2.5	-0.7	3.6	2.8	-0.8	2.5	1.9	-0.6
Others	20.3	19.9	-0.4	16.2	14.1	-2.1	26.7	28.2	+1.5

Source: TAM TV Trends 2009 Report

Hindi GECs

Colors topped the GRPs charts with a differentiated content offering

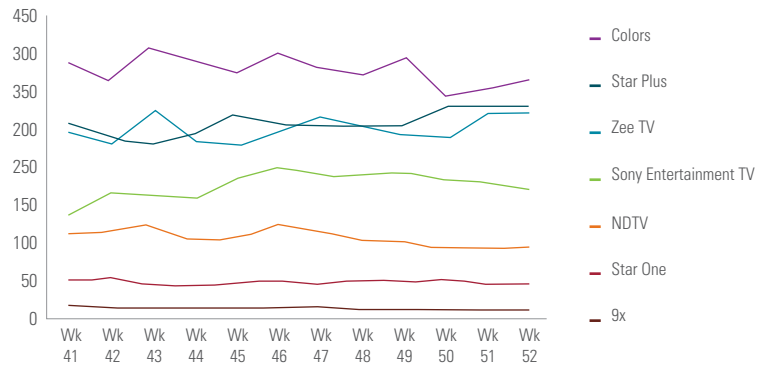
The genre saw the rise of 'Colors' to displace the leader 'Star Plus' in 2009. This came as a significant development as there are few similar examples in other genres. 'Cartoon Network' being replaced by 'Hungama' and 'Nickelodeon' in 2009 and a Bengali channel 'Star Jalsha' commanding leadership position in the market are cases in point¹³.

Given the fatigue factor that had set in with similar serials being aired across channels, 'Colors' brought about a differentiation in content with novel concepts and storylines. The channel not only became the leading channel for several weeks in 2009 but also continued its leadership with newer reality show formats. They also invested in airing new movies like 'Ajab Prem ki Gajab Kahani' which gained high TVRs from audiences and helped in maintaining leadership¹³.

13. Industry discussions, News Articles

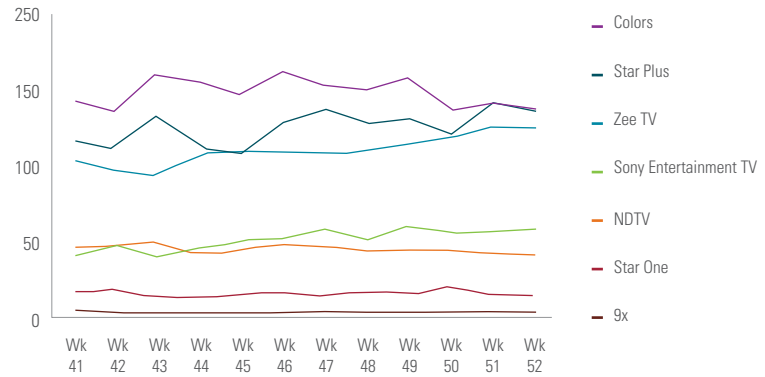


Gross Rating Points in Hindi GEC



Time: All Day
Source: TAM Peleometer System - TG: CS 4 + yrs - Market: Hindi Speaking Market, Period: 4th Oct to 26th Dec '09

'Primetime Gross Rating Points in Hindi GEC



Time: 19:00 to 23:00
Source: TAM Peleometer System - TG: CS 4 + yrs - Market: Hindi Speaking Market, Period: 4th Oct to 26th Dec '09

“When we entered the Indian Media scene, we were the 11th Hindi general entertainment channel to do so. We were already being written off as another mistake. But our 3 pronged approach to establishing our distinctiveness worked in our favour. We came up with a strategy which had three major cornerstones, namely the 3 Ds - Differentiation, Disruption, Distribution. We focused on providing differentiated content which laid emphasis on meaningful entertainment. We decided to use disruptive marketing and scheduling for giving audiences a fresh look at television. And finally, we devised a well thought of distribution process that helped us to place ourselves strategically in the neighborhood of the most viewed channel across maximum households of the country”



– Rajesh Kamat,
COO - Viacom 18 Group
& CEO, COLORS



Fiction v/s reality TV

Fiction remained the dominant genre, with films as the second most popular programming content type.

Percent Share by genres						
Genres	Duration of programming			Viewership		
	H1'08	H1'09	Difference	H1'08	H1'09	Difference
Serials	34	34	-	55	56	+1
Films	17	16	-1	13	15	+2
Reality	8	8	-	12	8	-4
Mythos	8	10	+2	8	8	-
Action	3	4	+1	2	3	+1
Film Based	6	3	-3	1	1	-
Others	24	25	+1	9	9	-

Source: TAM TV Trends 2009 Report

The year 2009 also saw the share of reality TV rising on popular GEC channels. Shows like 'Sach ka Samna', 'Khatron ke Khiladi', 'Rakhi ka Swayamvar', etc. targeted both the female and the male audiences. There were a host of reality shows which were different from the singing and dancing format that became popular in 2008.

In spite of the growth of new reality TV content, fiction still was the staple diet for Indian audiences. As per TAM, daily soaps still ruled the GECs in 2009. However, the kind of content being preferred took a turn from the popular 'saas bahu' shows in favour of socially relevant and localised / regionalised content. Starting from 'Balika Vadhu', 'Laado' and 'Uttaran' on Colors, to 'Agle Janam Mohe Bitiya hi kijo' and 'Aapki Antara' on Zee, there were a number of shows which addressed social issues. Region-based shows included 'Agle Janam...' (UP and Bihar), 'Pavitra Rishta' (Maharashtra), '12/24 Karol Bagh' (Delhi), 'Balika Vadhu' (Rajasthan) and 'Laado...' (Haryana)¹⁴.

"Advertisers are interested in newer markets in rural and suburban areas. TAM/DTH increased audience-meters in small town India making this market addressable for content creators. The content industry by making focused content is aggregating and delivering such audiences to interested parties. Net result is we see that you have casting in Bigg Boss from suburban UP, Punjab, shows as Balika Vadhu, Bidaai, etc. Clearly, these two factors viz. "advertiser search for newer markets" and "increase in viewer measurability" will deliver a structural shock – My belief is that there will be an emergence of viable niches (maybe, even within GEC channels) and content demand will be altered like never before – It is almost like the demand shift from restaurants in hotels to specialty stand-alone restaurants."

– Ankush K. Patel,

Corporate Development & Strategy Head - Endemol India

14. Industry discussions, News articles

There was a time in the industry when the highest rated shows could get TVRs as high as 20 points. This has now come down to almost half with top rated shows for 2009 like 'Balika Vadhu' (10.2 TVR), 'Uttaran' (9.6 TVR), 'Bidaai' (9.5 TVR), 'Yeh Rishta...' (8.1 TVR), 'Pavitra Rishta' (7.1 TVR) and 'Naa Aana Is Desh Laado' (7 TVR)¹⁵. There is growing amount of fragmentation in the industry due to introduction of newer genres and expansion of the channel universe

Content production costs declined

The year 2009 saw cuts in budgets to the tune of almost 15-20 percent¹⁶ and saw certain cost effective formats becoming more popular with content producers. In spite of viewers' growing acceptability and growing share of reality TV in programming content on GECs, content producers focused on producing fiction mainly due to their lower cost of production and ability to get higher GRPs. Reality shows are typically more expensive to produce and have not been getting TVRs as high as fiction, except in certain cases like 'Rakhi ka Swayamvar' which succeeded in getting the desired response for NDTV Imagine. It became the only reality show to have recorded a TVR of 8.4 in its final episode.

The business case for reality shows relies on multiple revenue streams in the form of SMSs, downloading of ring tones and caller tunes, product placements in shows, sponsorships by advertisers ('Lux presents Perfect Bride'),¹⁵ sale of merchandise, etc.



¹⁵. TAM, News Articles

¹⁶. Industry Discussions



“Reality shows are more for uplifting the brand image for the broadcaster and doing an association of the celebrity with the brand. These celebrity based shows don’t deliver the kind of TRPs required for the channel, beyond a point”



– Santosh Nair

COO - Television Content and Acquisition Sales,
UTV Software Communications Ltd.

Also, the production cost for regional content varies greatly compared to Hindi GECs and is as low as 1/10th in certain cases.

Average cost of production per half hour episode			
Hindi GEC		Regional GEC	
- Fiction	INR 8 to 10 Lakhs	- Malyalam Fiction	INR 0.70-0.80 Lakh
- Non Fiction (Without celebrities)	INR 25 Lakhs (Per one hour episode)	- Malyalam Mythological	INR 0.90 -1.1 Lakh
- Non Fiction (With single celebrity)	INR 1 Crore (Per one hour episode)	- Kannada Fiction	INR 0.85-1 Lakh
- Non Fiction (With multiple celebrities)	INR 2-3 Crores (Per one hour episode)	- Kannada Mythological	INR 1.60 – 2.10 Lakhs

Source: Discussion with content producers in the industry, KPMG Analysis

Regional GECs

GECs in regional languages, is an important segment in certain areas in terms of viewership potential. In the four southern markets (Tamil Nadu, Andhra Pradesh, Karnataka and Kerala) it captures almost 50 percent of the viewership¹⁷. At a pan India level, it became as strong as Hindi GEC in 2009. Regional channels have also done well in Maharashtra, Bengal, Punjab, Orissa, etc.

% share of viewership for Regional GECs genre									
Genres	All India			HSM			South		
	H1'08	H1'09	Difference	H1'08	H1'09	Difference	H1'08	H1'09	Difference
Regional GECs	26	24	-2	10	11	+1	51	49	-2
Hindi GECs	22	25	+3	34	36	+2	4	4	-

Source: TAM TV Trends 2009 Report

17. TAM TV Trends 2009 Report

“We have always known that the idea of India is one that is plural, where we have individuals at one end being proudly part of the Indian union and at the other end being fiercely proud about the sub part where one hails from. This was visibly evident in the television industry last year, while the big Hindi GEC players degrew, it was more than balanced out by regional market growth”

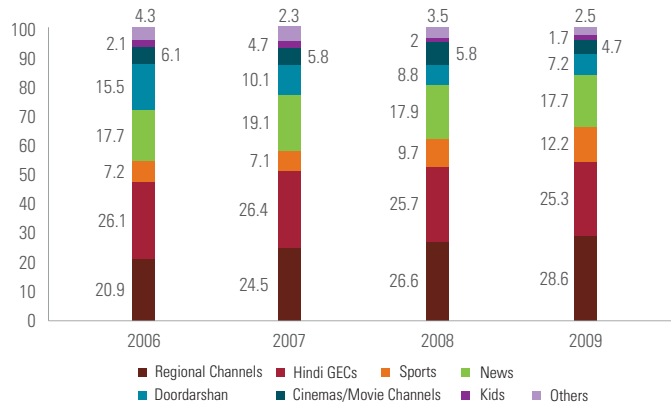


– Ajay Vidyasagar
COO - Sun TV Network

Regional channels gaining favour with advertisers

Even the advertisers are realizing the potential of regional channels and the ad spend on these channels has increased over the years. In 2009 ad spend on this genre increased to a level of 29 percent from 21 percent in 2006. This rise in share of regional advertising came about largely at the expense of advertising on Doordarshan which used to be the preferred medium for advertisers looking at a regional reach and Hindi GECs to some extent. Data from TAM suggests that ad volumes on regional channels increased by 12 percent in 2009 due to new channel launches and increase in FCT.

Genre-wise TV ad spends



Source: Avendus India Equity Research Report October 2009

These are also currently delivering effectively on a CPRP basis.

	Hindi GEC	Kannada GEC	Tamil GEC	Telugu GEC	Malayalam GEC	Marathi GEC	Bengali GEC
Avg CPRP	16000	2800	1800	2500	1000	2000	2000

Source: Data compiled by Mudra for 2009

Regional GEC Channels being added to the portfolio of national broadcasters

National broadcasters are looking at diversifying their portfolios and regional channels are becoming an important component for Hindi GEC players. Players like Zee and Star which started off with strong Hindi GEC channels, have now well established their regional operations. Zee has a strong presence in Bengal, Maharashtra, AP and Karnataka and is considering an entry into the Kerala market¹⁹.

“There is a huge potential for lifestyle content even in non metros; with increased aspirations and lifestyle goods consumption coming from tier-II towns”



– Seema Chakraborty
CEO - NDTV Lifestyle Limited

The strength of the southern market alone can be demonstrated by 1500 odd GRPs that Sun TV, which dominates the Tamil Nadu TV industry, commands. In comparison, 1100 GRPs are shared between some five players in Hindi GEC and the market leader at any point of time finds it difficult to gain more than 250-300 GRPs²⁰. The Sun network increased the rates of not only its flagship Tamil channel Sun TV in 2009, but also followed the trend in Telugu, Kannada and Malyalam GEC markets by hiking the rates for Gemini, Udaya and Surya channels respectively¹⁹. This is in contrast with the flat trend amongst national players.

Regional GEC channels appear to be a more viable business proposition as compared to Hindi GEC channels

For regional GEC channels, international distribution often provides an attractive source of revenue. NRI populations in the US, UK, Middle East and South East Asia are attractive pay-markets for leading regional GEC channels; ARPUs in the US, for instance, can exceed USD 10 per month per channel¹⁹.

Cost of operation, for regional GECs has, for the most part, increased over the last two years, though from a much lower base than their Hindi counterparts. Talent and production costs for many regional channels are still significantly lower than for Hindi GEC channels as are the cost of film rights. Further, with carriage and placement fee being limited in many regional markets, overall distribution cost for these channels has remained within control.

Lower operating cost, as well as the opportunity to earn attractive revenues from international markets, has meant that regional GEC channels can achieve break even more quickly than Hindi GEC channels.

News

The year gone by has not been good for both Hindi and English news segment as both lost share. This loss was compensated to an extent by the growth in regional news channels which reached a 3.4 percent share of All India viewership in 2009 from 2.6 percent in 2008. The share in the south reached 5.8 percent from 4.4 percent in the previous year. One of the challenges faced by the genre was the lack in differentiation of content across channels. According to the TAM TV Trends 2009 report, English and Hindi news saw the share of talk .

¹⁹. Industry discussions

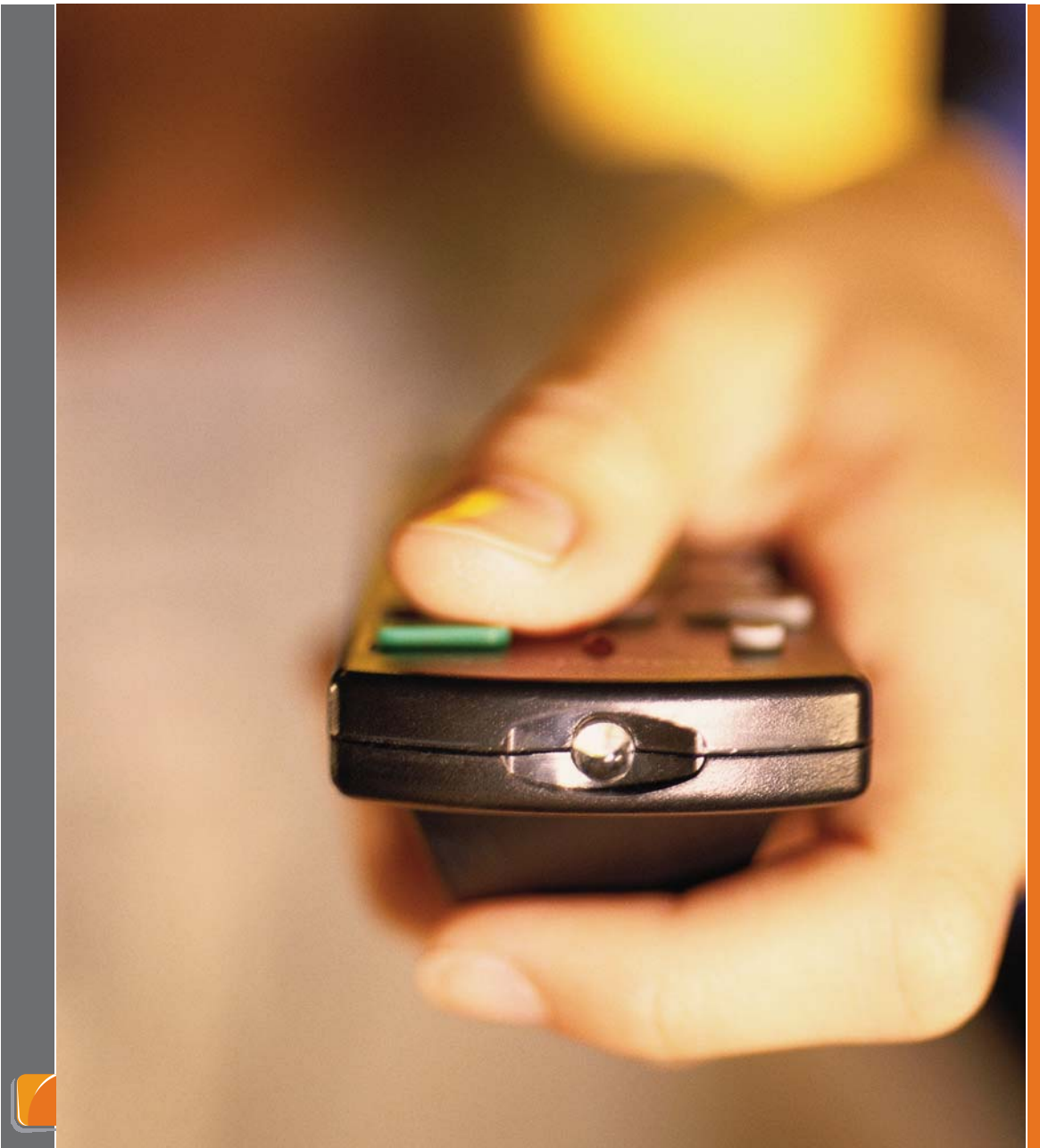
²⁰. TAM

and chat-based shows rising from 7 to 9 percent and 17 to 18 percent viewership respectively. At the same time, the General elections brought a steep increase in viewership for news channels across languages.

A comparison of popular channels in the Hindi GEC, Regional GEC and the news genre indicate the CPRPs of news channels being in the same range as Hindi GEC due to specific target audiences being catered to in the news.

Channel Type	Hindi GEC (Star Plus)	Regional GEC (South) Sun TV	Regional GEC (Other) Etv Bangla	News (NDTV India)
Avg CPRP @ 10 sec	25000	2500	1900	25000

Source: Data compiled by Mudra for 2009

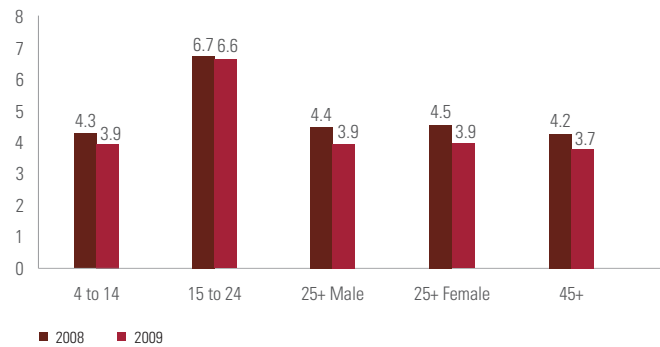




Music

The year 2009 has been a difficult year for Music channels with audience viewership share dipping across all age groups. The channels are finding it increasingly difficult to retain and attract interest from audiences due to growing competition from GECs and other genres. The maximum loss of share has been done in the over 25 age group.

Percent share of Music TV



Source: TAM TV Trends 2009 report

A new development which happened in the wake of falling performance by music channels is an attempt at repositioning by many channels. MTV took the lead by dropping 'Music Television' from its name, Channel [v] got 'Bloody Cool' as its new tagline and Vh1 also underwent rebranding in May 2009²¹. The channels like MTV and Channel V are focusing on non music content targeting the youth in order to create differentiation and attract viewers. Vh1 is following a more mass strategy as it recently announced it would air movies on Sundays, with ample repeats on weekdays.

Shift in programming content on Music Channels

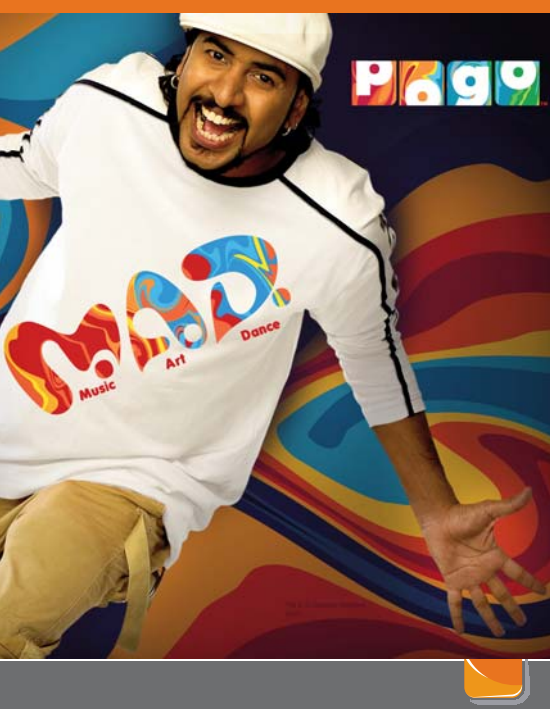
Content mix in 2009

MTV	30% Music; 70% Non Music
Channel V	65% Music; 35% Non Music
Vh1	50% Music; 50% Non Music

Source: News articles, Industry discussions

At the time their of launch, most of these channels were showing more than 90 percent music based content²⁰. This mix has changed significantly over the years as a conscious exercise to attract relevant set of audiences and hence more advertisers to increase ad revenues. This strategy has been successful in case of players like MTV which doubled its ad revenues over the last 2 years and Channel [v] which increased its share four-fold following the revamp²¹.

21. News articles



“The music broadcast genre has seen its players (including MTV and Vh1) evolving beyond just music. As the market grows, in the next couple of years, I foresee the return of strong dedicated music channels”



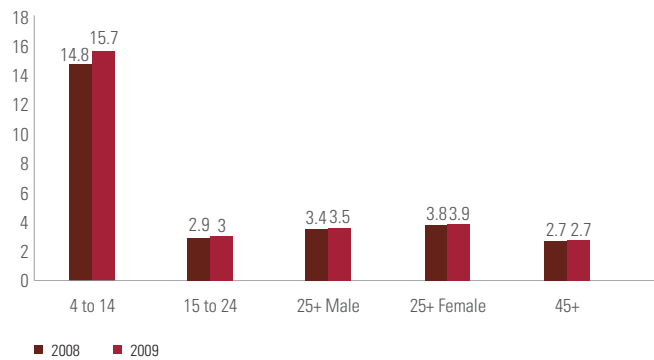
– Anuj Poddar

Senior Vice President - Viacom 18 Media Pvt. Ltd.

Kids

The genre showed growth in their All India viewership share across all age groups. A positive trend which emerged in 2009 for the genre was that apart from children, the channels manage to attract the 15+ age group and adult viewers too. Almost 30-35 percent of the viewership across Cartoon Network and Pogo were C&S 15+ viewers²².

Percent share of Kids channels on TV



Source: TAM TV Trends 2009 report

Kids channels also tried to create a 360 degree communication platform with channels like Cartoon Network, Pogo and Nick interacting with kids through websites, phones, polls, etc. Activation campaigns were run in schools, retail outlets, malls, cinemas, etc²². and marketing activities by these players helped in supplementing the content on channels. Another revenue stream which has been targeted particularly by the kids genre is merchandising as channels leverage the success of their shows and characters by sale of items with their branding like clothes, stationery items, games, etc. to kids.

Niche channels

There has been a greater acceptability for niche channels in 2009 such as lifestyle based channels (NDTV Good Times, Discovery Travel & Living), youth based channels (UTV Bindaas, MTV), channels focusing on male audiences (UTV Action), etc. However, what needs to be tested is whether advertisers would pay a premium for focused audience groups on these channels, similar to higher ad rates commanded by English newspapers with lower circulation but more focused segmentation in the print industry.

22. TAM TV Trends Report 2009

CPRP on 'Colors' during the year was INR ~18-20,000 whereas for a niche channel like NDTV Good times it was INR 1800^{23, 24}. With time, rates are expected to improve on niche channels but currently they offer a much more cost effective medium to advertisers looking to target a select set of audiences.

There is potential space for specialty channels based on crime, detective, lifestyle, action, etc. Sony is already doing an experiment in this space with their old show 'CID' by showing re-runs of past episodes. Currently India has only three lifestyle channels – NDTV Good Times, Discovery Travel and Living and Zee Trendz and four Infotainment channels – Discovery, National Geographic, Animal Planet and History channel out of a total of 461 channels being aired on television. This is in contrast to some of the other Asian economies like Hongkong, Singapore and Indonesia where almost 5 to 10 lifestyle and 10-15 Infotainment channels are present. Also, the number of channels being aired in these countries is much lower²⁴.

Percent of niche channels out of total channels in Asian countries			
	Lifestyle Channels %	Infotainment channels %	Total % of niche channels
Hongkong	4%	6%	10%
Singapore	6%	10%	16%
Indonesia	4%	9%	13%
India	0.7%	0.9%	1.6%

Source: News articles, Broadcast regulatory authorities in different countries, KPMG Analysis

“Given the low Pay TV penetration in several South-East Asian markets, a niche channel would need to be launched simultaneously in these markets in order to be able to gather critical mass. Localisation of content to some degree would also be required to gain acceptance among viewers”



– Lakshman Gupta

Head, Corporate Finance - Astro All Asia Networks plc

There might be scope for specialised content in future, but carriage costs remain a hurdle. Digitisation is expected to bring about a change to this situation. Niche content is expected to increase and channels are likely to continue to diversify and target customers better. Channels like MTV, UTV Bindaas, etc. which focus on youth genre are doing well because of their specialised content.

“Well branded specialty channels will grow in the near term and digitisation will impact them more favorably than general entertainment channels. Advertisers are increasingly seeking clutter breaking engagement opportunities and specialty channels are able to support them better. So premiums for brand engagement garnered by these channels will result in better CPRPs and revenues.”

– Suresh Bala

CEO - Zoom Entertainment Network Limited

23. KPMG Analysis

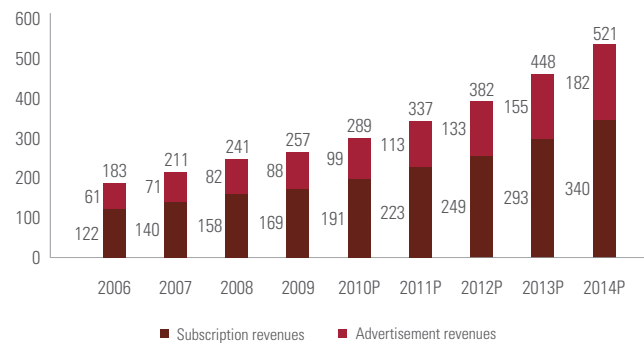
24. Industry discussions



Outlook for the TV industry

Overall the industry grew from INR 241 billion in 2008 to INR 257 billion in 2009 recording a growth rate of 7 percent compared to 14 percent last year. It is expected to reach a size of INR 521 billion in the next 5 years i.e. by 2014 at a CAGR of 15.2 percent. The growth in advertisement revenues is expected at a rate of 15.6 percent which is marginally higher than the subscription revenues growing at a rate of 15 percent.

TV Industry Size



Source: KPMG Analysis, Industry discussions

	2006	2007	2008	2009	CAGR (06-09)	2010P	2011P	2012P	2013P	2014P	CAGR (09-14)
Subscription revenues	122	140	158	169	11.4%	191	223	249	293	340	15.0%
Advertisement revenues	61	71	82	88	13.0%	99	113	133	155	182	15.6%
TOTAL	183	211	241	257	12.0%	289	337	382	448	521	15.2%
Ratio of Sub to Ad Revenues	2.00	1.97	1.92	1.92		1.94	1.97	1.88	1.89	1.87	

Source: KPMG Analysis, Industry discussions

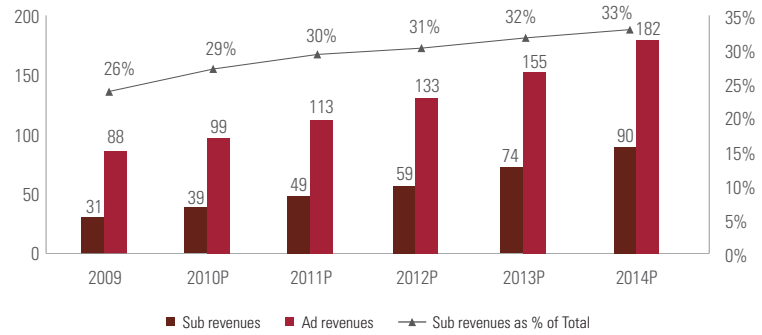
The growth estimates till 2014 are in a similar range as projected last year, as the underlying drivers remain the same, adjustments being an even faster growth in subscriber base for DTH and Digital cable platforms and lowering of ARPU expectations for distributors in the next 2 years. This revision has come about in light of industry dynamics as digital penetration is expected to happen at a faster rate and the hyper competition in TV distribution business due to multiple platforms and multiple players in every platform may continue to put pressure on ARPUs. The growth of 9 percent in market size which was expected for 2009 last year has come down to 7 percent, driven by the decline in subscription revenues for the industry due to reduction in ARPUs.

Broadcasting industry is expected to perform well in the next 5 years

The share of broadcasters in the total subscription pie is expected to go up from the current levels of 18 percent in 2009 to 27 percent in 2014²⁵. It is expected to be driven by digitisation which brings about more transparency in the declaration process. The share of subscription revenues in the top line of the broadcasters is expected to increase from the current level of 26 percent to 33 percent by 2014. Subscription revenues are growing at a CAGR of 24 percent compared to growth in ad revenues of around 15.6 percent.

25. KPMG Analysis, Industry discussions

Broadcasting industry



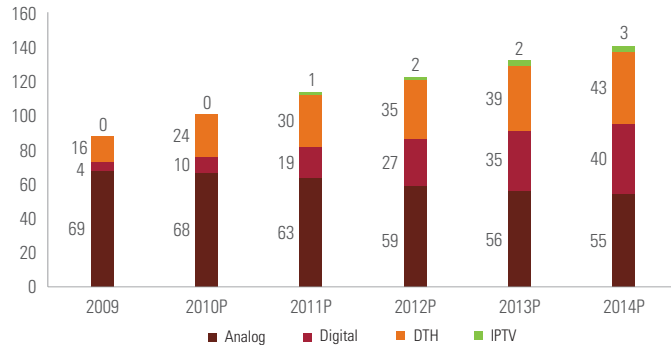
Source: KPMG Analysis, Industry discussions

The underlying forces behind the estimated market growth are set out below :

Growth in subscription revenues due to digitisation

The penetration for digital cable and DTH is expected to increase at a much faster rate than was anticipated earlier. The total number of DTH subscribers to be added in 2010 is expected to be ~8 million and it is expected to go upto 43 million subscribers by 2014. Similarly the subscribers for digital cable are expected to ramp up at a rate higher than DTH, due to the current low base and reach 40 million by 2014^{26, 27}. The analog base is hence likely to reduce due to the combined success of the digital platform.

No of Subscribers



Source: KPMG Analysis, Industry discussions

Digitisation cable has brought in clearly defined revenue sharing concepts and can be a platform where every stakeholder gets their due share. It is driven largely by consumers who demand superior sound and picture quality, an interactive medium and other value added services. The government in India could also mandate a sun-set clause for channels to go completely digital, like some other developed nations in the world. Currently, 2017 is the deadline for Doordarshan to go completely digital²⁷.

26. KPMG Analysis
27. Industry Discussions

“New platforms will pick up like mobile telephony, online, etc. as lot of people will take to it over next 5 years in spite of low penetration now. It just means there is more of the market to be explored. It can work out with technology providers providing gadgets (eg: mobile phones) to suit content viewing, or vice versa, content getting customised to new technology.”



– **Monica Tata**

Vice President and Deputy General Manager
Entertainment Networks, South Asia
Turner International India Pvt.Ltd.

Increasing competition in TV distribution space to put pressure on ARPUs

ARPUs are expected to remain flat in 2010 and grow marginally from thereon. Digital Cable ARPU is expected to remain higher than DTH owing to the two way interactivity in the medium which will help in growth in Value Addition Services (VAS), such as games, video on demand, etc. This can help drive revenues per user. DTH ARPU in 2009 came down compared to 2008 with increasing competition amongst existing players and entry of newer players at a lower price point. The ARPU for the platform is expected to be under pressure due to excessive competition, not only from other players but also from other platforms. The flat trend in prices can be compensated by growing subscriber base for the players. The current ARPU levels in the country vary between INR 85 to 450 per month across platforms and user groups.

ARPU	2009	2010P	2011P	2012P	2013P	2014P
Analog	160	160	165	165	170	170
Digital	160	160	170	180	201	226
DTH	150	150	159	169	189	211
IPTV	160	160	170	180	201	226

Source: KPMG Analysis, Industry discussions

“Pricing should be based on the effective price to cable consumers, as DTH customers are by and large the same. However, given the hyper competition, ARPU will be under pressure”



– **Tony Dsilva**

COO - Sun Direct

Regional channels are likely to drive growth in ad inventory and rates

With regional channels gaining acceptance and emerging as complementary media proposition, the growth in advertising revenues is expected to come from an increase in ad rates being commanded by these channels. With the current CPRPs for regional channels being quite low compared to the national channels, there is a potential for increase in rates.

The growth in ad inventory can come from FCT increase and addition of new channels if it is allowed by the ministry (MIB). The inventory utilisation is expected to improve further with the increasing number of advertisers showing interest in the regional markets. The growing purchasing power of these markets has made them attractive to advertisers.

Global ambitions of Indian companies

Broadcasters in India like Zee, Sony, etc. have displayed global ambitions. Colors was recently launched in the US and UK as Aapka Colors, and is planning to expand to Europe, South Africa and Canada in the next 4-6 months²⁸.

Currently, the content produced in India is being targeted largely at the diaspora in key markets in North America (US), Europe (UK), Middle East (UAE) and Africa (South Africa). Also, countries like Pakistan, Afghanistan, Bangladesh, Sri Lanka, etc. with their Hindi/Urdu speaking populations serve as markets. In the next 2-3 years the companies can expect to look beyond the diaspora and target the local viewers in these countries with customised content.

“There is interest in Indian content internationally, which goes beyond the Indian diaspora. E.g. Vir Sanghvi’s Asian Diary was one of the leading programmes in Asia”



– Rahul Johri

SVP & General Manager – India, Discovery Networks Asia Pacific

Key challenges and risks

Lack of transparency in sharing of revenues by distributors

The lack of transparency in case of analog cable systems has traditionally been a challenge for the broadcasters. Local Cable Operators (LCOs) still garner almost 75 percent of the subscription revenues due to under declaration of the subscription numbers, broadcaster gets around 20 percent and MSO gets around 5 percent^{29,30}. There is a possibility for this scenario to change to a more equitable sharing norm, only with higher penetration of digital platforms.

Carriage fee

As per industry estimates, carriage fee in 2009 was around INR 1000 to 1200 Crores, a reduction compared to 2008³⁰. The fee depends on the pull factor of broadcasters in terms of the kind of content produced, overall popularity of the channel and the bouquet that the broadcasters provide. The bargaining power of broadcasters is limited due to the shortage of bandwidth. However, it is expected that the onset of digitisation will make more bandwidth available to distributors.

28. News Articles, Exchange 4 media

29. KPMG Analysis

30. Industry discussions



“There is scope for specialised content, but steep carriage costs and limited subscription revenues have made it difficult for speciality channels to be profitable”



– Sunil Lulla

CEO - Times Global Broadcasting Company Ltd.

Competition amongst broadcasters leading to drop in GRPs for channels in the HSMs

The dispersion of leaders in the Hindi GEC space may impact the ability of all leading channels to hold ad rates and does dilute their negotiating position vis-à-vis advertisers. The competition is increasing from coming from newer show formats and genres with more focused content. The growing acceptability of niche channels and content is leading to fragmentation of TV viewers.

Increased competition in digital distribution industry

It is difficult to increase ARPUs in a scenario of intense competition within the industry. With six players operating in the DTH sector and increasing competition in the digital cable industry, the market is witnessing hyper competition. In DTH, the cost of acquisition for the established players is already high in the range of INR 2500/customer. New players will have to compete with this in order to capture the market share. Bharati has currently reported INR 5000/customer as their acquisition cost^{31, 32}. These might increase further with investments being made by MSOs and DTH operators in subsidising the set top boxes, installation, etc. for the subscribers.

The ARPUs for Dish TV at INR 135, the only listed player in the category is lower than the country average of INR 150^{31, 32, 33}. Due to the potential for increasing volumes, ARPUs are expected to remain in the same range or come down in next couple of years as distributors might settle for less in order to increase their subscription numbers.

Measurement systems

Though the current measurement system in the country captures useful information from 8000 TV households, the coverage is limited. The system is continuously evolving to cater to the diversity of the Indian market. Currently, the ratings are influenced by the trends followed in metros like Mumbai and Delhi and may not be descriptive of the entire nation.

TAM has undertaken several initiatives in the past few years that are now settling in well and helping in deriving long-term trends. In 2009, it introduced ‘semi-urban’ markets – Maharashtra Less-than-Class1, Bihar and Assam and local market reporting by extending the list of the top six metros to Pune and Ahmedabad. The initiatives also included splitting markets into finer units like Madhya Pradesh, Chhattisgarh and Punjab^{31, 32}.

TAM’s Digital Establishment Survey (DES) commenced in 2007 tracks the growth of the digital broadcast ever since its inception. It is undertaken across urban and rural India and captures data on digital subscribers such as platform ownership and source of awareness of digital platforms. Hence, the system is progressing in the right direction.

31. Industry discussions

32. News Articles

33. KPMG Analysis

Regulatory updates³⁴

Important developments	Key aspects	Industry reaction	Impact on the sector
<p>Consultation paper on Foreign Investment in broadcasting sector (in January 2010)</p>	<p>The consultation paper was issued by TRAI in view of Press Notes 2, 3 and 4 of 2009 ('Press Notes') issued by the Department of Industrial Policy and Promotion ('DIPP').</p> <p>TRAI has sought views on, inter alia, the following aspects:</p> <ul style="list-style-type: none"> • Need for a change in foreign investment limits earlier recommended by TRAI, in view of the new guidelines issued by the DIPP; • Need for adopting different methodologies for calculation of foreign investment in respect of carriage and content service providers in broadcasting sector; and • Need for additional safeguards in respect of those activities in which foreign investment limit of more than 49% has been prescribed, particularly when the new guidelines can be utilized to have effective foreign investment exceeding the prescribed limits. 	<p>There has been a mixed response from the industry with some players favoring status quo in respect of TRAI's earlier recommendations to increase the FDI limits to 49% and 74% in content and carriage services respectively.</p> <p>However, in the view of certain players, Press Notes enable higher levels of effective foreign investments. Accordingly, they have argued against any further increase in sectoral caps.</p>	<p>TRAI's comments seem to suggest that the Press Notes do not lead to higher effective foreign equity in areas where sectoral cap is up to 49% (on the basis of specific provisions relating to information and broadcasting sector included in Press Note 2 of 2009). However, an interpretation suggesting otherwise is also possible.</p> <p>While the Press Notes have been introduced with the objective of bringing clarity, uniformity and consistency, there are still some ambiguities and interpretation issues. Considering that media is sensitive sector, a comprehensive document from the Government addressing all the concerns is desirable.</p>
<p>Temporary suspension of receipt of applications seeking permissions for uplinking/downlinking television channels.</p>	<p>The reason for suspension has been attributed to limitation of spectrum and transponder capacities. The Ministry of Information and Broadcasting ('MIB') has sought TRAI's recommendations on the matter.</p>	<ul style="list-style-type: none"> • Satellite and teleport operators indicate availability of adequate C band transponder capacity. Accordingly, the reason for temporary suspension seems invalid. • Some industry observers have viewed this moratorium as censorship on media. It has been commented that the freedom to set up satellite channels is part of an uncensored press. As per an estimate, more than 50% of all existing channels are registered and authorized as News channels. 	<p>There are several cases where channel applications are pending with the MIB. This includes cases where approval has been accorded by the Foreign Investment Promotion Board ('FIPB') to foreign television channels.</p> <p>The suspension announced by the MIB has adversely affected the roll-out plans of the above proposals. Further, given the minimum net worth requirement as per the relevant MIB guidelines, the announcement may even cause a cash trap for the applicants in respect of their funds invested.</p> <p>Accordingly, there is an immediate need for clarification/ dispensation from the MIB in respect of the applications pending at different stages of processing.</p>

³⁴. Press Reports, Industry Discussions, KPMG Analysis

Important developments	Key aspects	Industry reaction	Impact on the sector
<p>Tariff regime for non-CAS cable areas to be formulated by end June 2010</p>	<p>The Supreme Court has granted TRAI time till end of June 2010 to work out a fresh tariff regime for cable services in non-CAS areas in consultation with the stakeholders.</p> <p>Earlier, the Supreme Court had held that MSOs and LCOs should continue to charge tariffs in accordance with TRAI's earlier tariff order until it formulates a fresh tariff regime.</p> <p>The Supreme Court's order had come in wake of an earlier TDSAT ruling rejecting TRAI's tariff order placing a ceiling on cable service charges.</p>	<p>The Supreme Court's direction to consult various stakeholders before fixing the tariff regime for non-CAS areas is a welcome move.</p> <p>The industry had earlier challenged the tariff order as 'arbitrary and discriminatory'. Non-transparency was one of the major reasons cited by stakeholders for unacceptability of the tariff regime released by TRAI in 2007.</p>	<p>Extension of time to finalize the tariff regulation should enable TRAI to formulate pricing regulations which not only benefits the consumers but also the industry as a whole.</p>
<p>Announcement of policy on Headend-in-the-Sky Policy ("HITS")</p>	<p>Key features of the policy include:</p> <ul style="list-style-type: none"> • Minimum net worth criteria for HITS operator placed at Rs. 10 crores; • Non-refundable entry fee of Rs. 10 crores to be paid and bank guarantee for Rs. 40 crores to be furnished for a period of three years • Foreign Direct Investment not to exceed 74% (with upto 49% under automatic route) • Cross ownership restrictions have been prescribed which prohibits ownership of more than 20% of total equity of a HITS operator by a broadcasting company or a DTH operator or vice versa. Further, similar restrictions have been placed on shareholders owning interest in such companies. 	<p>Policy announcement in relation to HITS has been long awaited by the cable industry players. The policy is considered as a level playing field vis-à-vis DTH platform for the first time.</p> <p>The announcement of the regulatory landscape in relation to HITS will boost digitization of existing analogue cable distribution in the country and is likely to enhance the carrying capacity of existing cable wires by 5 to 6 times.</p>	<p>There are several cases where channel applications are pending with the MIB. This includes cases where approval has been accorded by the Foreign Investment Promotion Board ('FIPB') to foreign television channels³⁵.</p> <p>The suspension announced by the MIB has adversely affected the roll-out plans of the above proposals. Further, given the minimum net worth requirement as per the relevant MIB guidelines, the announcement may even cause a cash trap for the applicants in respect of their funds invested.</p> <p>Accordingly, there is an immediate need for clarification/ dispensation from the MIB in respect of the applications pending at different stages of processing.</p>

35. As per estimates, the number of such pending cases aggregates to 170



Sectoral wish list

Removal of imbalance in government advertising

Television broadcasters consider the need for a change in the government's own advertising policy through Directorate of Advertising and Visual Publicity ('DAVP'). It is felt that the grant of advertisements by DAVP is disproportionately inclined towards print media even when television has evolved as a prime medium over the years with widespread reach.

Service tax on advertisement

It is proposed that sale of advertisement time-slots should be exempted from service tax.

Reduction of DTH license fee

There is a long standing demand of reducing the license fee for DTH players from 10% of gross revenue to 6% despite the recommendations from TRAI and MIB. Such reduction is also likely to benefit the ultimate consumer in the form of lower tariffs.

Impetus for IPTV services

As growth of IPTV services is directly linked with an increased broadband penetration in the country, the government should give impetus to the availability of broadband to the masses. This will also have a likely impact on the GDP of the country. Further, the government also needs to address certain policy related aspects, for e.g. rationalizing the foreign investment limits applicable to different players which can offer IPTV services in the country (being 49% for a cable network operator, 74% for a telecom operator and 100% for an ISP). Also, imposition of a net-worth limit of Rs. 100 crores on ISPs only is proving a major hindrance for them to provide such services.

Way forward

There is likely to be more rapid uptake of digitisation leading to entry of more TV channels into homes. The sector is likely to evolve in the "digital phase" as almost 60 percent of C&S homes are expected to be served by digital distribution by 2014³⁶. The regional channels are likely to continue to gain importance and at the same time the Hindi GEC market is expected to expand.

The growing competition due to large number of players being present in the DTH and the broadcasting sectors may not be sustainable and hence the industry may witness some inevitable consolidation. The year 2009 saw channels like 9X and Real going out of the market due to non performance³⁶. Similarly, other smaller players are likely to find it difficult to survive without progress in content and marketing strategy. Stakes on new product development and focused consumer research may increase greatly for broadcasters due to the plethora of options being made available to the viewers.

"2009 has turned out to be a well balanced year – without the excesses of 2007 and without the absolute pitfalls that many feared at the end of 2008. It has brought to the fore the strong and serious players that are here to stay with clear leaders emerging, whether it be on the distribution side or broadcast side. This will, in turn, set the base for much required consolidation and capital concentration and ultimately a healthier industry structure."



– Anuj Poddar

Senior Vice President - Viacom 18 Media Pvt. Ltd.

36. News articles, Industry discussions

“FLUX is the word that best describes the states of Indian Television Industry. Changes are various and unending - entry of more number of channels across genres, more variety of programming innovations, changing emphasis of commercial, promo and programming airtime, changing trends in TV consumption across regions of India ...



– L V Krishnan
CEO,
TAM Media Research

Technology will be the key and constant game changer. Fragmentation of delivery platforms - Terrestrial homes, analog homes and upcoming conversion of these into digital homes - are creating a wonderful mesh. Access to more TV channels and program variety across niche and mass audiences is another very interesting phenomenon that our industry is witnessing. Surge in Digital Homes and its impact on TV Viewing behavior (when compared with analog homes) is something that the industry should keep a watch on!”

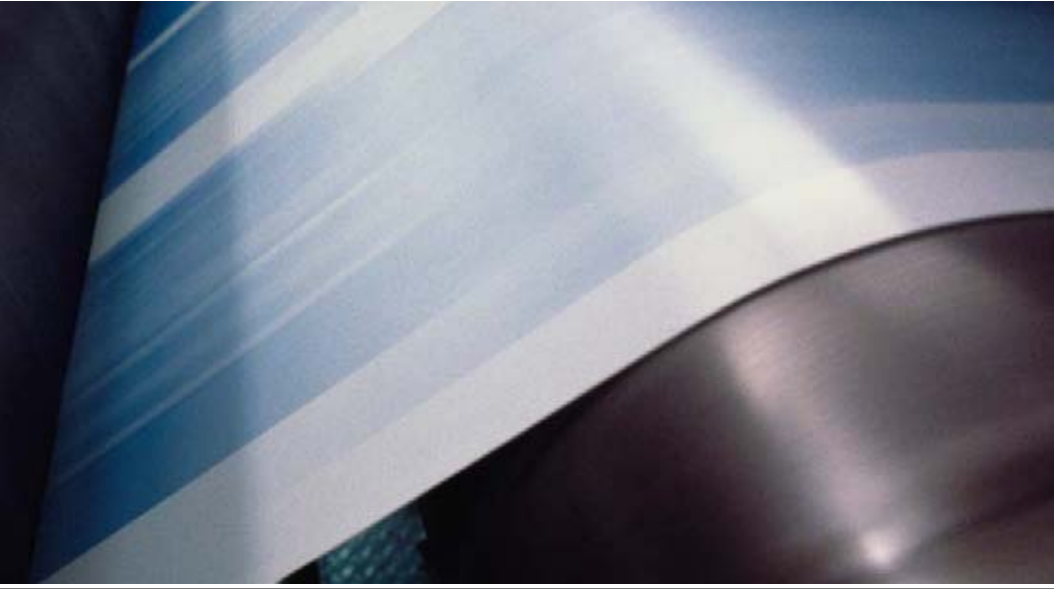
Key action points for the industry include

- The industry should continue focus to on digitalisation as it is essential to increase penetration. It helps in greater transparency and benefits all stakeholders in the value chain.
- Industry can take advantage from the growing importance of regional channels. Content can be more customised to suit the regional/local markets.
- The trend of dual TV households is likely to shift family viewing of television to more individual viewing and hence more focused programming may help to target niche audiences. Niche channels like Action, Lifestyle, etc. have the potential to grow in the future.
- Differentiation is likely to help in survival for TV channels. More finite story telling in soaps, good concepts, differential genres, interactive game shows, experimentation with newer formats and shows, exploring new talent, etc. can help to manage and compete with the growing number of shows, channels and genres on Indian Television.
- The focus of advertisers is likely to be on a 360 degree connect with consumer. This may give rise to a need for multi media campaigns like TV+Radio+Internet+OOH, etc. and hence broadcasters can look at expanding their portfolio of services or establishing tie ups with other players to offer packages to advertisers.
- The industry can look at exploring the international markets beyond the Indian diaspora as there is a demand for good content abroad.
- A continued focus on operational effectiveness and cost efficiency is likely to help in improving the overall profitability for the industry.



PRINT MEDIA

LOOKING TOWARDS THE GAINS
AFTER THE PAIN



PRINT MEDIA

LOOKING TOWARDS THE GAINS AFTER THE PAIN



India is the second largest print market in the world with a readership base of over 350 million¹. Internationally, the developed markets are witnessing slowdown in circulation and readership due to the high levels of digital media penetration, market saturation and changing media consumption habits. The Indian Print market, on the other hand, continues to be attractive primarily due to low level of Print media penetration currently, supported by increasing overall media penetration and low levels of digital media penetration.

However, the structure of the Indian Print Media industry is characterized by a high level of fragmentation and regional diversity. There are more than 62,000 newspapers printed, of which, approximately 92 percent consists of Hindi and other vernacular languages². English newspapers are primarily focused on the metro cities and urban areas, while Hindi and other regional newspapers primarily target the non metro population

Around 92 percent of the Indian Print market comprises Newspapers with Magazines comprising the balance 8 percent³. With low cover prices, newspapers are dependent on advertisement revenues which typically contribute around 70 percent of newspaper revenues with the balance being circulation revenues⁴. The mix is different for magazines with circulation revenues contributing to around 60 percent of magazine revenues due to the higher cover prices of magazines^{4, 5}.

The year that was – living under the shadow of the economic slowdown

The Indian Print Media sector is currently coming out of a challenging phase in 2009 when the economic slowdown resulted in a weak advertising market. This was reflected in the performance of the Print sector, which grew only marginally in 2009 as a decline in advertisement revenues were offset by growth in circulation revenues.

The second half of 2009, has brought hope with a general perception of improvement in the overall economy leading to signs

of recovery in the print sectors supported by a pick up in the advertising market.

Most of the key trends in the Print sector in 2009 were therefore linked to the impact of the economic slowdown and the measures taken by various companies.

Pressure on advertisement offtake, but regional print less impacted

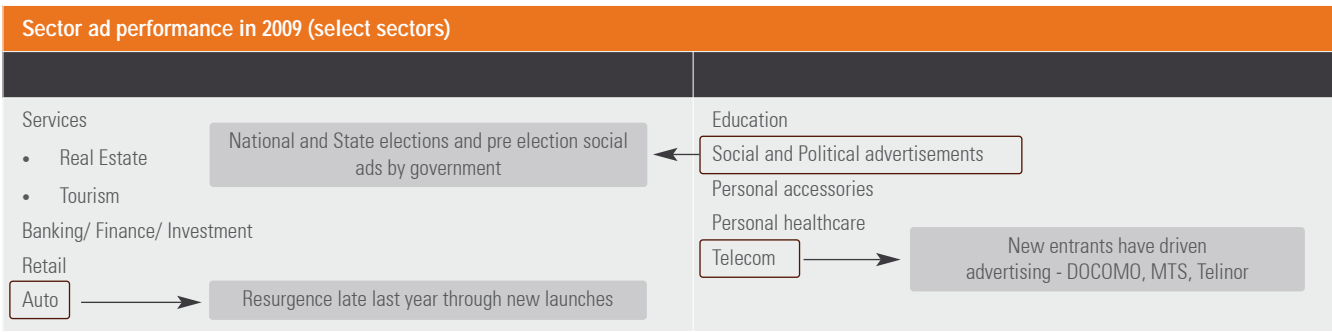
In 2009, top 10 sectors contributed to 64 percent of revenues of the Print sector. Education, Services, Banking/ Finance, Auto and Retail were the major contributors with a revenue share of 49 percent⁶. A snapshot of the major sectors contributing to Print advertisements is set out below.

Top 10 sectors contributing to Print advertisements in 2009

Sector	Percentage
Education	15%
Services	12%
Banking/Finance/Investment	9%
Auto	7%
Retail	6%
Durables	4%
Personal accessories	4%
Personal healthcare	3%
Corporate/ Brand image	2%
Textiles/Clothing	2%

1. IRS 2009, DB Corp Prospectus
2. Indian Newspaper Society, DB Corp Prospectus
3. KPMG projections table

4. Industry estimates
5. KPMG analysis
6. Exchange4media, Adex 2009



Source: Industry estimates, KPMG analysis

Sectors such as Banking/ Finance, Retail, Real Estate, and Travel and tourism, etc. were adversely impacted by the economic slowdown. Following reduced advertisement spends by these sectors in particular; Print advertising volumes grew only by 3 percent during 2009.

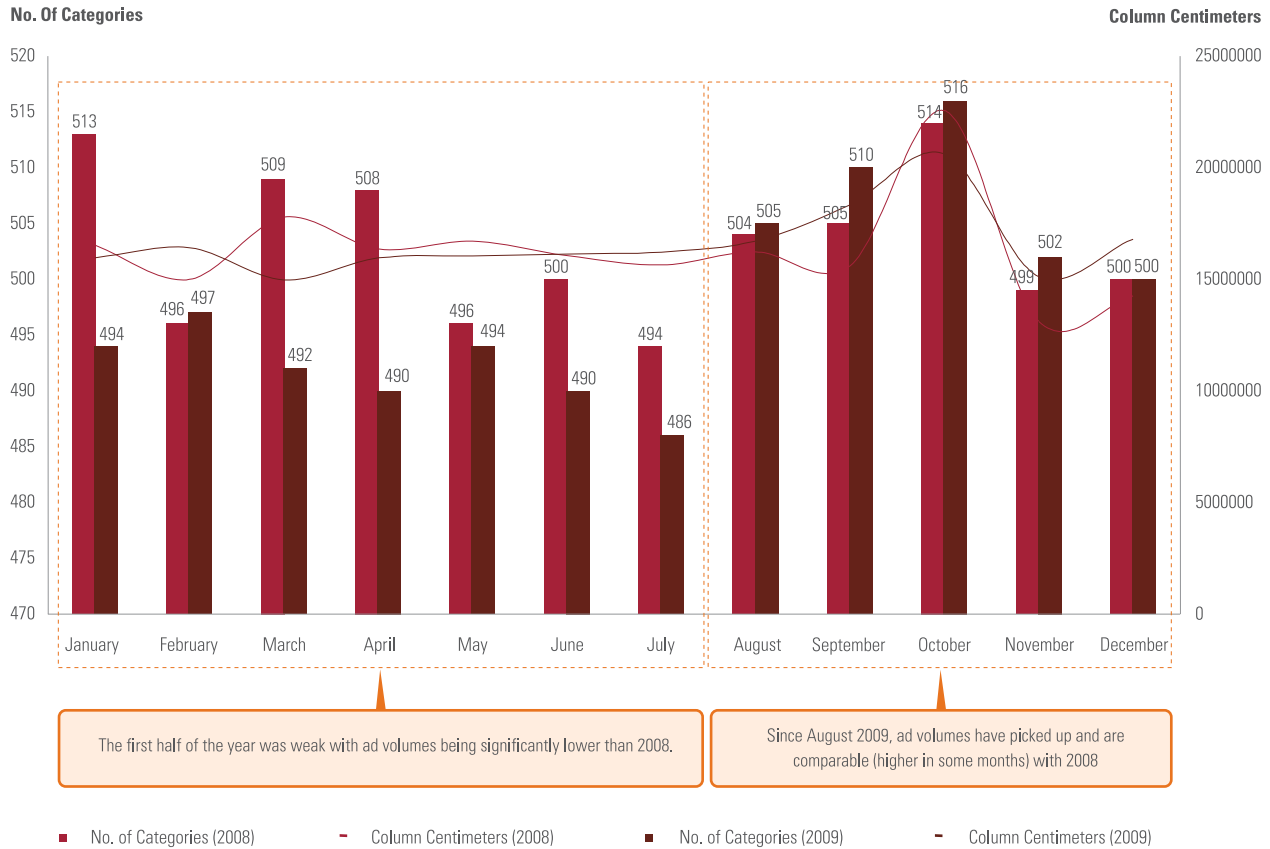
While the Services and the Banking/ Finance sectors saw a decline of 1 percent and 4 percent respectively, the Education and FMCG (personal accessories and personal healthcare) sectors provided some support with a growth of 5 percent and 31 percent respectively in 2009⁷.

In a weak advertisement market, social and political advertisements acted as a steroid for the media and advertising industry on the back of pre-election social advertising and national elections in April–May 2009 and assembly elections in various states held at various times through 2009. For example, the general elections saw an estimated advertising spend of approximately INR 8 billion with Print garnering around 40–50 percent share⁸. Additionally, the assembly elections also saw significant advertisement spends by political parties with Print and TV being the major recipients. Share of election advertisements increased from 0.8 percent of print advertisements in 2008 to 1.6 percent in 2009.

7. Adex 2009
8. News reports, Centre for Media Studies

The second half of the year has shown an increase in advertisement offtake supporting the positive outlook going forward as noted below:

Amount of Advertising on Print Medium - 2008 v/s 2009



The first half of the year was weak with ad volumes being significantly lower than 2008.

Since August 2009, ad volumes have picked up and are comparable (higher in some months) with 2008

■ No. of Categories (2008) - Column Centimeters (2008) ■ No. of Categories (2009) - Column Centimeters (2009)

Source: TAM, Adex

English newspapers bore the brunt of reduced advertisement offtake during 2009 given their higher exposure to Banking/Finance, Travel and Tourism, Real Estate, Retail and Auto sectors. Regional newspapers have a relatively higher exposure to more stable sectors such as FMCG, Education, Telecom, Social and Political and therefore witnessed lower advertisement volatility.

A higher proportion of local advertisements also helped protect regional newspapers from the worst of the effects. Regional newspapers typically tend to have more than 60 percent local advertisements as compared to less than 40 percent for English newspapers⁹.

Long awaited increase in cover prices

Average cover prices over the last few years were flat as any increase was offset as entry into new geographies were typically through cover price reductions. However, in 2009, with pressure on advertisement revenues, most players across the sector looked to increase their cover prices to stabilize its revenues. Industry estimates indicate that major newspapers increased cover prices by 15–20 percent on an average, with some newspapers increasing prices by close to 40 percent in some regions⁹.

9. Industry estimates



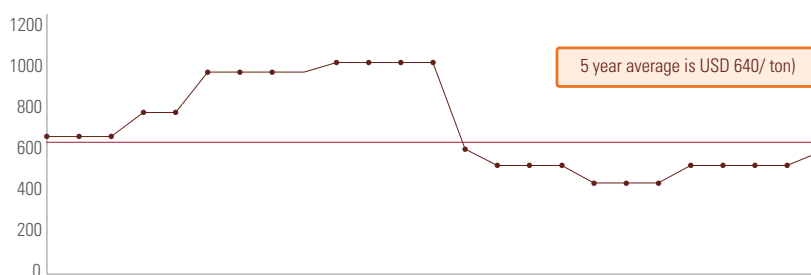
However, a continued increase in cover prices is unlikely as companies are likely to revive their expansion plans once the economy recovers. Further, any major growth in cover prices could adversely impact print media penetration

Volatility in newsprint prices

Newsprint costs comprise approximately 30-35 percent of total revenues and 50–55 percent of total costs of a newspaper^{10, 11}. Indian companies typically use a mix of imported and domestic newsprint with the imported to domestic ratio varying from 70:30 for English newspapers to 30:70 for Hindi and vernacular newspapers^{11, 12}.

Newsprint prices have been volatile over the last couple of years dropping from a high of USD 960/ ton in October 2008 to around USD 480/ ton in June 2009 with a subsequent increase since September 2009 to around USD 600/ ton in January 2010¹³. The price decline through most of 2009 helped newspaper companies to partially protect their margins from the tightening of advertisement revenues.

Canadian newsprint (imported - \$/ tonne)



Source: CRISIL Research

Newsprint prices in India are typically influenced by international newsprint prices, mix of domestic and imported newsprint in consumption, international oil prices (through impact on freight rates) and foreign currency fluctuations.

Newsprint prices had increased significantly in 2008 on the back of:

- high demand from China (Olympics) and US (presidential elections)
- supply constraints arising from shutdown of some newsprint manufacturing units in China and US¹⁴.

Subsequent decline in 2009 was on the back of capacity additions in China and Korea and surplus in North America and Europe due to decline in both domestic and Asian demand (historically, these regions are exporters to Asia). Continued demand from China and improving economic conditions has resulted in an increase in newsprint prices since September 2009¹⁴.

Industry players expect newsprint prices to increase at a CAGR of 10 - 15 percent over the next couple of years, with 2010 prices ranging between USD 625 – 650/ ton and 2011 prices around USD 675/ton¹².

10. Company financials
11. KPMG analysis
12. Industry estimates

13. CRISIL research
14. Industry discussions

“As demand picks up with improving economic conditions coupled with supply rationalization, we expect newsprint prices to rise to an average of USD 625-650 ton over 2010 and to be around USD 675/ton over 2011”



– Mohit Jain,
Times of India - Chairman,
Newsprint Association of India

Operational efficiency improvement measures across the sector

Strong industry growth pre 2008 had resulted in an inflated cost base across the Print industry. With the pressure on advertisement revenues and margins in 2009, most newspaper companies took the opportunity to optimize costs and improve operating efficiencies. Some of the more common measures taken include:

- While newsprint price decline provided some support, companies worked on optimizing newsprint costs through
 - reduction in overall pagination, reduction in number of supplements, closing down brand extensions, etc.
 - reducing consumption of imported newsprint in favour of relatively cheaper domestic newsprint;
 - improving internal efficiencies through increasing newsprint yields
- Most companies also attempted to manage their employee costs through salary freezes followed by salary reduction, downsizing, etc.

Other profit improvement measures undertaken included shutting down of loss making ventures, increasing subscription rates, travel freeze, lower marketing budgets, etc. These are reactionary measures and are likely to be temporary.

Muted expansion though some regional players continued to launch new editions

The 2009 was generally a year of caution with no major ‘big bang’ launches and most players deferring their expansion plans. However, some geographical expansions were noted, primarily by regional players, such as Rajasthan Patrika (MP expansion), Lokmat (Goa) and Hindustan (Allahabad and Bareilly). Among English newspapers, HT Media’s Mint was launched in Kolkata and Chennai, the Financial Chronicle was launched in Delhi, while the Times of India launched its weekend newspaper – the Crest. There were also some niche magazine launches such as Yuva, Sports Illustrated, Fortune, and the Lonely Planet, etc.¹⁵

15. Press Articles

A summary of the major launches and expansions in 2009 is set out alongside

Expansions and launches in 2009			
English newspapers	Regional newspapers	International	Indian
Mint - Kolkata, Chennai	Lokmat - Goa	Spectator	Yuva
Hindustan Chronicle - Delhi	Rajasthan Patrika - supplements in Bhopal, Indore and Jabalpur	Living etc	Careers 360
	Hindustan - Allahabad, Bareilly	Sports Illustrated	Shoes and Accessories
	Dinakaran - Delhi		Food and Nightlife
	Navbharat - Pune		Suriya Kathir

Source: Press Articles

Continued pressure on magazine readership, though some niche products have done well

Globally, magazine readership in most categories has been declining primarily due to free content availability on the internet, easy access to information from various sources and changing lifestyles making time availability a premium. Similar trends are being noted in India, with 9 of the top 10 magazines witnessing negative readership trends, as per IRS surveys during 2009 and 2008 (both Round 1 and 2). However, it should be noted that readership surveys may not be representative for magazines due to relatively small sample size and inadequate coverage of SEC A in metros.

Top10 magazines						
Magazine	Frequency	2008 R1	2008 R2	2009 R1	2009 R2	% Change
Saras Salil	Hindi fortnightly	97.8	84.6	73.7	66.3	(12.1)%
Kumudam	Tamil Weekly	74.5	70.1	66.6	64.9	(4.5)%
Vanitha	Malayalam fortnightly	59.8	57.4	60.0	59.7	(0.1)%
India Today	English weekly	68.7	61.6	58.2	56.3	(6.4)%
Kungumam	Tamil Weekly	73.8	66.7	61.0	54.3	(9.7)%
India Today	Hindi weekly	66.6	58.1	54.6	54.1	(6.7)%
Grih Shobha	Hindi fortnightly	N/R	N/R	53.6	50.4	N/A
Ananda Vikatan	Tamil Weekly	56.4	52.2	49.4	46.5	(6.2)%
Meri Saheli	Hindi monthly	59.2	54.5	49.5	46.4	(7.8)%
Pratiyogita Darpan	Hindi monthly	42.2	43.6	42.5	42.9	0.5%

Source: IRS

Though overall readership levels have been declining, some specialty and lifestyle magazines have shown growth between IRS R2 and R1. The readership of Femina Girl grew from 1.03 lakh readers to 1.72 lakh readers, while Elle grew more than 100 percent to 1.13 lakh readers and Outlook Money grew 25 percent to 1.05 readers. Further, other English publications with a double digit growth in readership included Society - 32 percent growth, Digit - 22 percent growth, Auto Car - 15 percent growth, Overdrive - 20 percent growth and Savvy - 23 percent growth¹⁶.

The interest in niche and speciality magazines is driven by:

- Changing socio-economic and demographic profile in India with increasing purchasing power among certain sections of the population, increasing composition of youth in the population and increasing brand consciousness

¹⁶ IRS R2, Press articles

- Increasing advertiser interest as niche magazines facilitate more targeted advertising
- 100 percent FDI being allowed in non news and special interest categories in print media, which prompted a number of international titles to be launched in India.

As a result, there continued to be interest in niche and special interest magazines in 2009 with some Indian launches such as Yuva, Career's 360, Technology Review etc and continued entry of international players into India such as Esteticaa, Spectator, Sports Illustrated, Fortune, Conde Nast Traveller, The Lonely Planet (in February 2010), etc¹⁷.

Outlook for the Print sector

Print industry size												
Advertising	69	85	100	108	103	(4.6)%	114	127	141	158	176	11.6%
Circulation	48	54	60	64	72	13.0%	76	80	84	88	92	5.0%
Total industry size	117	139	160	172	175	1.9%	190	206	225	246	269	9.1%
Newspapers	108	128	148	159	162	1.9%	175	191	208	227	248	9.1%
Magazines	9	11	12	13	13	1.9%	14	16	17	19	20	9.1%
Total industry size	117	139	160	172	175	1.9%	190	206	225	246	269	9.1%

Source: KPMG interviews, KPMG analysis

The Indian Print Media segment is estimated to have grown by two percent in 2009 to INR175 billion from INR172 billion in 2008. As a consequence of the continued impact of the economic slowdown from the latter half of 2008 onwards, print advertising revenues declined by five percent in 2009 with decline in advertising revenues of English newspapers being partially offset by growth in Regional print (albeit at lower than historical levels).

In 2009, while overall advertisement volumes of English newspapers declined by one percent, a higher exposure to adversely impacted sectors such as BFSI, Real Estate, Tourism, and Automobiles etc resulted in a significant advertisement revenue decline in English newspapers. Regional newspapers being impacted by a lesser degree grew by eight percent during 2009.

Circulation revenues grew by 13 percent as companies attempted to protect their margins through increased cover prices across segments. This is unlikely to continue and cover prices would rationalise to earlier levels over time especially with increasing competition and potential expansion by various players into new markets

In 2010, the overall Print market size is estimated to grow at eight percent to INR190 billion on the back of advertisement led recovery supported by partial economic recovery and release of pent up demand and advertisement budgets. Over the next five years, the overall print market is expected to grow at a nine percent CAGR to INR269 billion. Key drivers of growth would be:

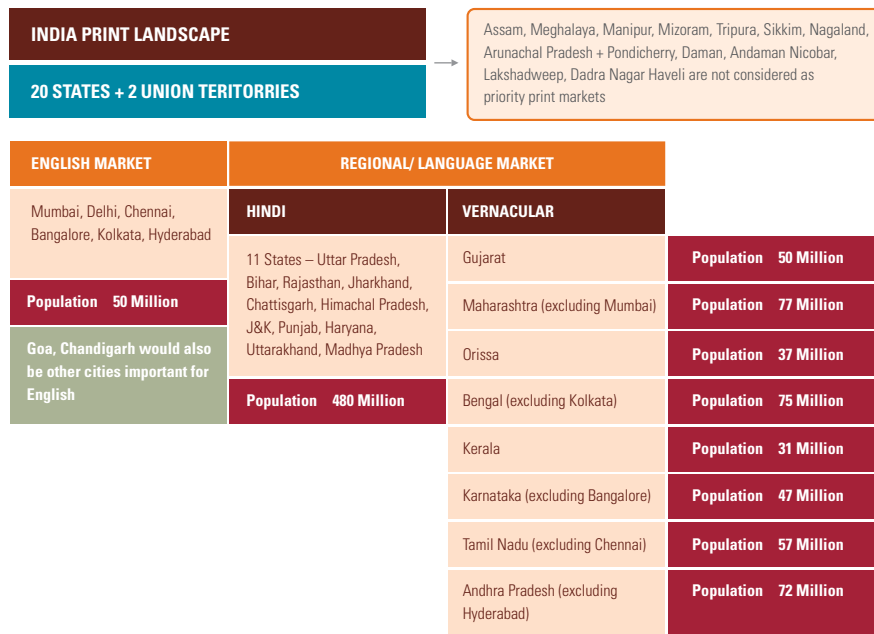
- Overall increase in adspend on the back of economic revival and growth in adspend to GDP ratio, which at 0.41 percent is lower than China (0.75 percent) and most developed nations¹⁸
- Increasing print penetration and reach especially in tier II and tier 3 cities supported by favorable demographics, increasing purchasing power and growth in literacy levels.

17. Press Articles
18. GroupM, TINY



Both the Newspaper publishing and the Magazine segments are expected to grow at a compounded annual rate of nine percent over the next five years and are projected to reach INR249 billion and INR20 billion respectively by 2014.

Growing strength of Regional Print



Source: Population data sourced from www.india.gov.in, http://www.india.gov.in/

Regional Print dominates the Print landscape in volume and readership

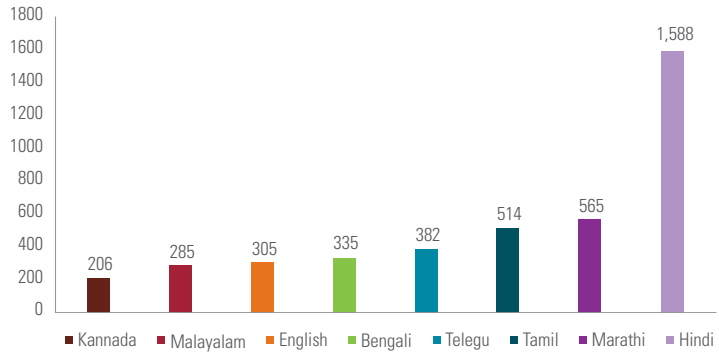
The Print landscape is dominated by regional newspapers which target a population of approximately 0.98 billion¹⁹. Of the more than 62,000 newspapers printed, around 92 percent are published in Hindi and other vernacular languages²⁰. English newspapers focus primarily on the metro cities with a population of approximately 0.5 billion²¹.

As a result, regional language newspapers also dominate the readership statistics with only one English newspaper (The Times of India) in the top 20 newspapers and none in the top 10 newspapers²². A comparison of the readership of top 5 publications in various major Indian languages (set out below) indicates that Hindi newspapers (159 mn readers) have significantly high readership as compared to English newspapers (31 mn readers). Further, even some of the vernacular language papers with largely state specific readers such as Bengali, Telegu, Tamil and Marathi have a higher readership than English newspapers.

19. Indian Newspaper Society, Press reports
20. Indian Newspaper Society, DB Corp Prospectus

21. Industry discussions, KPMG analysis
22. IRS 2009, R2

Readership summary by major languages (top 5 publications)



Source: IRS 2009, R2

“What’s national in print is really regional. And what is referred as regional is in more than one way a national print in sheer number of people reached or geographical coverage the Language print outscores on English print.”



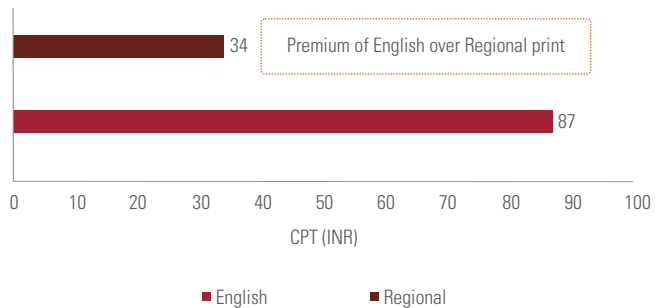
– Girish Agarwal,
Dainik Bhaskar

However, English Print earns an advertisement share disproportionate to its readership

While Hindi and regional newspapers dominate readership and circulation, English dailies dominate the advertisement revenues. Industry estimates indicate that advertisement rates in English dailies operate at between 5–10 times the rates for Hindi and Vernacular newspapers²³. English dailies cater to urban India, which has higher purchasing power and hence is the primary target audience for advertisers. On an average, it is estimated that English newspapers contribute to approximately 45 percent of the advertisement market, with Regional Print comprising the balance 55 percent share²³.

A comparison of the cost per thousand of English dailies with Hindi and Vernacular newspapers (for a sample of newspapers and regions) is set out below

Comparison of Cost per thousand



Source: Estimates from Mudra, Percept and KPMG analysis
Note: This analysis is based on certain sample newspapers, states and card rates

23. Industry estimates

The comparative robustness of Regional Print advertising was demonstrated in 2009

While, advertisement revenues of English print declined significantly during 2009, regional print advertisement revenues grew by approximately 8 percent, albeit at lower than historical rates. A comparison of the volume growth in advertisements is set out below

Comparison of advertising volumes by language			
English	59.5	58.6	(1.5)%
Hindi	48.3	54.8	13.5%
Vernacular	69.6	69.5	(0.1)%
Total	177.4	182.9	3.1%

Telegu newspaper advertisement volumes declined by 16% on the back of unrest due to political unrest. Volumes of all other languages grew in 2009

Source: Adtex

Regional print was largely insulated from the effects of the economic slowdown primarily due to:

- Regional newspapers have a higher share of advertisements from sectors such as FMCG, Education, Telecom, Social and Political, local Retail, etc. which were relatively stable. English newspapers were adversely impacted as major contributing sectors such as Banking/ Finance, Travel and Tourism, Real Estate, Retail and Auto significantly reduced their advertisement spends during the slowdown
- The comparative impact of the slowdown outside the major urban centers was lower, being primarily agriculture led and therefore influenced to a lesser degree by the services sector, which was the hardest hit. Further, going down into the rural markets, there was a positive impact of various government schemes such as the NREG programme and the ongoing Bharat Nirman rural infrastructure programme.

The future of advertising growth lies with Regional Print

Going forward, it is expected that Regional print will drive the overall advertising growth in the Print sector on the back of growing focus of established national advertisers across various sectors on the growth potential in tier 2/3 cities and lower socio-economic classes, which are the primary consumers of Regional print.

Increasing focus beyond urban markets by advertisers

- With the increasing saturation of major urban centers, various sectors such as FMCG, Telecom, Real Estate, Retail, etc. are increasingly focusing beyond urban markets and are increasing their advertisement spends targeted at these markets.
- According to a research commissioned by ASSOCHAM, rural areas are propelling the demand for FMCG with the FMCG sector in rural areas expected to grow by 40 percent against 25 percent in urban areas²⁴. For example, Godrej's rural sales have grown by 40 percent while urban sales have grown at 20 percent. The rural sector contributes 42 percent of total sales and is expected to rise to 50 percent in three years. Godrej spends approximately 66 percent of advertising and promotion spend on regional advertising with top-performing brands seeing high regional ad spends²⁵
- In Telecom, major urban centers are becoming saturated with a mobile density of 95 percent while rural markets have significantly lower mobile density at 17 percent²⁶. Telecom companies are therefore focusing on rural and smaller urban markets to increase their subscriber base. Idea Cellular, which had accumulated customer base of 58 million by the end of last calendar year, has witnessed that two out of three customers had been from rural market. Rural subscribers are now more than half of the total subscribers accumulated by Idea²⁷.

"Shift of the markets from metro to tier-II and tier-III towns is no longer a statement to be debated. Marketers are now focusing in this area. Hence where as the yield ratio; that is the cost of reaching audience through use of print, used to 12 times for English than for the regional languages in 2003, it has come down to 9 times in 2008 and we ideally feel the same would gradually come down to 3-4 times."



– Girish Agarwal,
Dainik Bhaskar

Significantly lower print media penetration beyond major urban areas

- While overall print media penetration is at 38 percent, there are significant disparities between urban and rural areas as also between various socio-economic classes²⁸. In urban areas, SEC A and B categories have high print media penetration and are closer to saturation levels, especially in the SEC A category. In rural areas, R1 category has the higher penetration with 69 percent which is much lower than the top layers in urban areas²⁸.
- SEC C, D and E categories in urban areas and other SEC categories in rural areas have very low print penetration and offer potential to increase readership and circulation.

24. ASSOCHAM, Press reports
25. Bloomberg UTV – 25 Nov 2009
26. TRAI – September 2009

27. www.ciol.com – 20 Jan 2010
28. IRS 2009, R1



Print media penetration in urban and rural India

Urban India	%	Rural India	%
SEC A1	94.0%	R1	69.0%
SEC A2	89.0%	R2	57.0%
SEC B1, B2	79.0%	R3	36.0%
SEC C	68.0%	R4	12.0%
SEC D	51.0%		
SEC E1, E2	29.0%		

Source: IRS 2009, R1

Increasing literacy and income levels also support growth of regional print

- As literacy levels in India grow, the impact would be first seen in rural markets where the literacy levels are significantly lower than those in urban markets. With a direct link between income and literacy, increasing literacy gives the advertiser the much needed new target audience
- Income levels across India are also expected to rise across various socio-economic groups. A vast majority of the growth will be seen in tier 2/3 cities and rural areas

As a result, the advertisement share gap and the advertisement premium of English print over Regional Print should narrow over time. However, they may not converge as English would continue to command a premium as it targets higher SEC categories which would continue to be attractive for advertisers.

“Whereas whole of newspaper industry was gasping completely strangulated by the huge amount of pressure on advertisement revenue as a result of one of the worst economic downturn in 2009, Regional Language press not only survived but also continued to progress and is again back to more than double digit growth trajectory. year 2009 was a testimony of our faith and Regional Media coming of age.”



– RK Agarwal, Jagran
Prakashan Limited

Key challenges and risks facing the Print Media segment

Increasing advertisement yields

- Prior to 2009, advertisement yields were growing across English and Regional Print. The year 2009 has witnessed an overall reduction in advertisement yields, which have now established a benchmark with advertisers. Most newspapers may therefore find it challenging to grow their advertising yields to the 2008 levels and beyond
- English newspapers witnessed the highest drop in rates with some English newspapers reducing advertisement rates by 15–20 percent²⁹. Further, across English newspapers the level of discounts over the card rates also increased. While the major Hindi newspapers did not reduce rates substantially, there were however a number of sales promotion schemes which reduced the overall yields.

29. Industry estimates

Regional newspapers need to increase monetisation of their reach

Monetisation of reach		
Category	Approximate reach (Millions)	Monetisation (INR/ person)
English	38	1,266
Regional	457	130

Source: (1) IRS 2009 R2, KPMG analysis

Note: (a) Reach pertains to top 10 newspapers, top 10 Hindi newspapers and top 5 newspapers each in major vernacular languages (b) Average revenues for each segment are based on total print advertising market split based on average revenue share

- Currently, most of the advertising revenues are generated from the metro cities for English newspapers and from limited cities in regional territories by the Regional newspapers. Broadening the local advertisement generation especially from smaller towns and cities and effectively monetising their reach is likely to be a key challenge for Regional Print going forward

Pressure on readership

- Between 2007 to 2009, readership levels of the top five English newspapers declined by 9 percent. Among regional newspapers, excluding the top five Hindi and Telegu newspapers, most other language newspapers also registered a decline during this period.

Print media penetration in urban and rural India				
Language	2007 R2	2008 R2	2009 R2	CAGR
English	369	305	305	(9.1)%
Hindi	1491	1593	1588	3.2%
Vernacular				
Bengali	368	344	335	(4.6)%
Kannada	250	222	206	(9.2)%
Malayalam	370	271	285	(12.2)%
Marathi	541	514	565	2.2%
Tamil	649	533	514	(11.0)%
Telegu	314	292	382	10.3%

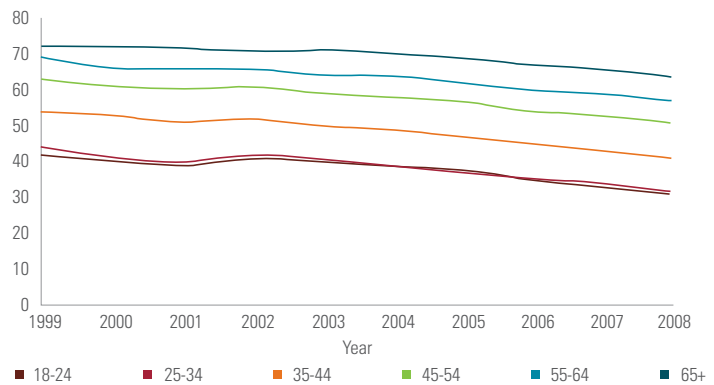
Source: IRS 2009

- This trend is already noted globally with Print readership in the US declining from 34 percent in 2006 to 25 percent in 2008^{30, 31}. Proliferation of TV channels and the internet has provided a number of additional ways for consumption of news to readers. Scarborough research survey in the US over the last 10 years also indicates a consistent decline over all age groups (refer chart below)^{31, 32}.

30. Pew Research

31. Press reports

32. Scarborough Research

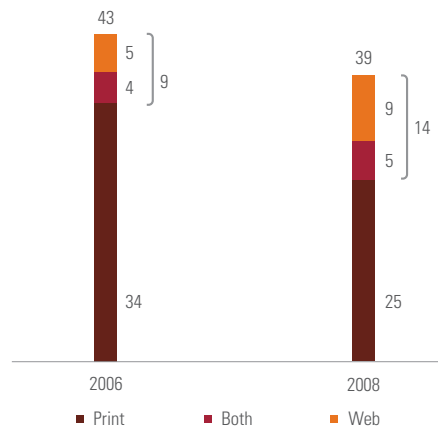


Source: Scarborough research survey, 2008

In developed countries, online news consumption is on the rise and has seriously dented print readership. Changing demographics with a larger proportion of the population being closely exposed to the internet has also weaned people away from print to the internet as a primary source of news. Advertisement is also under pressure with advertisers increasingly focusing on online sites for classifieds, appointments, etc.

As set out in the table below, in the United States, the proportion of people reading only print newspapers reduced from 34 percent in 2006 to 25 percent in 2008. During the same period, proportion of people accessing news on the internet (either exclusively or alongwith print) increased from 9 percent to 14 percent^{32,33}.

Newspaper Readership: Print and Online (US)



Source: Pew research survey, 2008

Further, the development of niche portals makes online an effective and cheaper way to reach the target audience as compared to newspapers. Globally, the sector has witnessed migration of advertising revenues from print onto online services.

This is not yet a serious problem in India primarily due to poor internet penetration across the country with only 14.6 million subscribers in September 2009³⁴. However, this could change as internet penetration levels in India grow over time. As internet penetration increases, online sources could start attracting readers and advertisers as in the west. Indian players need to prepare themselves to avoid such a situation at home.

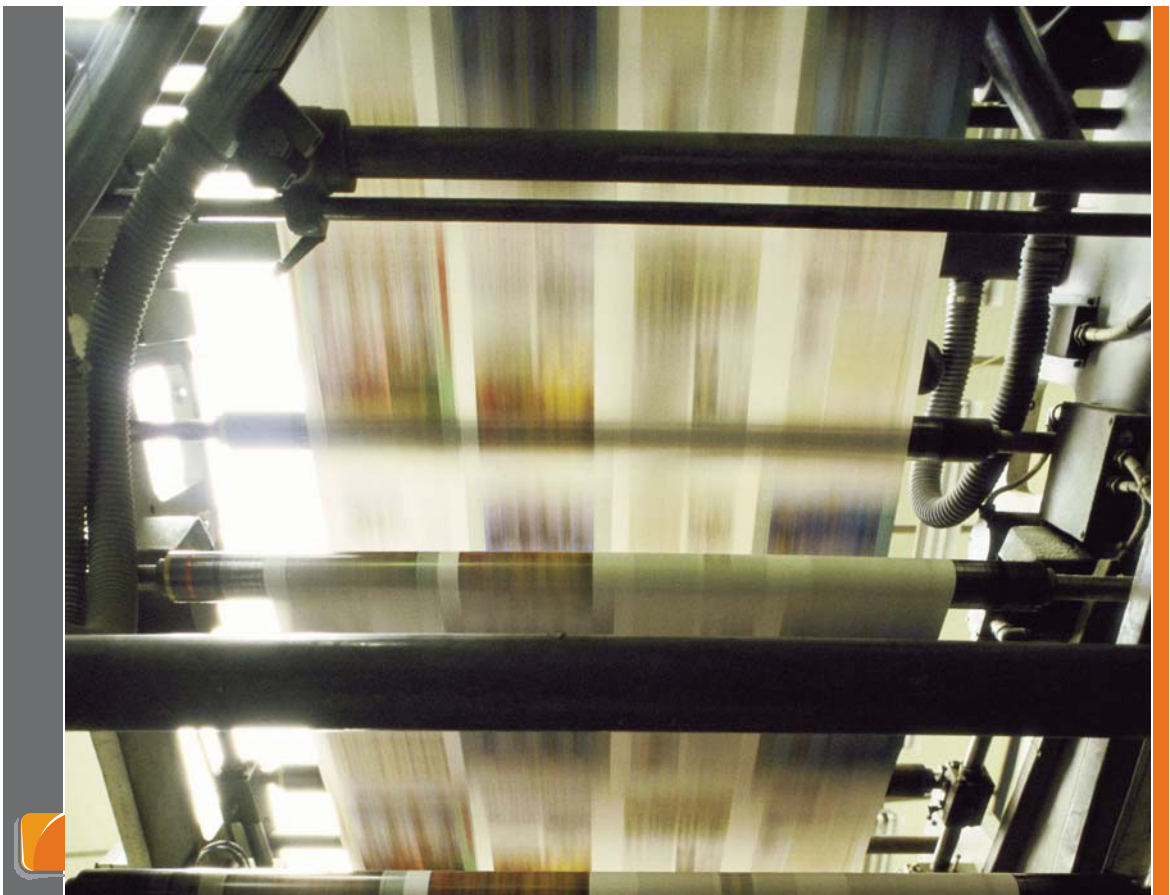
32. Pew Research
 33. Press reports
 34. TRAI September 2009

Another major concern is that the content is not compelling enough to create a sustainable 'pull' effect. Gap in nature of content relevant among various age groups has increased over time and it is increasingly difficult to attract audiences with standardised content. Additionally, with daily schedules becoming busier, consumers are prioritising tasks with reading news becoming a non priority task to many people.

Over time, TV and Radio have also emerged as cheap means of advertising in comparison to Print media. Proliferation of TV and FM Radio channels have meant that spots on some TV and Radio channels are being sold at significantly discounted rates. As a result, sectors and small and medium enterprises who initially have focused on Print advertising, are now finding these media affordable and are allocating portions of their advertising budgets towards TV and Radio. This impact was also felt in 2009 when a number of TV and Radio channel further reduced their advertisement rates. This could be a major challenge going forward as potentially sectors and companies may completely shift away from Print or may significantly reduce their Print advertising budgets.

Newsprint prices

Newsprint prices declined by 50 percent during 2009 from USD960/ ton in January 2009 to USD480/ ton in June 2009, but have been rising since then³⁴. Industry estimates a further increase in newsprint prices over the next year and continued volatility. Volatility in newsprint prices could threaten the margins of newspapers especially in the short term.



34. CRISIL Research



Way forward

The Indian Print media sector is emerging from a rough patch in 2009 and 2010 brings signs of recovery going forward. English newspapers bore the brunt of the economic slowdown with advertising revenues of English newspapers declining while Regional advertisement revenues continued to grow, though at a slower rate.

Some major positives in the year were margin support through lower newsprint prices and focus sector wide on improving operating efficiencies. While, the benefit of newsprint price reduction is temporary with prices already showing an upturn, the impact of improved operating efficiencies should have a longer term effect.

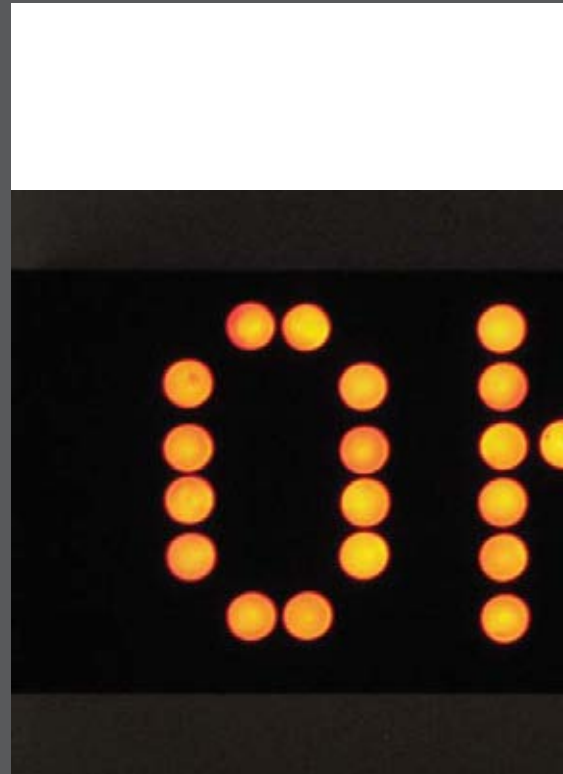
The year 2009 also reinforced the robustness of the Regional print market which continued to grow during the economic slowdown. Going forward, it is expected that the share of Regional print advertising is likely to grow given the increased rural focus of major advertising sectors, growth in literacy and income levels and increasing media penetration.

The key action points for the Print sector going forward are:

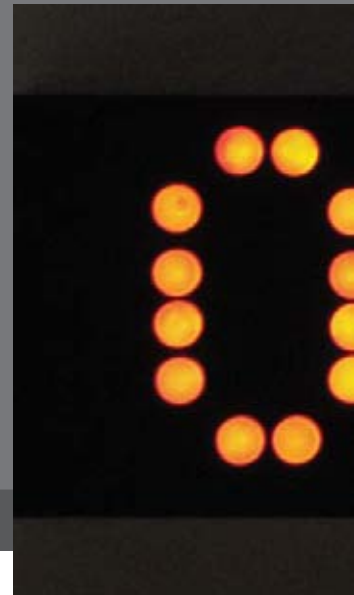
- It would be critical for the Print sector to recoup lost ground by addressing the decline in advertising rates and growing them back to at historic levels. This may prove challenging as there may be significant push back from advertisers
- The Print sector needs to focus on managing the readership decline through increasing penetration and also by increasing content relevance for various demographic sections and age groups. This is already a serious problem in developed markets which are seeing declining overall readership levels (after adjusting for migration to online readership)
- The Print industry needs to increase focus on online editions to tap into potential migration onto the internet. There is a consistent migration onto online news noted in developed countries, which though currently not a major concern in India, is inevitable as internet penetration grows. Given that increasing number of eyeballs will be viewing news online, monetisation opportunities of online editions requires more focus
- A continued focus is required on operational improvements and retaining efficiencies. There is a risk that as the economy improves some of the operational improvements may be lost and companies would revert to adding more flab
- Regional media needs to improve its profile among advertisers through improved product quality, innovative use of reach and bundling of services to provide advertisers with 'more bang for their buck'. This would be essential to narrow the gap in advertising share between English and Regional Print
- English media needs to focus more on localising the content in terms of relevance and attractiveness, continuing to add niche and special interest segments, etc. This would be essential to gain a higher wallet share from their existing markets and also to penetrate into the advertising share going to regional media.

RADIO

HIGH POTENTIAL, CHALLENGES
REMAIN







The year in review

Like other sectors in media, the private FM Radio industry was affected by the economic slowdown, declining by around 7 percent during the year (revenues for individual players either stayed largely flat or de-grew by up to 10 percent). However, the situation improved during the course of the year, with the industry returning to modest growth during the last quarter.

"We were relatively less affected by the recession, given our presence in smaller towns."



– **Harrish Bhatia**,
Business Head - MY FM

There was a significant drop in ad-rates, but this was to an extent offset by higher volumes, particularly in newer (non-metro) locations. Ad rates were hit in the second half of 2008 (severe impact up to Jan-Feb 2009), but stabilised post September 2009. Volumes started picking up after the first quarter of 2009 aided in part by the elections in April and May¹. The economic slowdown also encouraged a number of brands and advertisers to try the medium for the first time, given its cost effectiveness. Volume demand from existing categories also remained strong.

The effect of the economic slowdown was less severe on non metro markets, which were cushioned by demand from local advertisers. In addition, a number of national advertisers were also focusing on these markets, given their relative isolation from the slowdown.

"The industry in a more deregulated regime has existed for only five years, plus it is still governed by policies like an inability to own more than one frequency in a city – hence players have not had adequate time or opportunities to differentiate. It will take policy changes and time to invest in and develop differentiated brands"



– **Apurva Purohit**,
CEO - Radio City

Overall, the sector continued to turn losses. While some of the larger networks expect to break even over the next three years, cost structures continue to be a concern. Standalone and niche stations, with limited listenership, lower ad rates and volumes, in particular found the going tough.

The year also saw stations like Red FM and Fever repositioning in an attempt to differentiate and strengthen their brand. However, these are still early days for the industry, and it may take some time for brands and positioning to get clearly established. This is particularly since there is little differentiation possible on core content, given regulatory constraints that inhibit specialised stations and niche content.

1. Industry discussions, KPMG analysis

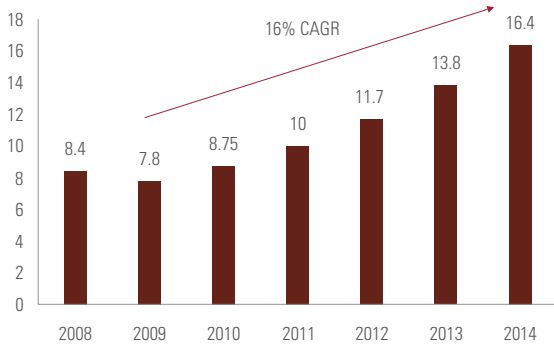


Sector projections

While there was a decline in the last year, due to the slowdown, the industry is expected to post robust growth, at a CAGR of ~16 percent over the next five years^{2,3}. The sector returned to growth during the last quarter of 2009 and, in the next few months, is expected to touch the high growth rates seen in the last few years.

In Phase 3, most of the new licenses are available in smaller towns leading to a large proportion of listenership and advertising growth coming from smaller towns in the long term. This includes smaller towns where licenses were offered under Phase 2, as well as towns where licenses are on offer in Phase 3.

Projected growth in industry revenues



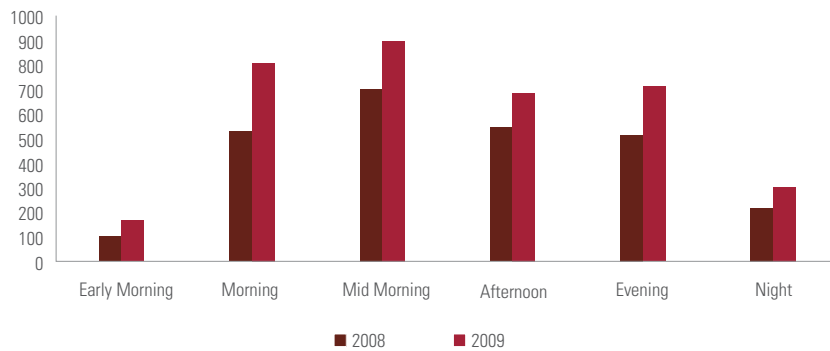
Listenership share	
	38%
	53%
	62%
	69%
	75%
	81%
	91%
	100%

Source: KPMG Analysis, IRS R1 2009

Radio still accounts for a small share of total ad spends in India, at around 3.5 percent³. With Phase 3 de-regulation, a number of new licenses are being put up for auction. More importantly, it is expected to lead to an improvement in industry cost structures (with expected policy reforms such as permitting multiple frequencies, and permission for networking programmes across stations) and hence profitability at radio networks. Further, radio is an evolving medium, and is gradually starting to gain acceptance with advertisers. These factors are expected to result in higher ad spends on radio going forward.

2. Industry discussions
3. KPMG Analysis

Growth in out of home listenership (across four markets tracked by RAM)



Source: RAM

However, over the medium term at least, a majority of the market (over 60 percent), both in terms of listenership and advertising potential, is expected to remain concentrated in the top 30 markets⁴.

Another key contributor to listenership growth is the usage of FM-enabled mobile phones. While FM listenership is still predominantly at home, listenership on mobiles is growing, driving out of home listenership. Industry sources estimate that usage of FM-enabled mobile phones accounts for over 20 percent of listenership, up from only 10 percent a couple of years ago.

However, further growth and an increase in the share of ad spends, to the ~8 percent of advertising spends range seen in international markets, requires the release of significant additional frequencies in key markets. Availability of these frequencies at reasonable costs could facilitate the emergence of clearly differentiated content formats, attracting both listeners and advertisers. Radio is still a nascent medium, and growth to 8 percent of advertising spends is unlikely to happen in the medium term.

“Growth in sales of FM enabled handsets has been a big contributor to growth in FM listenership”



– Prashant Pandey,
CEO - ENIL

In addition to on air ad revenues, events and activation continue to be an important segment for players, accounting for 10 percent to 15 percent of revenues⁵. Further, this is a strategic business, as it allows advertisers to connect with local audiences and create an experience through a combination of events and on air programming.

Key challenges and risks

Cost structures remain a concern for the industry given the high royalty payments, one time entry fees and restrictions on networking. This was exacerbated by the high marketing and promotions costs undertaken by most players in brand building in the initial few years.

4. KPMG Analysis, IRS R1 2009

5. Industry discussions, media articles



“Post Phase 2, growth in large cities happened largely in volume. Value growth did not happen.”



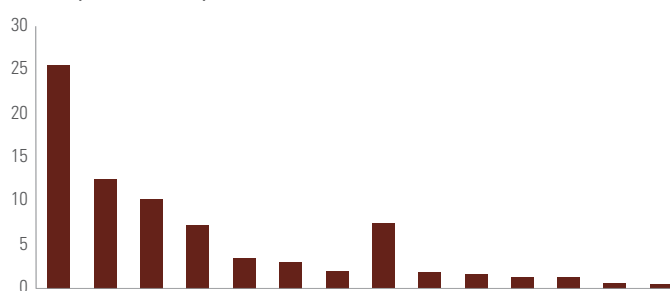
– S. Keerthivasan,
Business Head - Fever FM

Despite high growth over the past few years, radio still gets relatively less focus from advertisers. For example, TV is seen as the medium delivering on reach, while print and OOH are seen as delivering in terms of local targeting and tactical campaigns. Establishing a clear proposition for advertisers and media planners hence is a pre-requisite to achieving sustained growth.

Post Phase 2, with the entry of a number of new players, while there has been significant volume growth, value growth in key markets has been limited (overall value growth was largely on account of expansion to new markets). Even leading players have been hit by this market fragmentation.

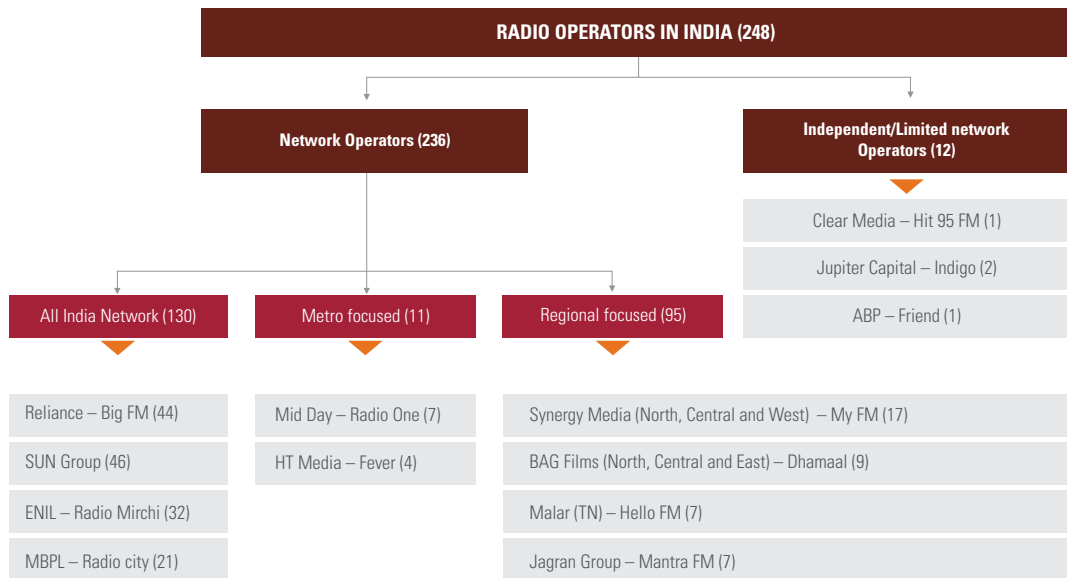
While the introduction of RAM (Radio Audience Measurement) in four key metros has created a common measurement system, concerns remain. RAM is currently available only in four cities. Both RAM and IRS (while this is structured as a readership survey, radio listenership is also measured), the two available listenership measurements have their limitations. Measuring audience composition is an additional challenge, making it difficult for stations catering to a niche audience to convince advertisers of their targeted reach. With the industry currently facing losses, willingness on the part of players to invest in an enhanced measurement system is low.

Listenership of radio operators



Source: IRS R1 2009 (Radio stations listened to in the last one week)

The industry is dominated largely by conglomerates with a network across the country. Niche stations with a limited network or standalone station, such as English language stations are finding their business model difficult to sustain. Given the inherently lower listenership of these stations, they are finding the industry cost structure particularly unviable. A network across cities, brand building, and retaining the best on air talent have emerged as critical success factors in the industry. This is making it difficult for independent stations to compete with the media conglomerates in the industry.



Source: Ministry of Information & Broadcasting, Analyst Reports, Industry discussions

Regulatory snapshot

The year 2009 saw much anticipation around the expected Phase 3 licensing. A significant number of licenses are expected to be made available. While some additional frequencies are available in the metros and large cities, most of the new frequencies up for bidding would be available in smaller towns, which may not be as attractive financially if prices are based on those of previous phases.

	Top 8 metros	Other top 30 cities	Smaller cities
Existing licenses	48	65	162
Unallocated in Phase 2	8	7	78
New licenses in Phase 3	3	22	>650

Source: KPMG Analysis, Ministry of I&B website



Hence the focus of the industry is around potential changes to regulation that could help improve cost structures.

1. Resolution of royalties issue: Radio operators are required to pay a high per needle hour rate to the India Performing Rights Society (IPRS) and Phonographic Performance Limited (PPL). The rate is fixed, regardless of the category of city or listenership of the station. Even for a large network, royalties may account for 10 percent or more of revenues^{6, 7, 8}. The situation is particularly challenging in smaller towns, where due to lower revenues, royalty payments make the cost economics unviable. Industry would prefer a move to a revenue share model, as in international markets, where royalty is charged at 1.5 percent to 5 percent⁹. Alternately, a flat fee structure, fixed for each category of cities is also being proposed. This issue is currently under review by the HRD ministry which governs copyright issues
2. Extension of license period: The high initial license acquisition cost has been one of the reasons for the poor cost economics of the radio business. Licenses acquisition accounts for a major share of the initial capital expenditure in setting up a network. Industry is looking for some relief on this, in the form of an extension of the license period from 10 to 15 years
3. Permission for multiple frequencies for operators: As incremental costs are low for setting up an additional station in a city, multiple frequencies could help improve cost structures. In particular, large operators, given their better financial viability, may be able to leverage this to set up second stations. With few additional cities available in metros and key cities, this could also drive consolidation in the industry
4. Increase in the total number of frequencies in each city: Over the long term, industry feels that this could help reduce the entry costs for players and make focused or niche formats viable. This is likely to help further enhance radio listenership and increase its share in ad spends to the ~8 percent levels seen in international markets^{6, 7}.
5. Permission to broadcast news and current affairs: This could help expand listenership. However, news content is likely to be restricted to content sourced from the national broadcaster, Prasar Bharati. Given the low viability of niche models, and the content restrictions, this is unlikely to result in dedicated news channels. However, this could lead to the incorporation of news and current affairs into existing programming formats
6. Permission for FM radio broadcasters to network within their own network, across categories of cities.

In addition, there is interest around changes in regulation that can help bring in more investments into the sector, particularly from foreign players. These include the proposed revision of the limit on FDI from 20 percent to 26 percent and permission for granting usage of corporate brands for radio stations. While an increase in the FDI limit to 26 percent is currently proposed, a further increase in the limit (given the higher limit in other media sectors) could encourage renewed/increased investment from foreign players⁷.

6. KPMG Analysis,
7. Industry Discussions

8. Company Annual Reports
9. AROI – Music Copyright Roundtable 2009

Expected evolution

Once multiple frequencies are permitted, larger operators are looking to set up additional stations in cities. Initially, these are likely to be in the form of second language formats in the same city. Other formats could also emerge targeting different age groups, cultures or based on genres of music. Even with permission for multiple frequencies, niche formats are unlikely to emerge unless a significant number of new frequencies are made available. Music is also likely to remain the main stay content for radio. News, current affairs, talk based stations are unlikely to emerge over the medium term, although some programming based on these could be integrated in the existing music-based stations.

“If the one time license acquisition cost continues to be high, and licenses in key metros remain limited, getting into niche/ focused content formats will remain a challenge”



– Prashant Pandey,
CEO - ENIL

FM Radio in Malaysia – high number of frequencies drives listenership and ad share

Around 30 FM stations are available in cities like Kuala Lumpur and the surrounding Klang Valley. This has resulted in the high reach of radio, with nine out of ten people aged 10 years and above tuning in every week. This has also resulted in significant growth in the sector, with its share of media ad spends increasing to around 6 percent. Another key impact, has been the emergence of focused formats, targeting languages and cultural groups (Malay, Chinese, Tamil, English), demographic groups (youth) as well as specific content formats (talk, news).

Source: Nielsen Radio Audience Measurement (RAM)

Permission for multiple frequencies could also drive consolidation in the industry, with larger networks acquiring independent stations or smaller networks.

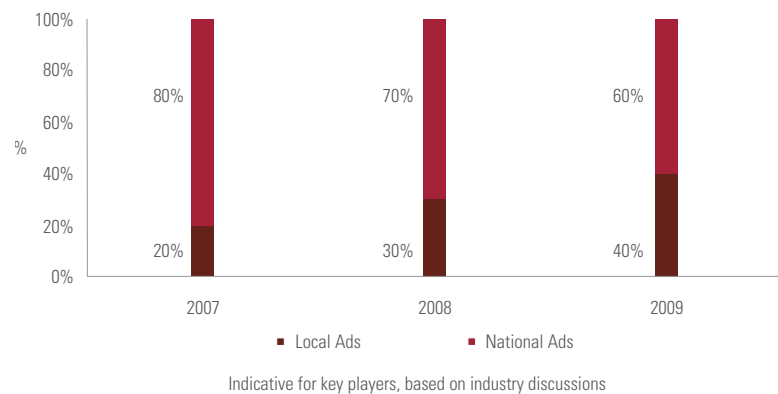
Industry players and even advertisers are starting to recognise that Radio has unique benefits as compared to other media. Radio is a local medium and can deliver locally relevant content. It generates a high degree of interactivity with the audience and is hence effective for promotional campaigns. Radio is also a good complimentary medium to television. As these benefits of radio are recognised, and it develops a clear proposition for advertisers, its share of ad spends is expected to grow.

“Given that there are limited new frequencies up for sale, permission for multiple frequencies could drive a round of consolidation in the industry”



– Apurva Purohit,
CEO - Radio City

Share of ad revenues from national and local ads



Source: Industry discussions

“Value in radio will grow largely from new and retail advertisers. People are realising that radio is a local medium.”



– S. Keerthivasan,
Business Head - Fever FM

As in international markets, the share of local and regional advertisers for radio is increasing. While national advertisers still dominate radio, players are seeing the share of local advertisers increase. In addition, national advertisers like telecom and FMCG players, are also increasingly focusing on tier 2 regional markets, and are starting to leverage radio as a local medium. This could increase the importance of having strong regional and local sales teams for radio operators going forward.

Growth is also expected to be driven by new categories of advertisers such as real estate players, educational institutes and local retail, which may not have used television and other media in a big way.

Key Advertising categories on Radio			
Top 10 Categories share of voice (%)	2006	2008	2009
Cellular Phone Services	3	7.8	7.0
Independent Retailers	3	7.0	6.3
New licenses in Phase 3	-	4.3	5.9
TV Channel Promotions	11	8.9	5.8
Real Estate	7	5.8	3.8
Jewellery	3	2.5	2.8
Educational Institutions	-	1.4	2.6
Election Campaign	-	0.6	2.3
Insurance	-	2.2	2.3
Pan Masala/ Zarda/ Gutka	-	1.2	2.3

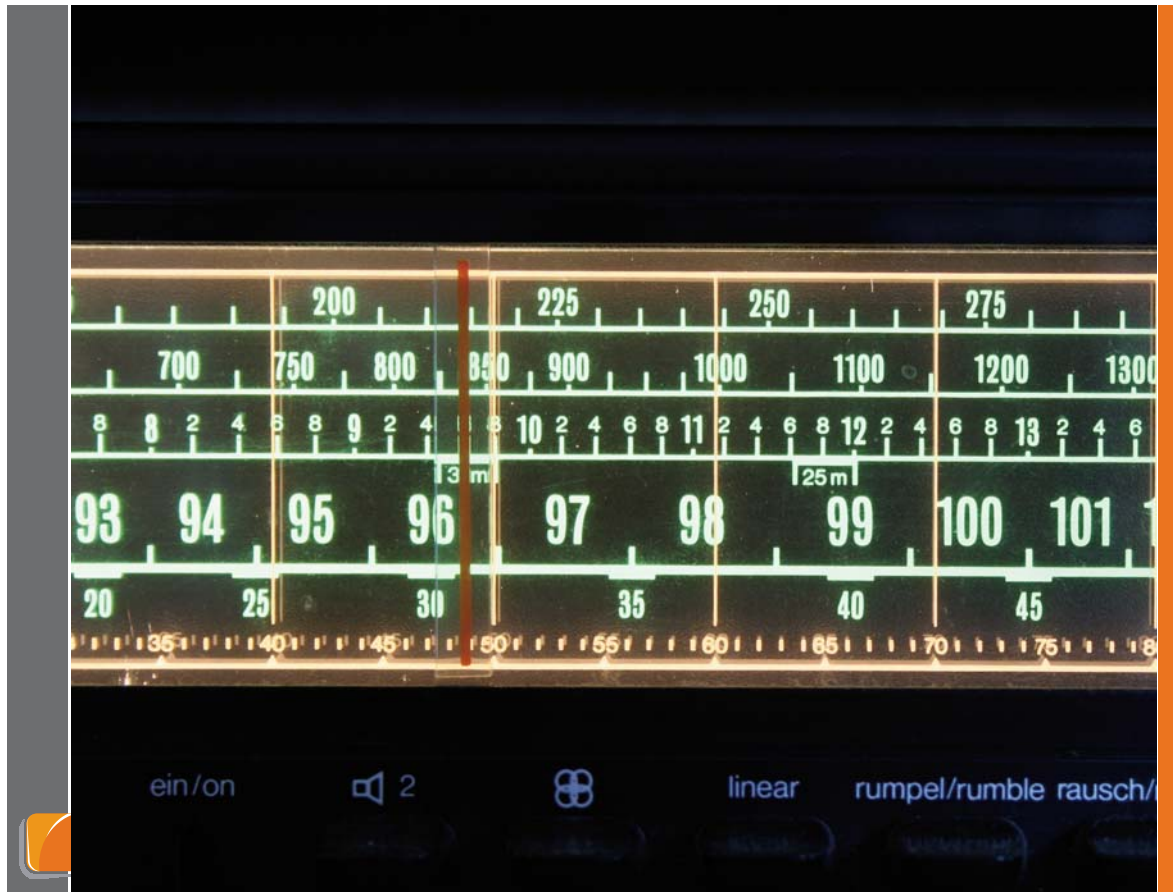
Source: TAM Adex

Challenges

Cost structures remain a concern for the industry, and progress on the regulatory front in terms of addressing the royalties issue, extension of license period, permission for multiple frequencies and the removal of restrictions on networking is critical. Without these interventions, the industry may find it difficult to be financially viable, hence limiting participation in Phase 3 licensing. Further, as most of the new licenses available are in smaller towns, interest in these licenses is likely to be limited unless cost economics improve.

With expectation of improved cost economics driven by changes in regulation post Phase 3, there could also be interest emerging in this sector from new players. For example, foreign media houses, regional print and regional media players could target the sector. With few additional licenses available in metros and large cities, this could substantially drive up license acquisition costs in these locations.

On the measurement front, there are preliminary plans to set up electronic measurement based systems and expand coverage, but it also depends on the ability and willingness of the industry and advertisers to invest in measurement.







MUSIC

DIGITISATION STRIKING
THE RIGHT NOTE



MUSIC

DIGITISATION STRIKING THE RIGHT NOTE



Indian music industry

The digital revolution is here to stay, and music companies across the world, including India, have begun to adapt. The initial reluctance was understandable – after all, the digital medium has upturned entire business models. With physical sales diminishing year after year and digital downloads rising in popularity, music companies are finally accepting the new reality.

Factors such as increasing mobile handset sales, imminent 3G auctions and impending Phase III radio licencing, have further necessitated that music companies adapt to newer business models or risk the threat of extinction.

Size of the Indian music industry

India has a large addressable market of music consumers. A Synovate Music Matters survey conducted in June 2009, revealed that 83 percent of young Indians feel that music is a very important part of their lives.

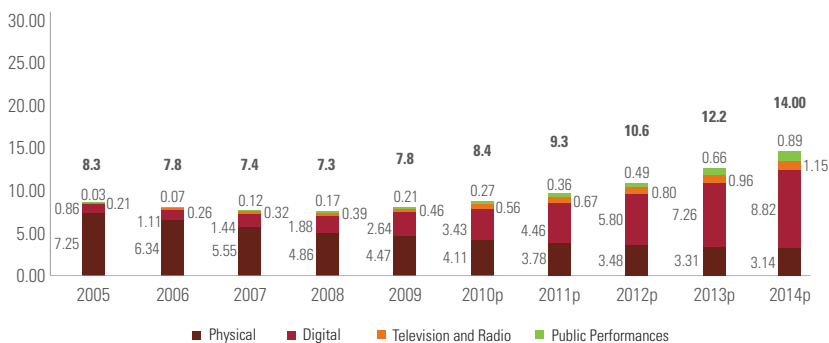
The size of the Indian music industry was estimated at around INR 7.8 billion in 2009, compared to INR 7.3 billion in 2008, implying a growth of 7 percent during the period.¹ One of the primary reasons for this marginal growth has been the increased acceptability of

different digital distribution models, acceptability of music genres other than the Indian film industry, and broadcast and public performance licensing revenues, all of which have not only compensated for declining physical sales but are also expected to drive growth going forward.

Physical formats

Physical formats such as audio cassettes and compact discs, which accounted for approximately 67 percent of industry revenues in 2008 accounted for 57 percent in 2009^{1,2}. A consistent volume degrowth of physical formats coupled with factors such as price erosion, piracy and a robust growth in non-physical formats such as mobile value added services, has contributed to the changing revenue mix. Going forward, physical revenues are expected to decline at a CAGR of 6.8 percent between 2009 and 2014. While the actual degrowth of formats such as audio cassettes is expected to be much higher, this is likely to be partially offset by initiatives taken by some leading music companies such as Sony, T-Series and SaReGaMa to release MP3 music on compact discs at price points similar to that of the ubiquitous audio cassette.

Size of the Indian music industry



1. KPMG Analysis
2. Industry interviews

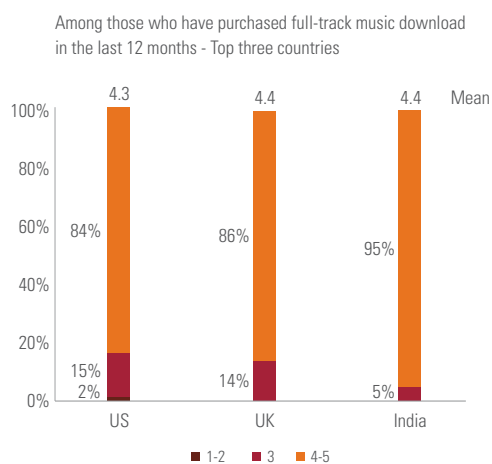


Digital platforms

Although music companies believe that it is still too early to sound the death knell for the physical format, they have begun to experiment with different initiatives using the digital platform. The Indian digital music market was estimated at INR 2.6 billion in 2009.³ Digital music distribution is mainly restricted to India's rapidly growing telecom segment, largely through ring tones and caller ring back tunes. As mobile and broadband penetration in India continues to grow and with the expected rollout of high speed 3G data services, the market for other digital distribution platforms such as full track downloads, streaming music and subscriptions, will evolve, as it has in other markets worldwide.

Consumer satisfaction with the full-track music downloading experience

On A Scale Of 1 to 5, Where 1 Means "Not at all satisfied" and 5 Means "Very Satisfied," Please Rate your overall level of Satisfaction with the experience of Full-track Music Downloading in the last 12 months.



Overall level of satisfaction with the experience of full-track music downloading in the last 12 months

Source: KPMG International Consumer and Convergence Survey 2009

3. Industry and KPMG Analysis
4. Industry interviews

Growing revenue contribution from non-physical formats

Licensing revenues from radio and television which accounted for 5 percent of total industry revenues in 2008 accounted for about 6 percent of total industry revenues in 2009. Licensing revenues from television and radio is expected to increase from INR 463 million in 2009 to INR 1.1 billion in 2014 at a CAGR of 20 percent and the growth is likely to be driven by factors such as an increase in licence fees and an increasing number of broadcast platforms³. A new genre of music based television reality shows, and the introduction of stand alone radio channels in Hindi, English and regional languages on digitally distributed television platforms are likely to drive growth in this segment going forward. With the roll out of Phase III radio licenses largely happening in Tier 2 and Tier 3 towns, radio licensing revenues from Bollywood, catalog and regional content are also expected to register strong growth through 2014⁴.

Revenues by genre

While Bollywood and regional film music is still the largest contributor to the Indian music industry revenues, accounting for approximately 65 percent⁴, niche and high end categories such as English music and regional non film music are witnessing growth.

The public performance segment with revenues of INR 270 million in 2009 is expected to more than double to INR 894 million by 2014³.

This growth is likely to be driven by improvement in live event infrastructure, increasing public awareness of copyright and intellectual property laws, corporatisation of the retail and real estate segments and greater action on the part of law enforcement agencies (with support from industry players) to help ensure compliance.



Evolving business models in the face of the digital revolution

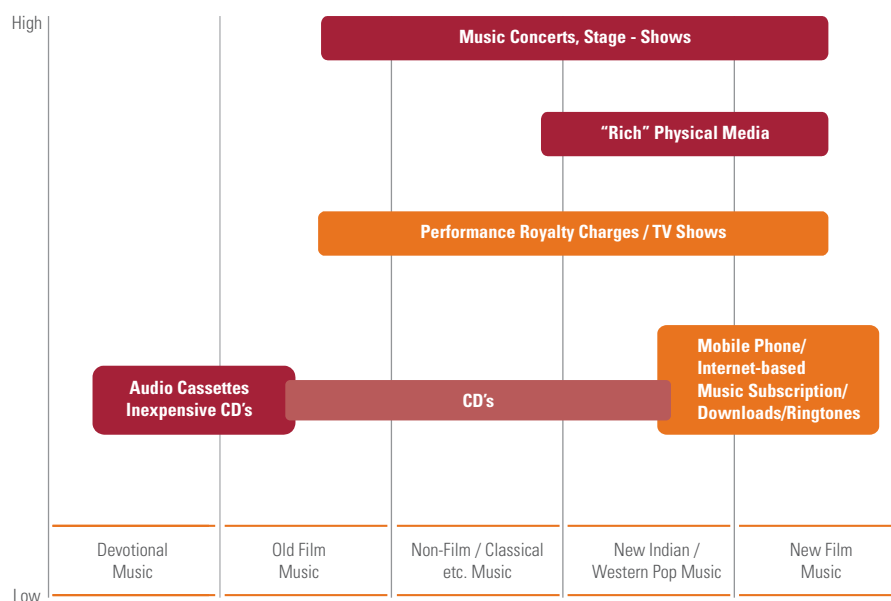
Music companies are not the only ones to jump onto the digital bandwagon. Mobile phone companies, internet service providers, and telecom operators too are adapting to changing consumer patterns. For instance, Nokia has been extending its capabilities from handset manufacturer to services provider. The company marked its entry into services in 2007, with the launch of the Ovi Suite of internet services that focuses on music, games, maps, media, and messaging. The brand has gained popularity in India, with India being among the top five countries in terms of overall downloads from the Ovi Store⁵.

With new players encroaching on their turf, music recording labels that previously dominated the physical distribution chain are increasingly recognising the need to collaborate with members of the digital distribution value chain - digital music stores like iTunes, mobile network operators, MP3 player and mobile-phone manufacturers, music distributors, platform software companies and other technology providers⁶.

For example, in the United States, which has a broadband penetration of over 60 percent⁷ and mobile penetration of 89 percent⁸ in 2009, digital music sales accounted for 40 percent⁹ of total music sales in 2009. This changing shift from physical to digital is also expected to contribute positively to margins in the near term, since distribution costs for digital formats are far lower than that of physical formats.

Digitisation also offers the potential for players to develop differentiated value propositions to customers through different modes of delivery. Music companies are expected to continue experimenting with various business models in a bid to cater to varying consumer tastes¹⁰.

Potential for differentiated value propositions



Source: KPMG Analysis

5. The Economic Times, 8 February 2010 edition: "In India, mobiles may become the first screen"
6. Radioandmusic.com
7. Strategy Analytics

8. CTIA.org
9. IFPI 2010
10. KPMG interviews, secondary research

Changes in the music usage behaviour of urban customers, driven by digital music technology, are likely to throw up cost effective opportunities in the industry

iTunes: Changing the rules of the game

Up until 2001, music record labels were battling online music file sharing sites such as Napster and attempting to build their own online-delivery platforms. Initially, songs purchased through these online music stores could not be burnt onto CDs or transferred to portable devices. Users were required to pay a subscription fee for a limited number of downloads or streams.

The failure of the music industry to deal with Napster and take over the online music business for themselves ultimately allowed iTunes to establish its dominance in the music industry. The launch of the Windows version of iTunes Store in 2003¹¹ changed the landscape of the music industry. iTunes allowed for unlimited CD burning and unlimited transfers to the iPod, Apple's portable digital media player, for a consistent (99 cent) single-song download pricing¹².

The iTunes store today operates in more than 23 countries and offers the largest legal music download catalogue with over 8 million songs from major music companies and independents¹³.

Music executives content that iTunes has become a gatekeeper between labels and consumers. The Company's dominance in the music industry gives it powerful leverage. As part of an agreement with Sony Music Entertainment, Universal Media Group and Warner Music Group, Apple announced in 2009 that it would begin selling music without digital rights management software ("DRM"), which controls copying and use of digital files¹⁴. In return, Apple agreed to adopt a three-tier pricing structure in which new releases or hits would cost USD 1.29 and older tunes would be priced at 69 cents. Those occupying the middle ground would still cost 99 cents.

But the rising digital downloads of music is still not enough to compensate for dwindling physical sales. The majority of iTunes sales are not higher-priced album sales but single-song downloads. As a result, major record labels find it difficult to operate their global marketing and physical distribution infrastructures. To counter this, record companies are experimenting with various business models including re-pricing songs and selling iTunes passes (that deliver songs, video footage and photos)¹⁵.

With Apple looking to enter cloud music services¹⁶, it appears that iTunes' domination of the music industry is here to stay.

11. Apple Inc. press release: 9 January 2001: "Apple introduces iTunes – World's Best and Easiest to use Jukebox Software"

12. CNET news website

13. Apple website

14. The New York Times, 6 January 2010 edition: "Want to copy iTunes Music? Go ahead, Apple says"

15. The Wall Street Journal, 7 April 2009 edition: "Music Firms Pitch iTunes Packages for Fans"

16. CNN, 21 January 2010



A services model, akin to iTunes, will come into play in India through different variants. Users will be able to download music that can be carried across digital devices such as the PC, mobile, digital music players and IPTV networks.



– NEERAJ ROY
CEO - HUNGAMA

Mobile phones as a distribution platform is gaining significance

Steady technological advances in India including increased broadband penetration and rising number of mobile phone subscribers are creating newer avenues for non-physical music formats, which are of critical importance to telecom and music companies alike. India has 500 million mobile phone subscribers as against 16 million Indians with access to the internet¹⁷. A 2009 Synovate survey reveals that 61 percent of young Indian mobile phone owners use their mobile phones to listen to music, with 39 percent of respondents preferring them over television, computers and MP3 players¹⁸. Consequently in May 2009, Bharti Airtel, an Indian telecom company, announced that it had become the country's largest music company, with revenues from music-related value-added mobile services surpassing the revenues of Indian music industry leader Saregama¹⁹.

Thus, in emerging markets such as India, where expensive music playing devices such as the iPod are not affordable to the vast majority, mobile phones are expected to become the predominant medium to access music.

The "Freemium" model: A rising trend in the international music arena

Globally, music service providers such as Sweden-based Spotify and UK-based we7 are experimenting with advertising supported free content. The 'freemium' model, as it is known, offers basic services for free (with advertising to support it) and the premium version offers better features at a price²⁰. Spotify has 7 million users in six European countries, while 2.5 million people use we7's free offering. Most legal streaming services have agreements with major and independent record labels and pay royalties for each song paid²¹.

However, the amount earned by music labels is far less than what would be earned if the song was downloaded, or if a portion of a listener's monthly subscription was paid to the label. There is also the very real danger that services such as Spotify's are making consumers accustomed to free content²².

This trend is currently observed primarily in Western markets, but with India having one of the fastest growing telecom markets in the world, 3-G rollout around the corner and increasing broadband penetration, music companies and service providers in India have an opportunity to pioneer a similar freemium model across digital platforms. As per a KPMG International Consumers and Convergence survey (see chart below), 80 percent of respondents in India expressed their willingness to receive advertisements on their mobile phones in exchange for free music downloads²³, which is an indication of the potential for a freemium model to exist through the platforms available in the Indian telecom domain.

17. TimesOnline, 9 February 2010 edition: "India's music millionaires turn to slumdog pirates for help"

18. Synovate press release, 3 June 2009: "Survey reveals that Asian youth are wrapped around music"

19. Livemint, 11 May 2009 edition: "Bharti Airtel becomes India's biggest music company"

20. Metro.co.uk: "Warner won't license music to free streaming services like Spotify"

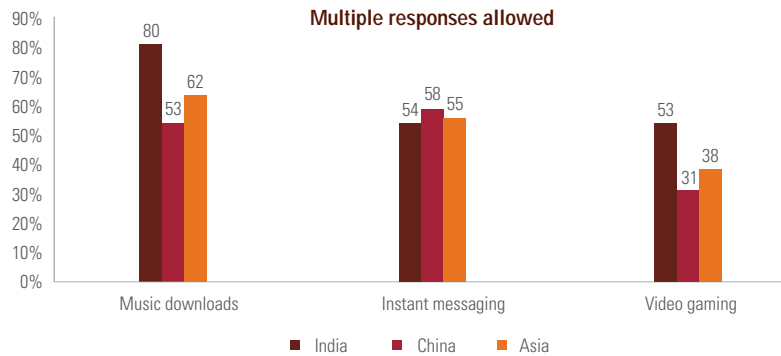
21. BBC News, 10 Feb 2010: "Warner retreats from free music streaming"

22. paidContent.org: "The Key to Making Free Music Services Work"

23. KPMG International Consumers and Convergence survey 2009

Drop in consumer resistance to advertisements in exchange for free services

I would be willing to receive advertisements on my mobile phone in exchange for free:



Source: KPMG International Consumer and Convergence Survey 2009

Monetisation of music catalogues

Music companies are digitising their catalogues for licensed delivery of content on the internet and mobile and are now offering their libraries on multiple third party websites for fee based downloads. For instance, Sony released the music album of Bollywood film My Name is Khan worldwide on iTunes, a full three days before its physical release in music stores²⁴. Hungama, a digital media company, offers unlimited web downloads of music content from its website Hungama.com at price points similar to MP3 compact discs.

Apart from offering content on internet and mobile, in recent times, music companies have also launched music albums on USB drives and micro SD (Secure Digital) cards. A case in point is of T-Series, which launched the music of the movie "Blue" on the new delivery formats providing additional features like movie stills, wallpapers, etc. for consumers at lower price points²⁵.

In the early 1990s, music companies were aggressively competing with each other to acquire the music rights of films, and producers were paid huge sums to ensure that they did not switch music companies. But by 2000, driven by increased levels of piracy and the inability of music companies to justify the rights fee paid to producers, these companies were no longer willing to pay huge sums to acquire rights from producers. As a result, a few film studios and producers launched their own music business by either setting up their own distribution network, or tying up with existing networks. In order to compete with music companies, these players also needed to acquire music rights of films produced by other studios.

However, due to rising acquisition costs, limited in-house content, and high costs of distribution these players are increasingly exiting the music business and reverting to the earlier model of selling their films' music rights to music companies.

24. The Hindu Business Line, 14 January 2010 edition

25. KPMG India newsletter, Media: Takes and Stakes January edition



Threat of piracy remains a global concern

The music industry's greatest challenge remains the threat of piracy. In fact, globally approximately 95 percent of music tracks are downloaded without payment to the artist or music company that produced them²⁶.

Apart from illegal downloads of music from the internet, music piracy in India has surged due to the mobile boom. There are an estimated 500 million mobile subscribers in India of which 45 percent have mobile phones that are capable of music transfers²⁷. With the 3G rollout around the corner, consumers are expected to be able to download full tracks by accessing the internet at faster speeds as compared to the current 2.5G network using General Packet Radio Service (GPRS).

Globally, there have been two major approaches to curb piracy. One approach to discourage piracy is for music companies themselves to offer progressive alternatives. For instance, in August 2009, Nokia launched its Nokia Music Store in India which has over 3 million tracks from labels such as T-Series, Yashraj Music, Saregama, BIG Music and Venus. The tracks in the store come embedded with Digital Rights Management ("DRM"), an access control technology, that allow limited external transfers of the music file²⁸. The Nokia Music Store in India reportedly has the largest number of subscribers in the world²⁹.

A second approach calls for more effective government intervention. Many governments have begun to favour the "graduated response approach" to deal with people suspected of downloading pirated music. Instead of directly suing people who download copyrighted files, the method involves warning first-time offenders, and getting the internet-service providers of repeat offenders to slow or temporarily cut-off their connection. Graduated-response laws have already been passed in South Korea, Taiwan, and France and other countries are working out similar agreements³⁰.

In India, weak anti-piracy laws and poor enforcement of existing ones have hampered the sale of music through legitimate platforms.

The Phonographic Performance Ltd (PPL), a government-recognised music copyright protection body has intensified its efforts against piracy and illegal performances. In December 2009, PPL managed to secure an order from both, the Bombay and Delhi High courts, banning hotels and other commercial establishments from playing copyright music without a license. In addition to an INR 200 million month-long campaign to educate consumers in newspapers, radios and television networks, PPL has also set up vigilance teams in several Indian cities that check violations by working in collaboration with the local police³¹.

26. IFPI Digital Music Report 2009.

27. The Times of India, 12 January 2010 edition: "Music Cos Take Steps to Combat Piracy"

28. Financial Chronicle, 2 November 2009 edition: "Nokia Hits It Big with Global Online Music"

29. The Economic Times, 8 February 2010 edition: "In India, mobiles may become the first screen"

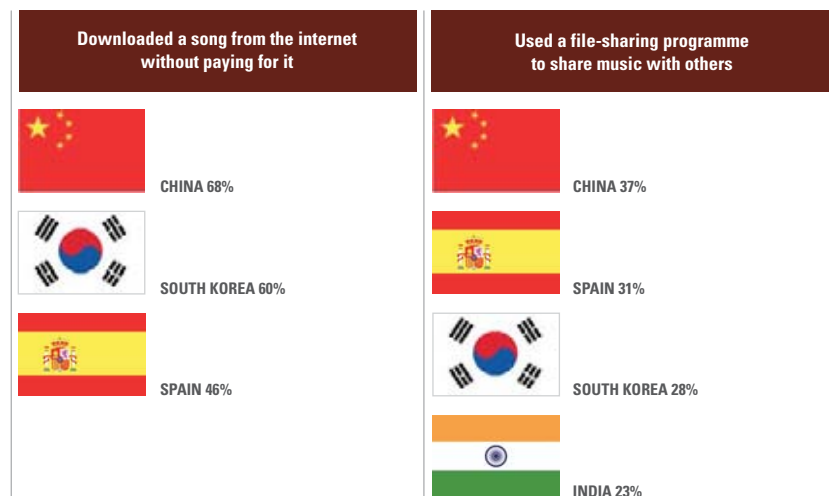
30. The Economist, 12 Nov 2009 edition: "Singing a different tune"

31. The Economic Times, 31 December 2009 edition: "No copyright music without licence this year"

Persuading music pirates to turn legitimate

Mobile Music Exchange (MMX), a licensing initiative launched by the Indian Music Industry (IMI), is a scheme through which retail store owners holding a license can sell music downloads to customers legally. The initiative was launched in a bid to curb piracy and promote legitimate content. The scheme is backed by over 140 record labels and is being piloted in Andhra Pradesh, West Bengal and Punjab. The scheme rests on the premise that pirates that turn license holders will act as whistleblowers against rival music pirates³². So far the response has been tepid due to the comparatively higher prices (40 percent higher than the gray market) and lack of awareness of this new concept among consumers³³.

Challenging markets for piracy



Source: Synovate (www.synovate.com)

Note: The Synovate In-fact survey on music was conducted in December 2009 across 13 markets - Australia, Brazil, Canada, China, France, Hong Kong, Hungary, India, Korea, Philippines, Spain, UK and US. It covered over 8,000 respondents aged above 18 years and was conducted using online, face to face and telephone research methodologies.

“As economic growth filters down to the Non Metro towns and the hinterland, the importance of local identity is gaining momentum. This is beginning to have its impact on Regional Music which is establishing a unique identity for itself and will become more predominant in the coming years.”



– RAJAT KAKAR
MD - UNIVERSAL MUSIC

Drivers of growth

- Increased acceptability of different digital distribution models: Music companies are increasingly focusing on alternate distribution mediums such as downloads through the internet and mobile phones, USB drives and micro chips. In addition, mobile phone manufacturers are leveraging the popularity of music by offering preloaded music on new mobile phones in a bid to gain market share
- Competitive pricing of audio CDs: ‘The Moser Baer’ effect has driven leading music companies to market MP3 songs on audio CDs at prices comparable to that of audio cassettes³⁴
- Increased acceptance of niche and high-end segments of music: While film music remains the most popular segment of music in India, other segments such as English, regional non-film and spiritual music are also likely to drive growth
- Broadcast and public performance licensing revenues: Revenue from licensing of music to radio and television players is expected to increase due to the rollout of Phase III radio licenses, launch of standalone channels focused on English, Hindi and regional content on radio and television, and the continued popularity of music-based reality television shows
- Intellectual property laws and increasing consumer awareness: Proposed amendments to the Copyrights Act of 1957 coupled with PPL-driven consumer awareness campaigns aim to address the challenges that have emerged in the context of digital technology and the internet.

32. TimesOnline, 9 February 2010 edition: “India’s music millionaires turning to slumdog pirates for help”

33. Mint, 30 November 2009 edition, “Music on Memory Chips Yet to Gain Ground”

34. Industry Interviews



Challenges

The primary challenge of the music industry is the issue of decline in profitability despite the rising levels of music consumption. The reasons for this disconnect are:

- **Rampant piracy:** Piracy remains a global threat to the music industry. The initial delay by music companies in embracing the digital platform has cost the industry dearly – consumers have become accustomed to ‘free’ music, and even music tracks available at nominal rates have not been able to entice many consumers away from illegitimate music platforms
- **High acquisition cost:** With film studios having their own music business, the high competition among existing players has driven the acquisition cost of music higher and constrained the profitability of music companies
- **Revenue sharing arrangements:** Although music companies are the content providers they are dependant on distribution channels such as the telecommunication companies and online aggregators to reach the end viewers. However, music companies earn only 25 percent to 30 percent for supplying content³⁵.

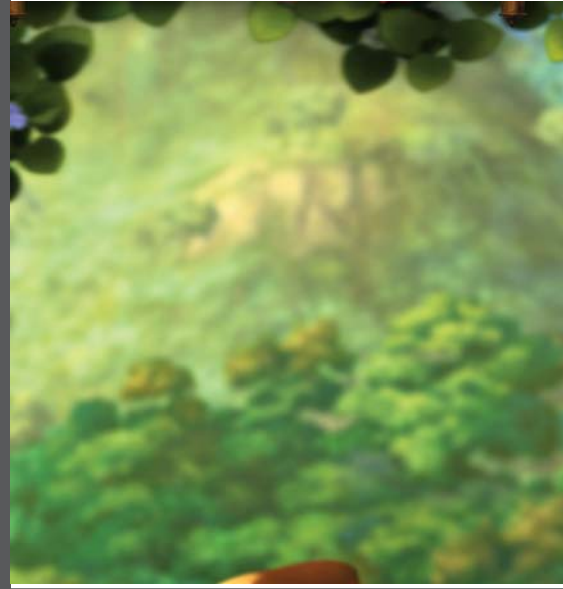
Overall, the industry is expected to grow at a modest CAGR of 12.5 percent through 2014 to reach INR 14.0 billion by 2014³⁶. Music companies now have the opportunity to lead the way by evolving from their earlier perception of music as a “product” to music as a “service.” Companies that can offer a complete music offering spanning physical distribution, radio, music television, mobile and internet digital downloads are those that are likely to emerge as strong players in the new environment. Consolidation is also one of the options that the players are likely to explore as a means to extend their reach to music related services and move up the value chain in areas such as content aggregation, live music, and artist management.

With the near-infinite amount of choices available to consumers, companies that adapt to the changing business environment and consumer patterns are those that are likely to succeed in the new digital age.

³⁵ Industry analysis and KPMG Interviews

³⁶ KPMG Analysis





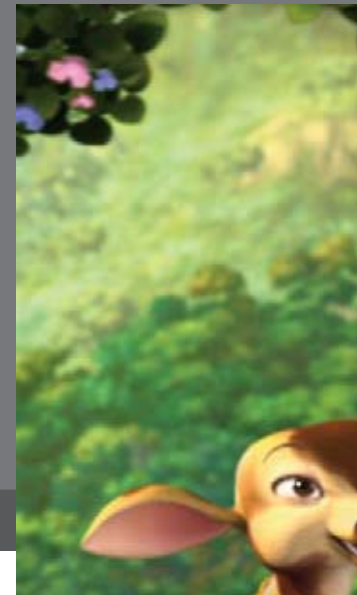
ANIMATION & VFX

FROM 2D TO 3D AND BEYOND



ANIMATION & VFX

FROM 2D TO 3D AND BEYOND



Overview

In 2009, the Indian animation industry continued to rely on outsourced work and co-production deals that led to a growth rate of approximately 9 percent over 2008¹. While industry sentiment was low for the first half of the year resulting in a few shakeouts, Indian studios were approached with new projects and collaborative deals indicating that the market was looking up once again in the second half.

The animation services segment registered a growth rate of 15 percent in 2009¹ but the animation industry was unable to achieve expected growth rates primarily due to a small 2 percent growth for the product creation segment. Capacity and product expansion was frozen by many of the studios as players tried to derive higher value from the existing infrastructure. Theatrical projects announced in 2008 entered their final stages of production or were completed in 2009 thus leading to minimal workforce rationalisation for leading animation studios.

On the back of India's first mainstream Computer Generated Imagery (CGI) feature film 'Roadside Romeo', the Indian animation industry saw announcements of several theatrical films for release in 2009. The multiplex strike resulted in an oversupply of films awaiting release in the second half of the year thus limiting the number of release windows for animated films. Further, the low risk appetite of production studios and lack of institutional funding, resulted in projects being shelved or delayed.

During the past year, no Indian animated film witnessed a theatrical release. However, Hollywood films such as Ice Age 3 and Monsters vs. Aliens enjoyed success on Indian screens. The release of 'Avatar', a movie that is a hybrid of live action and computer generated animated characters, became the largest Hollywood grosser in India² indicating that Indian audiences are interested in animated content. The Hindi, Tamil and Telugu dubbed versions of the film did equally well, highlighting the extremely responsive regional market for animated content in India.

Animation and VFX Industry (INR billion)	2006	2007	2008	2009	CAGR (2006-09)	2010P	2011P	2012P	2013P	2014P	CAGR (2009-14)
Total industry size	12.0	14.5	17.4	19.8	17.9%	23.2	27.8	33.0	39.2	46.6	18.7%

Source: KPMG Estimates, KPMG interviews

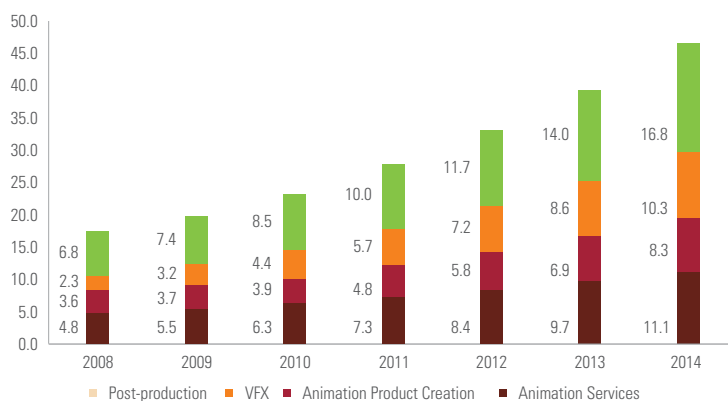
“Although several films were planning to release in 2009, they didn't make it to the screens. This was a function of the limited screen space available post the multiplex strike and the lowered risk appetite of production studios which made them pull back on a few films. 2010 looks promising with an interesting line up of three to four theatrical releases and sentiment is positive again.”

– **Jai Natrajan**,
EVP Business
Development, Maya
Entertainment

1. KPMG Analysis, Industry Interviews
2. Indiantelevision.com



Size of Animation and VFX industry in India



Source: KPMG Analysis, Industry Interviews

The revenue composition of the animation industry indicates that the commoditised outsourcing model continues to dominate the Indian animation arena. A limited number of Indian studios have ventured into IP creation or the relatively low risk co-production agreements, Nevertheless India continues to remain a CG animation outsourcing destination. Pre and post production work continue to be driven out of US and Europe, but the script to screen journey that can truly be stamped a 'Made in India' production seems a medium term dream. Projects such as Roadside Romeo, a project co owned by an international media conglomerate and a renowned Indian movie studio, suggest that Indian studios are gravitating towards local production theatrical business models.

There are approximately 250 boutique firms in India which cater to computer generated graphics³. Of these, only a handful can be classified as dedicated animation companies catering to the entertainment business as they have production capabilities required for creating animated characters. Each of these companies can be further distinguished by the nature of their leading business model. The typical business models for animation companies can be classified into the following:

- Focus on developing theatrical properties and IP creation
- Low risk co-production properties for television catering to overseas markets
- Outsourcing model with some co-productions for Direct to DVD
- Complete outsourced model for Direct to DVD.

Distribution of work currently executed by Indian Animation studios across media formats

Television	55%
Direct to DVD	25%
Movies for Theatrical release	20%

Source: KPMG Interviews

3. Economic times – 28th September 2009, Industry Interviews

While Indian animated studios are adept at 2D, 3D, and flash animation, stop motion capabilities, even though existing, are still in their early stages with limited potential to undertake sizeable projects. In comparison to other countries providing high quality animation services, India offers significant cost arbitrage.

Estimated costs for 30 minutes of animated content	India	Korea, Philippines	North America
2D Hand drawn	USD 45,000 - 50,000	USD 60,750 - 67,500	USD 180,000 - 200,000
3D	USD 90,000	USD 121,500	USD 360,000
Backend production	USD 200,000	USD 270,000	USD 800,000
Flash Animation	USD 20,000	USD 27,000	USD 80,000

Source: Adex IKPMG Interviews

“VFX industry in India is at a very nascent stage and has the potential to grow into a large size industry. VFX has been an integral part of all Hollywood films, 18 out of 20 all time grossers in Hollywood have been VFX centric and now even Indian industry is increasingly witnessing storylines woven around VFX. Due to the increase in cost focus in the global markets and increase in the credentials of Indian players VFX will be one of the top outsourcing sectors in the next 5 years”



– Gitanjali Sehgal,

Group Sr. VP Strategy & Business Development
Century Communication Ltd.

The use of VFX in live action films has also seen a steady and significant growth over the years. Many live action films today include a VFX sequence and the sheer duration of these screen shots has also risen substantially. Taking into account the low base for this service, it is estimated to have grown by nearly 40 percent over 2008⁴. This is driven by both international and domestic demand for special effects. However, billings generated by the domestic market are at lower price points when compared to the rates charged for outsourced work. While VFX demand for films continues, over 50 percent of the work is currently created for ad film productions⁵. Given the growing demand and capability of Indian studios to produce superior quality content, it is no surprise that Indian studios are looking at establishing their presence in the overseas market. International presence enables studios to create an integrated production set up and generate a robust pipeline of projects through the global network. Established VFX players such as Prime Focus and Pixion are already setting foot on international grounds through the inorganic route thus paving the growth path for other Indian VFX companies⁵.

Fragmentation in the animation and VFX industry continues with smaller towns and cities developing specialised capabilities to cater to their local markets. However, these companies largely focus on developing specific skills around architectural and medical animation, defense and aeronautical simulations, product design, gaming and market presentations for companies. Despite availability of animators and special effect specialists, the industry continues to share talent with companies catering to these niche services.

Overall market growth

The Animation and VFX industry has seen an overall growth of 13.6 percent over 2008 and is expected to grow at a CAGR of 18.7 percent in the coming years to reach INR 46.6 billion by 2014 driven by increased consumption of animated content, creation of global IP formats, acceptance of 3D graphics and venturing into international markets⁶.

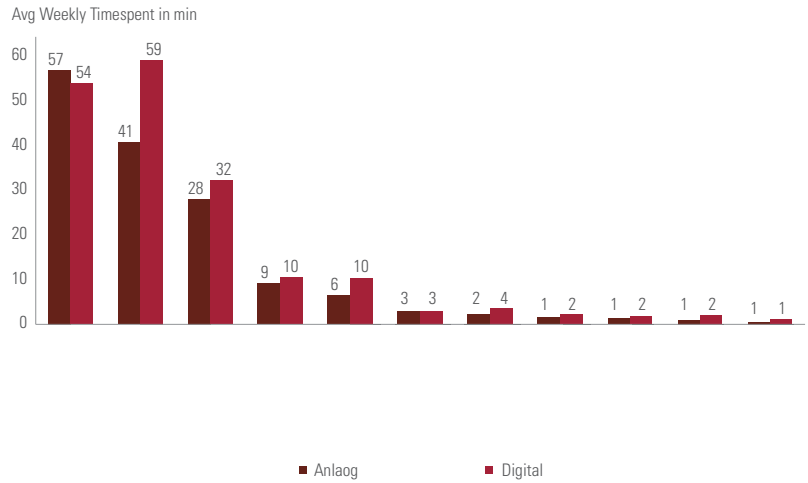
Future trends:

1. **Increased consumption of animated content:** Animation is considered as one of the most successful film genres globally. With eight children channels focusing on broadcasting animated series, India is one of the largest animation consuming markets for television. Moreover, according to TAM data in 2009, the average weekly time spent is the highest for the kids genre. This strong viewership is likely to help reward the animation industry in the near future. The evolution of this genre from kids' content to universally appealing content may thus be dependent on these series receiving marketing support from distributors and funding support for the creation of localised IP

4. KPMG Estimates, Industry interviews
5. Industry interviews
6. KPMG Analysis



Average weekly time spent on analog & digital platform



Source: TAM Peoplemeter System; Market : All India TG: Analog & digital 4+ Time Period: Week 01 to 52, 2009

Indian animated films expected to release in 2010

Movie Name	Produced by
Sultan	Soundarya Rajnikant
Toonpur Ka Superhero	Kumar Mangat, Krishika Lulla
Kuchi Kuchi Hota Hai	Karan Johar
Delhi Safari	Krayon Pictures
Arjun	UTV
Alpha and Omega	Crest Animation
EKEH 2.0	Motion Pixel Corporation and PNC motion entertainment

Source: News articles, Industry Interviews, Pickle February 2010

“3D is now 2D and stereoscopy is now 3D. With the first stereoscopy film from India for a worldwide release, the Indian animation segment is moving from the introduction stage to the growth stage. In the next five to seven years the domestic animation market will reach maturity.”



– A.K.Madhavan,
CEO - Crest Animation Studios

- IP creation:** Given the competition from other low cost animation outsourcing destinations such as China, Malaysia and Philippines, IP creation is likely to become imperative for Indian players going forward. It is crucial for the Indian studios to create content beyond mythological characters that have little global appeal beyond the Indian diaspora. To develop a sustainable revenue model, it may be necessary for these companies to produce IP that captures the interest of the international audience
- 3D formats:** The number of 3D screens in India is steadily increasing supported by an increased awareness for these formats and an enhanced consumer experience. Reliance MediaWorks is partnering with In -Three (which recently worked on Disney's 3D "G-Force) to create the world's largest 2D-to-3D conversion facility, in Mumbai, that can undertake 15-25 projects per year⁷. Moreover, the recent Consumer Electronics trade fair in Las Vegas also had many technology companies displaying their next generation 3D enabled stereoscopic screens for television and notebooks. With television broadcasters such as ESPN announcing the launch of a 3D channel by the end of 2010⁸, the demand for animated and 3D content is set to rise, giving India an opportunity to address this growing demand with a low cost advantage.

7. Wall street journal- 9 December, 2009
8. sports.espn.go.com – 5th January 2010



Challenges

- 1 **Lack of capital:** The primary challenge of the Indian animation companies continue to be centred on the lack of growth capital. The industry seeks mature investors who have an appetite for long term investments. While DQ Entertainment is looking to raise funds through its impending IPO, international investors such as DE Shaw who understand the global entertainment business have invested in Crest Animation⁹. Hence, there is a need for investors who understand the dynamics of the animation industry to partner with the local businesses thus enjoying the upside potential of the Indian animation market
- 2 **Talent development:** The growth of animation schools within the country has led to a deepening talent pool of animators within the country. However, majority of these institutes are primarily focused on imparting skills for computer graphics animation thus limiting the development for pre-production and post-production work. Developing capabilities around conceptualisation of lead characters, scripting and voiceovers could lead to creating an end-to-end delivery platform and thus lower the dependency on outsourcing front end projects to developed markets
- 3 **Merchandising revenues:** Globally, the majority of animation revenues are earned through merchandising products. Moreover, merchandised products such as toys, clothes and accessories with a longer shelf life than a feature film or television series can be monetised over an extended period of time. In order to have these licensed products sold across the world, there is a need for formalised merchandising partners who have a strong ability to distribute and market the products. However, rampant piracy and weak intellectual property laws have limited the development of a complete merchandising model in India.

Regulatory Wishlist

- 1 **Government sponsored Special Economic Zones (SEZs):** With the Finance Bill 2010 not extending the STPI regime which expires on 31 March 2011, many animation houses are expected to set-up new operations in SEZs

However, given the increased cost of operating out of SEZs (on account of high rental costs), the government should consider government sponsored SEZs on the lines of government sponsored IT Parks
- 2 **Tax sops for localised content:** Currently, only export proceeds are eligible for tax sops and there is no incentive for studios to develop localised content. Accordingly, the industry awaits a tax holiday for developing the content for the Indian market. Further, the industry wants exemption from service tax for use of specialists like game designers/senior game developers from overseas
- 3 **Industry status:** Animation as a sector is still to be recognised as an industry. The government should accord such recognition to enable it to have access to several benefits, including loans from banks, formalised policy from the concerned ministry (including introduction of degree courses by Government universities)
- 4 **Promoting the use of animation in education:** The use of animation in education programmes of the government can be effective in checking the high drop-out rates. The government should initiate pilot projects in this direction.

⁹ Company websites

Way Forward:

The evolution of the animation and VFX sector in India bears resemblance to the IT wave that surged the country in the 90s offering tremendous potential for outsourced services, IP creation and growing domestic demand.

Some key success factors for the animation and VFX studios going forward could be:

- Mature from a services driven business to an IP ownership model to yield better margins
- Invest in market research to understand consumer acceptance and create products with better shelf life and acceptance across demographics
- Develop scripting and other pre production abilities that have local and international appeal
- Invest in strategic partnerships with studios for co-productions especially from mature markets such as US, Canada and France
- Continue to lobby with the government for incentives to provide the necessary boost to this sector for promoting outsourced work and co-production deals.





GAMING
GAME ON





In 2009, the Indian gaming industry was expected to grow at 45 percent with factors such as a young population, rising disposable incomes, increasing wireless users and proliferation of developers and publishers, however, the industry was not able to capitalise on its true potential. The size of the Indian gaming industry was estimated at around INR 7.9 billion in 2009, compared to INR 6.5 billion in 2008, implying a growth of 22 percent during the period.¹ The performance of the three gaming segments – mobile gaming, console gaming and PC and online gaming would help better understand the dynamics of this industry.

Mobile Gaming

The Indian mobile gaming industry at an estimated size of INR 1.8 billion constitutes little over 5 percent² of the total mobile value added services revenues. With a subscriber base of over 500 million³, the Indian telecom industry continued its growth momentum in 2009. The rising number of wireless subscribers coupled with increasing penetration and affordability of data enabled handsets provides a large addressable market for the gaming industry. In order to monetise the potential of the Indian gaming industry, global gaming companies opened India offices or entered into distribution agreements with leading Indian mobile gaming companies to distribute their products in India. For instance, in April 2009, Indiagames Ltd. tied up with EA, Disney and THQ to distribute their games in India.

The tariff wars brought about by increased competition, resulted in lower voice usage prices and thus increased savings to consumers on voice services. Telecom companies looking to sustain margins increased their focus on providing value added services (“VAS”) and as a result the, mobile gaming industry was predicted to largely benefit in 2009. Contrary to expectations the mobile gaming industry in India had an average 2009 year with more or less steady revenues for gaming companies. The stunted growth of the gaming industry can be attributed to the following factors:

- **Limited awareness about gaming products:** Though mobile gaming companies, telecom operators and handset manufacturers have started bundling their services, greater brand awareness through increased advertising is required to increase the addressable population for the mobile gaming industry.
- **Poor gaming experience due to lack of infrastructure:** In India, many telecom operators are facing spectrum shortage since they have crossed the maximum number of subscribers per MHz limit subscribed the Department of Telecommunications (“DoT”). This leads to congestion in existing infrastructure that ultimately prevents mobile gamers from enjoying an enriching gaming experience replete with visual graphics in favour of voice services. Uncertainty around 3G auctions in India severely impacted the growth rates for the mobile gaming industry. Hence, the mobile gaming industry expected to grow by over 100 percent in our previous analysis witnessed a growth rate of approximately 30 percent is likely to delay mobile gaming growth rates by over two years. With the advent of 3G, telecom operators are expected to launch campaigns centered on the utility of their high speed 3G networks for consumption of video and data applications. Thus, leading to increased awareness of data applications including mobile gaming products and promoting the use of on deck content currently being offered by leading telecom operators. With the arrival of 3G, it is estimated that increased number of Indian users would use their mobile handsets for gaming applications.
- **Continued disagreement between game publishers and telecom operators on the revenue share arrangement:** Telecom operators own the billing relationship with subscribers and therefore enjoy a better revenue share of the end user price (in the range of 60-70 percent). Thus, gaming companies responsible for the content end up with a revenue share of only 25 - 30 percent. In contrast, content companies in developed markets typically enjoy a revenue share of 50 to 60 percent⁴. In order to counter this problem, mobile companies have started launching advertiser funded games on off deck portals, thus receiving advertising revenues from advertisers without any revenue share to the mobile operators.

1. FICCI-KPMG Media & Entertainment Report, 2009

2. IAMAI: MVAS in India 2009

3. TRAI

4. Industry interviews



Console Gaming

Today, console gaming (including hardware) is the largest contributor to gaming revenues in India accounting for over 62 percent of the total gaming revenues. The growth of console gaming in India can be traced back to the year 2002 when Sony Play Station Portable and PS 2 were introduced in the country. The launch of Microsoft's Xbox in August 2006, just months after it hit store shelves across the world, made evident the fact that global game developers were seriously looking at India as a potential market.⁵

In 2009, the growth of the console gaming market to INR 4.9 billion is largely attributable to the launch of newer products such as the Nintendo Wii, creation of localised content for the market, introduction of console games as a teaching aid in schools and awareness of console games through organised retail chains and stores. Going forward, the console gaming industry in India is expected to grow at a CAGR of 19 percent from INR 4.9 billion in 2009 to INR 11.6 billion by 2014 on the back of increasing disposable income and favourable demographics.⁶

Localised Content

As is the case with other gaming segments, console gaming is viewed as the preserve of the teenage or young urban single male. Microsoft, Sony and Nintendo, the major players in console gaming business, however, are clearly targeting a wider consumer base rather than focusing only on the target group of 6-25 years. The increasing popularity of console gaming in India can be attributed to consumer awareness campaigns and localised content offerings by console companies. Creation of localised content has also worked for console businesses thus engaging the audience through identified icons. For instance, Yuvraj Singh International Cricket 2007, a game that was designed especially for the Indian market involves virtual cricket and uses a brand ambassador. Games with a local flavour such as Hanuman and Kabaddi on PS2 have also become popular among Indians.

Regulatory Hurdles

However, the high customs duties and indirect taxes have made legitimate console hardware and software approximately 40 percent⁶ more expensive than grey market imports. Further, the time lag in the release window for popular gaming software in India due to the mandatory Indian customs examination as compared to the western world has also led to the increasing growth of the grey market in India.

Emerging Business Model

Steep price points for hardware and software also pose a big threat to the console industry in India. With a one time investment between INR 5,000 and 20,000 for hardware and incremental cost of INR 1,000 to 3,000 for each software product, console gaming is an expensive proposition for an average Indian as compared to other modes of entertainment. Therefore, console gaming companies are moving away from a product to a services oriented model enabling users to not only play games off the console but also watch movies, upload photos and so on. Till such time as the consumer is educated about the shift by console gaming companies from a product to a services model console gaming is likely to remain more of an urban phenomenon with limited growth coming from Tier II and Tier III towns.

“Gaming is estimated to be the fastest growing sector in the Media and Entertainment Industry in the next five years. This growth is not only expected to come from mobile gaming but also from substantial increase in Console, PC and Online games. With the increasing number of casual and active gamers, the evolution of this space is likely to be extremely interesting.”

– **Jehil Thakkar**

Executive Director - Performance & Technology
KPMG in India

5. Rediff News Article 2007 and Industry interviews
6. Industry interviews



PC/Online Gaming

With over 85 million⁵ PC literate users in 2009 as compared to 65 million⁷ PC users in 2008, the PC gaming market too has been growing at a steady pace. Several internet gaming companies have experimented with gaming in the past, but with little success probably because games were launched without understanding the psyche of the Indian gamer and without a sizeable audience. In 2009, increased usage of social networks in India and awareness created by online gaming companies through the distribution of large number of games offered across different genres enabled an increased level of user conversions leading to a 30 percent growth for this segment in 2009⁸.

Gaming Modes

Single player single session games represent the largest category of online games played in India with 80 percent of gamers playing it and 46 percent preferring it the most⁹. Single player single session games typically include card games and arcade games that are simple to play yet create a level of interest that keeps the gamer engrossed for longer periods. In order to capitalise on the advantage of relationship data in social networks to build novel gameplay or build community among people who play games, social gaming has gained increasing popularity in the western world. Indian gaming companies too have followed the trend by launching various gaming applications on their social networking portal. For instance, social networking site Ibibo.com has launched Play.Ibibo.com, a social gaming platform, where users can play online games such as text-based games, role playing games and concept games.

Advertisement supported online games have been a popular source of revenue for online gaming companies in India. Advertisement supported games derive their revenue from the sponsoring company which pays for the development of the game and generally recognises value in the messaging provided by the game. Revenue is also generated through sales of banner ads, interstitial advertisements, rotating sponsorships, etc. Advertisement supported games thus enable corporate houses to create a unique brand promotion campaign that connects with their target group. This revenue stream is expected to grow at a CAGR of over 25 percent in the next 3 years.

As against single player single session games, multiple player - single session games and multiple player persistent sessions games allow two or more players to play against each other. Sports and fighting games typically fall under the category of multi player single session games. Games like World of Warcraft, Everquest and Sims Online are typical multi player persistent session games that are relatively more complex in gameplay and technologically superior than other modes thus requiring faster internet connections. Companies such as Zapak have established a chain of gaming cafes across the country and also hosted gaming tournaments in metro cities to provide a true gaming experience for the experienced gamer. Multi player single session casual games using Flash technology have caught the fancy of the gamer but a poor infrastructure base for high speed internet connectivity has held back the rapid development of these two modes in the country. ISPs and hosting servers must maintain fast servers and robust infrastructure to maintain speedy connections. Hence, in the absence of a conducive gaming environment provided by internet infrastructure and higher PC penetration, it will be difficult to graduate to the advanced multi player gaming modes.

7. IAMA: Internet in India 2009

8. Industry interviews and KPMG analysis

9. IAMA: Gaming in India, 2009

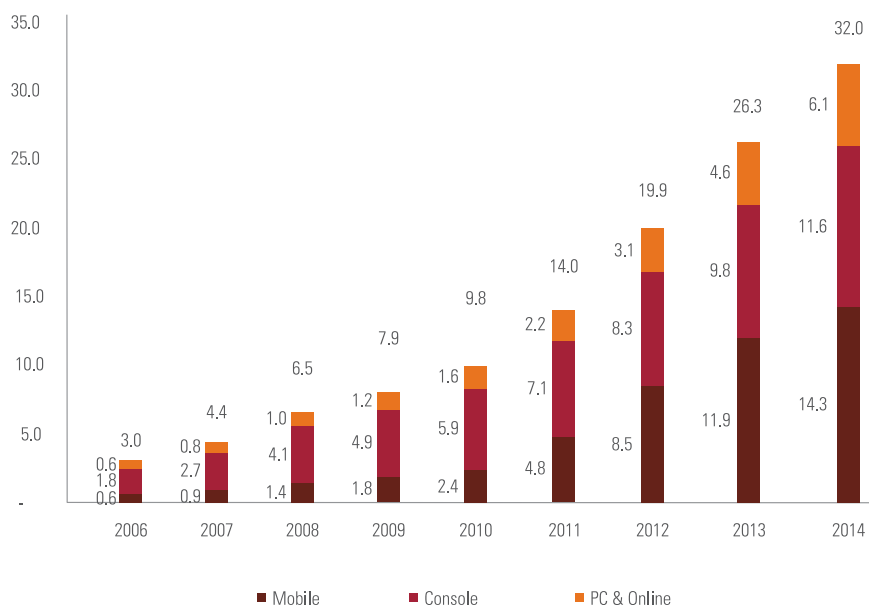
“Given the growth in DTH and digital cable markets, Interactive TV Games offer an interesting opportunity. For consumption of branded games especially movie based titles and cricket, we believe the TV as a medium will be an easier concept sell than migrating users to play on mobiles and PC. Monetization is simpler than online and this could be the dark horse for gaming in the years to come”



– Samir Bangara,
COO - Indiagames

Overall, the industry is expected to grow at a CAGR of 32 percent between 2009 and 2014 to reach INR 31.9 billion by 2014¹⁰. Driven by factors such as a young population, rising disposable incomes, increasing PC and wireless users, progressive distribution models gaming companies across the segments are provided with a market opportunity to co-exist and collectively grow the audience for their respective businesses.

Size of the Indian Gaming Industry



Source: Industry interviews, KPMG Analysis

Size of the Indian Gaming Industry											
Gaming Industry (INR billion)	2006	2007	2008	2009	CAGR (2006-09)	2010P	2011P	2012P	2013P	2014P	CAGR (2009-14)
Mobile	0.6	0.9	1.4	1.8	42.9%	2.4	4.8	8.5	11.9	14.3	50.7%
Console*	1.8	2.7	4.1	4.9	39.5%	5.9	7.1	8.3	9.8	11.6	18.8%
PC & Online	0.6	0.8	1.0	1.2	28.6%	1.6	2.2	3.1	4.6	6.1	37.8%
Total Industry Size	3.0	4.4	6.5	7.9	38.3%	9.8	14.0	19.9	26.3	32.0	32.1%

* Console gaming includes hardware and software

Source: Industry interviews, KPMG Analysis

Drivers of growth

Mobile Gaming

- Increasing telecom bases and arrival of 3G: The expected rollout of 3G services is likely to provide efficient high speed data networks to mobile gamers. The telecom subscriber base expected to increase to 725 million by 2013 with a mobile penetration of 60 percent¹¹
- Low voice ARPUs: Low voice ARPUs is likely to force telecom operators to push mobile value added services such as games thus increasing the significance of mobile games as an additional source of revenue.

10. KPMG Analysis
 11. Industry interviews
 12. World Bank Statistics - Global Economic Prospects 2009
 13. Economist Intelligence Unit



“Providing Indian consumer a meaningful product experience opportunity is essential to build upon the awareness of console gaming that is currently present. The national retailers and speciality stores will play an important role by providing such interactive zones as well as providing a properly stacked display of software titles for the different segments of the consumers.”

– **Atindriya Bose,**
Country Manager
Sony Computer Entertainment

Console Gaming

- Demographics and rising incomes: India is a young country with two thirds of its people aged under 35¹² (the primary target segment). This coupled with the rising disposable incomes in urban India and the increased consumerism makes a good case for growth in the medium term
- Product to services model: Console gaming companies are moving away from a product to a services oriented model enabling users to not only play games off the console but also watch movies, upload photos and so on.

Online Gaming

- Increasing broadband penetration: The number of broadband subscribers in India has increased from 0.7 million in 2004 to 8.2 million¹³ in September 2009 and continues to grow rapidly thus driving the growth for gaming in India
- Strong marketing and distribution: Mainstream advertising through social networks and telecom companies as well as a strong distribution network of organised gaming chains such as Reliance WebWorld is likely to enable the growth of the PC gaming segment going forward.

Challenges

Mobile Gaming

- Delay in proposed technology advancements: If the 3G auctions are delayed, the mobile gaming segment is likely to remain static since limited spectrum availability has resulted in data and voice being carried over the same pipe.
- Skewed revenue sharing agreements with telecom operators: Telecom operators, owning the billing relationship with the end user, enjoy 60-70 percent of the VAS revenues while content creators receive only 15 to 20 percent¹⁴.

Console Gaming

- High customs duties and indirect taxes: Legitimate console hardware and software are rendered 30 percent more expensive than grey market imports due to high customs duties and indirect taxes¹⁵
- Release windows for popular games delayed in India: As a result of mandatory customs check in India for software, release windows for popular games do not coincide with global launches, hence active gamers turn to grey market imports.

PC Gaming

Price sensitive: High-end PCs are needed to play graphic laden games cost upwards of INR 40,000. Hence, gaming is viewed as a luxurious form of entertainment with a reduced willingness from gamers to pay for expensive gaming software.

Piracy: Piracy of games is rampant in India, with titles selling for as little as INR 100 to 125 barely a week after their international release. It is estimated that for every one unit of legitimate software there are over 10 units of pirated products sold.

14. Industry interviews and KPMG Analysis
15. Industry interviews





OUT OF HOME

AT THE CUSP OF GROWTH



OUT OF HOME

AT THE CUSP OF GROWTH



The year that was¹

The Out of Home advertising (OOH) sector was hit relatively harder by the slowdown than the other sectors of media and entertainment. The sector had displayed an exceptional growth rate of 18 to 20 percent pre 2008; however, this growth rate plummeted to 15 percent in 2008. In 2009, the Indian OOH industry witnessed a 15 percent drop taking the industry size to INR 13.65 billion. This was particularly negative when compared to the overall media sector which remained relatively stable with a 1.4 percent growth in 2009. Correspondingly, the share of OOH medium in the overall media pie reduced from 7 percent in 2007 to 6 percent in 2009.

The first half of 2009 saw occupancy rates coming down from >80 percent to 30 percent levels. This was a direct effect of the slowdown in the economy as the sectors that had traditionally advertised on the OOH medium like financial services and real estate were also the sectors that were hit the most by the recession.

Moreover, a lot of the players which had committed to OOH, backed out on account of the correction in the revenue projections. For example, Big Street, an advertising firm withdrew from a contract in Ahmadabad, which was signed at a lucrative price for a six year tenure.

However, the second half of the year was somewhat better as OOH players reduced prices upto 50 percent for their assets. Launch of new telecom players provided another boost to demand. As a result, occupancy levels were back to the pre-slowdown period of 70-80 percent leading to better revenues in the second half.

A lasting effect of the slowdown has been the reduction of prices for the OOH medium. In the latter part of the year, the occupancy rates reached the pre-slowdown levels but the rates for the displays were up 20 percent from the slowdown period of early 2009. The industry players expect the prices to go up slightly but do not see these rates rising back to the pre-slowdown period anytime soon.

As a result of the changed market dynamics and the evolved pricing scenario, there has been a distinct shift in the sectors advertising on the OOH medium (Figure 1). The share of the Financial Services sector has reduced due to the decreased overall advertising spends by this sector. On the other hand, the share of FMCG and M&E sectors has increased because of the increased affordability of the medium.

Contribution of various sectors to OOH industry

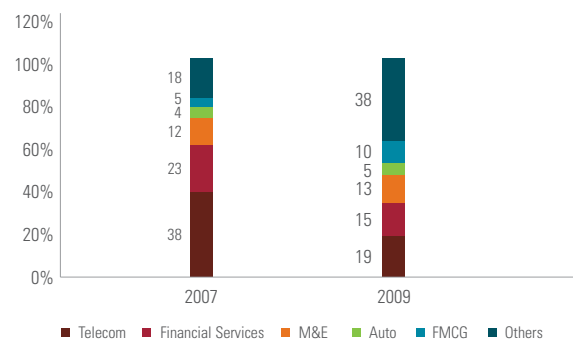


Figure 1 - There has been a shift in the sectors advertising in the OOH medium
Source: Industry sources

In 2009, the industry took some pro-active measures to make the medium more resilient in future downturns. Some of these initiatives are listed below –

- Creativity – Industry players now realise that the effectiveness of the medium could be unlocked through greater creativity and innovation. Lately, players like Mudra Max have recruited talent to ensure creative offerings. Even the industry is recognising the importance of creative offerings and has held the Outdoor Advertising Awards to encourage original and effective outdoor advertising.
- Steps towards making the industry more organised - The effect of the downturn was magnified for the outdoor players as the

1. KPMG Analysis, Industry interviews



media agencies delayed payments. Considering that an estimated 55 percent of inventory is sold through agencies, untimely payments worsened the liquidity scenario for OOH players. Recently, outdoor media owners in metros have come together to formulate uniform credit norms across cities in the country to safeguard OOH players in future. This initiative is led by Indian Outdoor Advertising Association (IOAA), which is working towards making the sector organized and uniform across cities².

OOH Industry (INR billion)	Total Industry Size
2006	11.65
2007	13.98
2008	16.08
2009	13.67
CAGR (06-09)	5.5%
2010p	15.03
2011p	16.69
2012p	18.69
2013p	21.12
2014p	24.08
CAGR (09-14)	12%

Source: Industry interviews, KPMG Analysis

Sector projections

According to industry sources, the billboards were the worst hit and showed de-growth of 20 percent in the calendar year 2009. The airports and street furniture were more resilient and showed de-growth in the range of 7-10 percent. The overall de-growth was therefore around 15 percent for the calendar year 2009. There was some resilience in the sector due to increased spends by telecom and FMCG players.

2. IOAA website, Industry interviews

While the growth of the sector slowed down for 2008 and 2009, we expect the sector to pick up speed again and show robust growth during the pre-slowdown period from 2010 onwards. Signs of recovery have been evident from the last quarter results.

Split of revenues from various OOH formats

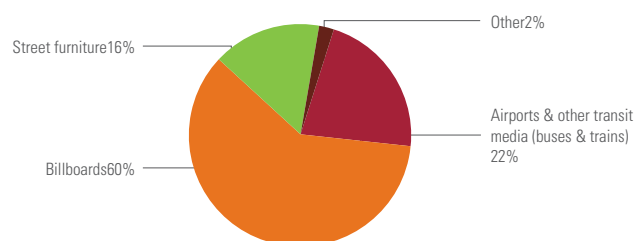


Figure 2
Source: Industry interviews

Description of OOH segments				
	Billboards	Street furniture	Transit	Other
Formats available	Bulletins, 8 sheet posters, 30 sheet posters, spectaculars display, wall murals, vinyl wrapped posters	Bus shelters, in store displays, kiosks, sidewalk posters, pedestrian panels, shopping mall displays, one sheet posters, commercial space	Airport terminals displays, exterior bus posters, interior bus cards, rapid transit systems, taxicab advertising	Airborne displays, carton and cup, stadium and arena, parking meters, vending cart umbrellas, campuses, residential blocks, cinemas

"The drop in advertising was driven by a fall in categories like BFSI, Aviation and Real Estate which are big categories for outdoor. The slack was to an extent picked up by fmcg and other traditional categories"



– Sunder Hemrajani
Managing Director, Times OOH



The growth in the sector is expected to come from the various media shown in figure 3. There are likely to be new contracts for grabs in Mumbai and Delhi for street furniture, driven by Commonwealth Games. Also, airports have done particularly well recently. Airports provide a high earning captive audience and result in higher recall rates. Given the plans to develop airports further, this segment is bound to see high growth rates. The billboards segment is likely to see moderate growth rates driven primarily by new investments in infrastructure, particularly highways and expansion of OOH players to tier II and tier III cities.

Key challenges and risks

The OOH medium is still a state-driven industry. Since the industry is still in the nascent stage of development, the regulations are still evolving. The regulations are made at the state level and vary across states. Many of these regulations are formulated without taking the industry players on board. The lack of centralisation in policy making leads to discrepancies in the regulations and is a deterrent to the consolidation and standardisation of the medium.

One missing link to help ensure standardisation is an industry body that represents the interests of the OOH industry. This body could act as a one point interface between the government, the advertisers, the media agencies and the OOH players. There have been efforts in this direction and an association called IOAA (Indian Outdoor Advertising Association) has been formed. The association has recently taken the initiative of introducing uniform credit norms across states. While this is a step in the right direction, there is still a long way to go.

Another major challenge for the industry is the lack of strong measurement metric. Currently, there are no standard benchmarks to measure the effectiveness of OOH, making it difficult for advertisers to measure effectiveness empirically. The stakeholders in the industry could benefit from the research in the area of impact measurement of the medium Vis-à-vis other media. Furthermore, there needs to be increased accountability from the OOH players in terms of deliverables to the clients. While MRUC (Media Research Users Council) has been active in this area, a lot more needs to be done to help ensure noticeable results.

	O&M	Laqshya	Lintas	Times OOH	Clear Channel	Primesite (Mudra)	JC Decaux	Future Media	DSN	BIG Street	OOH Media
Billboards assets		✓		✓	✓					✓	
Street Furniture assets		✓		✓	✓		✓			✓	
Transit assets		✓		✓	✓		✓		✓	✓	
Media cell	✓	✓	✓		✓						✓
National Presence	✓	✓	✓	✓						✓	
Rural	✓		✓								
Design Team	✓	✓	✓		✓	✓					
Digital					✓		✓	✓	✓	✓	✓

Figure 3

The fragmented nature of the industry also poses a challenge to the development of the medium. There are a lot of small companies, mostly local, in the industry which set their own quality benchmarks and pricing. Only a handful of players have a national presence (Figure 3). This poses challenges in the development of standardised media assets, accountability to customers and results in variations in delivery standards across the industry. Despite these challenges, there is no significant consolidation expected in the near future. One reason is that the big players have acquired high priced assets and are still trying to recover investments. As a result, these do not have the liquidity for acquisition activities. Besides, OOH being a local medium, understanding each geographically diverse market takes time and investment in the local talent pool. Centralisation of processes for an organisation in such an environment might not be practical in the short run.

A new challenge that has emerged out of the recessionary trend is for the OOH players to remain profitable. Many of the big players had bought assets on metro stations, airports and highways at substantially high prices with optimistic revenue expectations. In light of the unexpected correction in revenue expectations, some of these assets might not prove to be as profitable as previously projected. Whether this experience could cause players to acquire assets at a lower price in the future and thus put downward pressure on asset acquisition prices, is a trend we may have to wait and watch out for.

There has been limited government participation to enable the OOH industry to overcome these challenges. OOH players feel that the current tenders of minimum guarantees and fixed pricing do not incentivise the government to take pro-active measures for the development of the OOH industry. Instead, the revenue share or joint venture type agreements could make the government a stakeholder in the industry and could help ensure greater government participation in meeting the challenges faced by the industry.

All the large corporates in the OOH business had acquired assets at exorbitant prices/license fees during the pre-recession period. Most of these have still not recovered the investments and may not over the entire tenor of the license. These players would not have the liquidity to acquire smaller local players given that private equity funds are also now cautious while evaluating investments in this space. Consolidation in the industry is therefore a distant dream.

– Sonia Lal

Head New Business - Serve & Volley

Example of revenue share model in malls outside India

Revenue share models are prevalent in malls outside India. Typically an OOH player installs digital screens in the mall for displaying advertisements and information. These screens are usually touch-screens and also help shoppers locate different products and services throughout the mall. This model eases the cost pressure of the OOH player, provides subsidised service to mall owner and makes the experience of the shopper a more convenient one.

Expected evolution of the sector

Despite the current slowdown in the growth of the sector, the OOH medium is expected to get back to its pre-slowdown growth track very soon. A very relevant growth driver for the sector is the increased investment in infrastructure. The Planning Commission has envisaged infrastructure spend of USD 500 billion and USD 1,000 billion during the 11th and 12th plans respectively.³ This would spur investments and modernisation of airports, metros and highways. Specifically, Chennai and Kolkata airports are planned to be modernised in the next 2 years followed by Chandigarh, Ahmadabad, Goa and Cochin.

Another growth driver is the private sector investment in malls, multiplexes, real estate and high-end retailers. This can ensure a consistent supply of high quality advertising spaces thereby increasing the supply and demand of outdoor assets.

3. Exchange4media – Rewind 2009



Expected growth in investments in organized retail and multiplexes

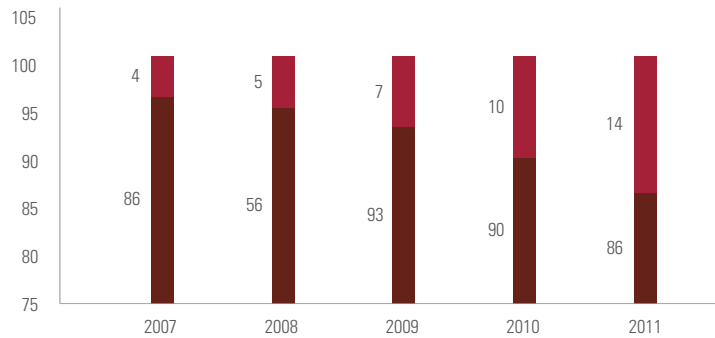


Figure 4
Source: Angel Broking report, KPMG Analysis

“The OOH media properties commanded extremely high rates during pre recessionary period. The severe impact of the slowdown on the OOH business led to corrections in their prices.”



– Suman Srivastava
CEO - Euro RSCG

The growth could also come from the fact that consumers are spending more time out of home in retail outlets, on roads, airports and metros. This is likely to give more avenues for advertisers to target the audience while they are on the move.

The format of the medium is also likely to see a change in the near future. OOH players have already started investing in digital sign boards and digital TVs. With the emergence of organised retail outlets, modernised airports and metro stations, there is likely to be ample spaces relevant for the digital medium which is more engaging and is capable of having higher impact.

The creativity in content of the medium is also bound to increase with players like Mudra and Leo Burnett making strategic investments in developing the medium. Mudra has already started an Outdoor division and has run several end to end campaigns for key clients.⁴The outdoor industry as a whole has also started recognising the importance of creative offerings for the medium. This was evident in the recent Outdoor Advertising Awards where there was recognition given to creative offerings in outdoor advertising. With increased creativity, the impact of the medium is bound to be stronger.

4. Industry

A noticeable trend in the OOH space would be the increased OOH investments in the tier II and tier III cities. Currently, the top six metros account for ~60 percent of OOH spends but only 30 percent of consumption (Figure 5). Also, the industries that contribute the a lot to OOH are telecom, BFSI, M&E, Auto and FMCG. All of these sectors are growing faster in tier II and tier III cities compared to metros. For example, telecom growth in the metros was 58 percent while that in the rest of India was 93 percent. Thus, tier II and tier III cities present significant latent potential for OOH growth. However, OOH players are not investing in these cities immediately as the costs of setting up and managing assets are comparable to those of metros and immediate returns are much less. Despite the long term potential, the industry players are wary of entering the tier II/III space just yet.

Geographical break up of OOH spends in 2009

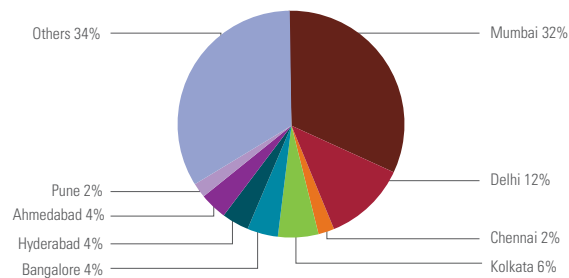


Figure 5
Source: Industry interviews

Way forward

OOH advertising has suffered on account of the downturn, but the potential of the medium can be leveraged only if the challenges are addressed by the industry. With the increased infrastructure development activities and evolution of new formats like digital advertising, OOH offers several options to advertisers to reach their target audience. The innate strengths of OOH, being a local medium and having a lasting impact, is likely to foster continued interest from the advertisers. However, the extent of growth of the medium may depend on OOH players investing in creative content development, designing a transparent metric for measurement and fostering consistent and fair policies across states. The critical success factors for the industry and their overall impact is highlighted in Figure 6. OOH space if developed as an industry judiciously, can have a deep impact on the advertising world.

“Despite all shortcomings, with every metric in marketing and sales in India emphasizing huge increases in buyer presence in the OOH space and with a buoyant economy, there is no way OOH spends will remain stagnant or see only modest growth. Financial year 2010-11 is bound to see growth bouncing back to higher levels – which will actually see it where it left off when the downturn hit – October – November, 2008. New growth of urbanization and in commercial real estate developments also support the OOH growth projections.”



– Indrajit Sen
President Projects - Laqshya OOH

Critical success factors for the OOH industry going forward

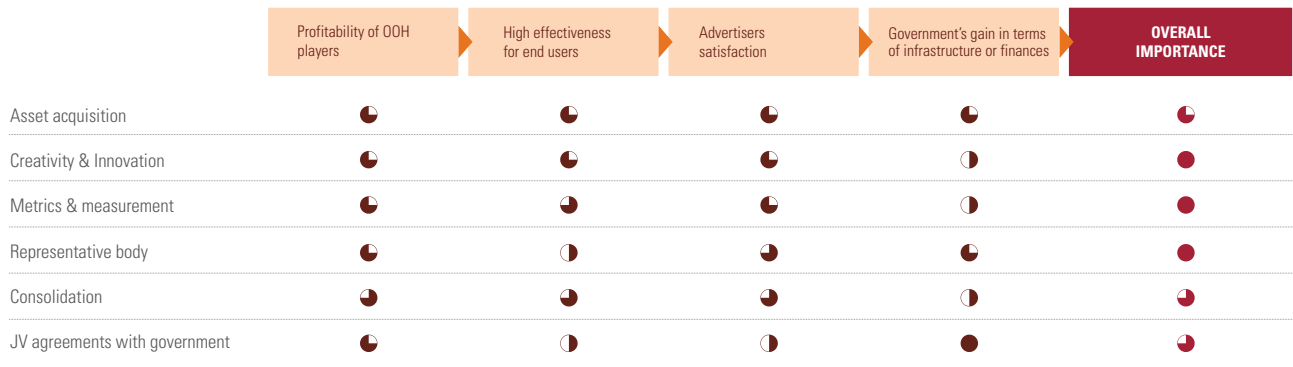


Figure 6 - Critical Success Factors for the OOH Industry going forward
 Source: KPMG Analysis

How OOH Players in UK dealt with some of the challenges facing the Indian industry

Representative body – There is an industry body Outdoor Advertiser’s Association (OAA), whose role is to provide a central reference point for the outdoor industry in which it is possible to protect and advance OOH players’ relationship with the advertising community, the public, and national and local government.

Standardisation in offerings – OAA has formulated a Charter that sets out certain best practices to which members of the OAA should adhere in order to enhance the effectiveness and wider reputation of the outdoor advertising medium in the UK. The leading practices include guidelines on maintenance of outdoor sites, quality of displays, content, health and safety policies, and procedures for dealing with complaints.

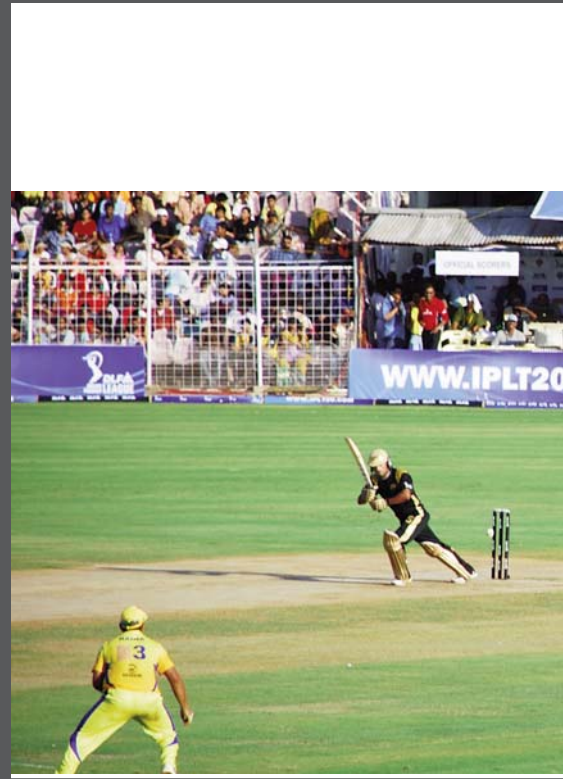
Audience Measurement Metric – POSTAR (Poster Audience Measurement) is the name of the research methodology which provides the industry’s site classification and audience measurement system. It is run by POSTAR Limited which is the Joint Industry Committee (JIC) representing many sides of the industry (OAA, outdoor specialists, advertising agencies and advertisers). Audience coverage and frequency is built up from traffic and pedestrian passages past sites, which in themselves are classified by various criteria. POSTAR is funded by OAA members and outdoor specialists.

Source - Industry research

“2009 was a tough year, with drop in occupancy and rate cuts across properties. However 2010 has been welcomed on a positive note and we can expect growth rates to bounce back to pre recessionary levels.”

– Yogesh Lakhani
 CMD - Bright Outdoor





IPL 2

FROM INNOVATION IN
2008... TO A SUCCESSFUL
BRAND IN 2009!



10

IPL 2

FROM INNOVATION IN
2008... TO A SUCCESSFUL
BRAND IN 2009!



The IPL is now almost three years old. And in just three years, the league has been able to achieve something that other mature leagues have managed to do only after many years of existence. It has managed to attract a vast majority of the top players in the sport and has also extended its presence to shores outside its country of origin. The IPL in South Africa was an economic bonanza for the host country at a time when the world was just about recovering from the worst financial crisis in recent times.

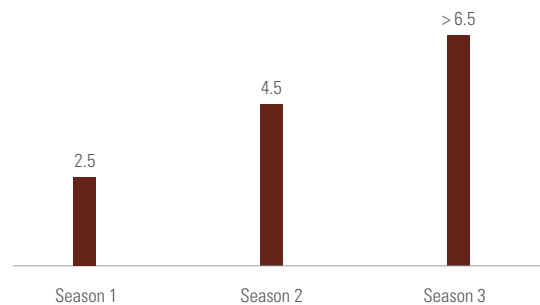
The move to South Africa though forced by circumstances turned out well

After a successful Season 1, the league had an uphill task getting Season 2 off the ground. The terrorist attacks on Mumbai followed by the attack on the Sri Lankan cricket team in Pakistan raised security concerns to the highest possible levels amongst foreign players. To add to this, the Government of India's limited ability to provide security cover to the tournament due to the impending general elections put Season 2 at risk. Without the requisite security cover, it was extremely improbable that top players, foreign or domestic would have participated. The organisers therefore were forced to evaluate hosting the tournament in a foreign country. The move to South Africa, however, proved to be a providential one. The tournament was not truncated and Indian and global fans got to witness some high quality cricket. The organisers were able to test the opportunity of the leagues potential overseas and the IPL was able to broaden its fan base by attracting a new set of international fans. And finally, the league flagged South Africa on the Indian tourists' map. In conclusion, IPL 2 proved that in a world where broadcasting revenues derived from India is the primary source of revenue, the success of a cricket tournament could be venue neutral.

Viewership trends

Series	Avg. TVR	Cumm. Reach	T.S.U (in mm:ss)
IPL Season 1	6.6%	31 Mn. (83%)	06:44
IPL Season 2	5.6%	36 Mn. (81%)	05:41

Aggressive growth in broadcast revenues





The average TVR was lower for the matches in Season 2, but this was offset by the greater number of absolute viewers. Future seasons are likely to see more matches during prime time.

The average TVR for the matches in Season 2 was 5.6 as compared to 6.6 in Season 1 (TG: CS ABC Male 15+)¹. Though average TVRs declined in Season 2, the absolute reach of the IPL in Season 2 increased¹. According to a Map (Audience Measurement and Analytics), total number of viewers for the first seven matches in Season 2 was estimated at 48 million as compared to 46 million for the first eight matches in Season 1. The main factors that affect TVR are the teams that are playing, the timing of the match and the relative importance of the match. An analysis of TVRs last year (Table 1) reveals that matches scheduled at prime time on week days notched higher ratings than those matches scheduled at prime time on a weekend. Also afternoon matches on weekends had low TVRs. The same phenomenon was observed in Season 2 matches as well¹. The learnings from Season 1 could not be incorporated in Season 2 due to the limited maneuverability available to organisers. Fifty nine matches had to be squeezed into 36 days vis-à-vis the 44 days which would have been normally available. In future seasons, however, organisers are likely to optimise fixtures to foster high ratings throughout the season.

TVRs: A comparison between seasons

Position	IPL 1	IPL 2	+/-
Avg. Tournament	6.6 ⁵⁸	5.6 ⁵⁷	-15%
Avg. League Matches	6.4 ⁵⁵	5.5 ⁵⁴	-14%
Noon League	5.2 ¹³	5.7 ²⁰	10%
Prime League	7.1 ³⁸	5.4 ³¹	-24%
Wash out Matches	5.5 ⁴	5.46 ³	2%
Semi Final	8.3	8.7	4%
Final	13.5	13.0	-4%

Figures in Right bottom corner are # of matches in their respective league position
 Source: TAM Peoplemeter Systems; TG: CS ABC Male 15+ yrs; Markets: All India; Event: IPL 1 and IPL 2

Match Timing	Season 1 : Average TVR	Season 2 : Average TVR*
Weekday Primetime	5.3	5.3
Weekend Primetime	5.1	4.9
Weekend Non Primetime	3.6	3.7
Weekday Non Primetime	3.1	3.2

* For Season 2, matches till 16th May 2009 were considered
 Source: TAM Media Research

1. TAM Media research

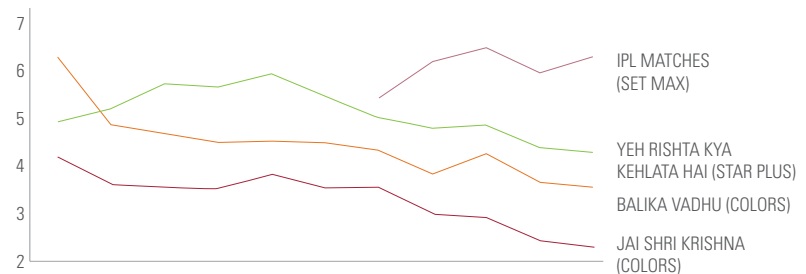


Season 2 has re-confirmed to advertisers that the tournament is the number one programme.

The top three programmes in terms of TVR in the period 18 April to 24 May 2009 have been IPL matches. Graph 1 indicates that when IPL matches were on, other programs took a back seat. There has been a distinct drop in the TVRs of top GEC programs during the weeks when the IPL has been taking place². This seems to indicate that television audiences switch from their favourite programmes to watch IPL matches during this period. With the reach and attractiveness of IPL thus re-affirmed, advertising rates during IPL are likely to go up further in Season 3.

The IPL also had a substantial impact the on film industry revenues in Season 1. With the match timings coinciding with the timings of the afternoon and evening shows, a reasonable number of moviegoers stayed away, either to watch the IPL matches on television or in stadia. Season 2 onwards, the Indian film industry has factored the IPL into their release schedules.

TVRs of top programs



Source: TAM Media Research

Advertising Snap Shot IPL 1 Vs IPL2		
Spot Classification	IPL Season 2008	IPL Season 2009
No of Categories	80	59
No Of Advertisers	95	61
No of Brands	207	147
No of Creatives	251	251
No of New Creatives	36	33
No of Platforms for Sports Sponsorship		
Instadia	63	63
Onscreen	33	30
No of Advertisers for Sports Sponsorship		
Instadia	73	81
Onscreen	30	27
No of Brands for Sports Sponsorship		
Instadia	106	113
Onscreen	114	121

Source: Adex India (A Division of TAM Media Research)

Period: IPL Season1 & IPL Season 2 (Live Telecast Only includes Extra Innings, Mid Analysis and End Analysis also)

2. TAM Media research

Revenues of teams are likely to increase in the short term owing to enhanced central revenues

The revenue for each IPL team comes from five main streams:

- The first revenue stream is the central broadcasting revenue. The re-negotiated deal that IPL has tied up with the World Sports Group and Multi Screen Media (owners of the Set MAX channel) is expected to enhance revenues for the teams³. Another feature of the broadcasting deal is that it is back loaded. This means that the amount that WSG-MSM pays to IPL is likely to increase in later years. This may, however, be offset somewhat due to the addition of new teams in the future
- The second revenue stream is from central sponsors. Given the general economic slowdown in 2009, IPL was unable to find takers for the additional three vacant central sponsor slots⁴. If each slot is assumed to be valued at INR 150 to 200 million, this was an opportunity loss for the franchises and the IPL. In the future seasons, however, it is expected that these slots may certainly contribute to revenues
- The third revenue stream is from local sponsors. The teams have been successful in increasing the number of sponsors associated with their teams and this is likely translate into additional revenues. In Season 1, the Kolkata team had eight sponsors/partners backing it. The other teams managed to get three to six sponsors/partners. In Season 2, except the Bangalore team, all other franchisees had at least nine brand associations or sponsorships. The top franchisee in Season 2, in terms of local sponsors was the Chennai team, which has 14 sponsors⁵. Franchises have so far resorted to two types of sponsorship deals viz: fixed amount and barter deals. The wide reach of IPL, especially in the “hard to reach” youth and males target group and the presence of iconic players and Bollywood stars is likely to continue to drive sponsorship income for teams in the future
- The fourth revenue stream is from ticket sales. In Season 1, ticket sales accounted for as low as 7 percent of total revenues to as high as 25 percent of total revenues for various teams⁶. In Season 2, many of the teams had planned an increase in their ticket prices and had intentions of applying a strict “no free tickets” regime. With the tournament moving to South Africa, the efficacy of these strategies could not be tested. Season 3 is expected to see teams focusing on this aspect and in making strong efforts to enhance this revenue stream. This augurs well for the sports infrastructure in the country as the teams are likely to be inclined towards investing in improving spectator facilities at stadiums. Internationally, gate receipts comprising regular and premium ticket sales and sale of corporate/hospitality boxes account for approximately 15 percent to 20 percent of total revenues.⁵
- The fifth revenue stream is from licensing and merchandising. Approximately 80 percent of the merchandizing revenues are retained by IPL teams with the balance going to the IPL. This is unlikely to be a major revenue stream for franchisees in the near term. The licensing and merchandising market is at a nascent stage in India. With organised retail constituting only 7 percent of the total retail market, an important supply chain enabler for merchandising is undeveloped in India⁶. Another factor that negatively affects the merchandise sales is the short duration of the tournament. While, some of the other leagues (such as the English Premier League) is eight to nine months long⁷, the IPL is only a six week affair. Given that the merchandise sales are highest during the tournament and taper off during the off-season, the short duration of the IPL is an inhibitor to merchandising and licencing revenues.

3. Publicly available information (http://www.sports-city.org/news_details.php?news_id=7578&idCategory=95)

4. Publicly available information (<http://www.livemint.com/2009/04/06231008/Getting-ready-for-a-roundthe.html?pg=3>)

5. KPMG analysis

6. Publicly available information (<http://ezinearticles.com/?Organized-Retail—Challenges-Ahead-For-Indias-Organized-Retailers&id=3240521>)

7. Publicly available information (<http://www.premierleague.com/page/FixturesResults>)



Distribution of advertising hours across the value chain

SPONSORS	DURATION (IN HRS)
Title Sponsor(2)	272 hrs
Official Sponsor(5)	101 hrs
Franchisee(8)	58 hrs
Cricket Board(4)	57 hrs
Associate Team Sponsor(27)	50 hrs
Team Sponsor(8)	31 hrs
Associate Sponsor(11)	16 hrs
Advertiser(56)	16 hrs
Apparel Sponsor(3)	7 hrs
*Others(4)	15 hrs
Total	625 hrs

Future outlook

The need to develop and sustain a loyal fan base is critical for success

A key factor for the success of any sports league is the creation of a loyal fan base. In Season 2, many of the IPL franchises started fan clubs with benefits such as discounts on tickets and team merchandise, opportunity to meet players and discounts at partner outlets to registered members of fan clubs. Franchises have also resorted to high levels of advertising/promotional activities. While a few teams are leveraging the star-status of their owners and players to develop a loyal pan-India fan base, others are leveraging local cricketers and bringing in a touch of regional culture to strengthen geographical loyalty during the tournament.

In order to sustain and nurture a loyal fan base that is developed during the tournament, teams may need to provide interface points for fans during the off-season as well. However, contractually, IPL teams control the players only during the six-week IPL season and then the players are free agents during the rest of the year. If IPL franchisees want the players to get involved in fan engagement activities or they want to organise exhibition matches during off-season, they may need to enter into additional arrangements with their players.

In the long term, building and owning a stadium might be a key strategy

Many of the stadiums where the IPL matches are currently hosted are owned by either the State sports authorities or local cricket associations affiliated with the BCCI. This limits the extent to which the IPL teams can grow match day revenues as mentioned earlier. Many of the successful clubs in the English Premier League, NBA, NFL own their stadiums and have complete control over the costs and revenues related to the stadium. They are able to invest in providing a better match day experience to spectators and as a consequence are able to increase the ticket prices.

For IPL team owners, some of the challenges against constructing/owning a stadium are: the short duration of the tournament, lack of suitable events to help ensure stadium utilisation in the off-season, high real estate prices, plethora of regulations in organising ticketed events, unfavourable tax regime, etc. However the business model of owning a stadium is a tested one, in major leagues of the world and is a strategy worth evaluating for IPL team owners.

New media revenues

IPL also provides a significant opportunity to enhance revenue streams through the internet and mobile platforms. Google's two year agreement with the Indian Premier League to offer live and on-demand access to all matches of Season 3 of the tournament on YouTube is a step in this direction.

As a part of the arrangement, Google and the Indian Premier League are to equally share the internet advertising and sponsorship revenues from the event.⁸ While these revenues are initially expected to be small as compared to broadcast revenues, the rapid growth of the online advertising market provides a substantial revenue opportunity for the league in the near future. Additionally, the Google deal is likely to give the league access to markets beyond those for which broadcasting rights have been sold, thereby broadening the fan base.

The imminent launch of 3G services in India within the next 12-15 months could also provide the league an opportunity to enter into content deals with the telecom operators and aggregators to provide rich data streaming services to subscribers.⁹

Expansion of geographical footprint

The success of Season 2 reinstated the belief that cricket can travel across geographies with minimal impact to stakeholders' economics provided 'one of the biggest markets' for the sport – India – is taken care of. Season 2 hit South Africa with a lot of fanfare and grounds were routinely sold out as the audience buzzed to the glamour of IPL. Going forward, IPL has the potential to reach to global destinations thereby increasing the popularity of the format and franchises. Moreover, like football, franchises can routinely participate in non-cricketing nations via exhibition matches to create awareness for the sport and increase popularity for this innovative format. However, it is imperative that the scheduling of such events remains focused to the time preferences of Indian audiences to maximise broadcasting revenues.

Multiple seasons in a year

Making IPL a biannual event is expected to reap enormous benefits for all stakeholders of this property. However, contrary to popular opinion, multiple iterations of the IPL in a year seems difficult, given the crowded international cricket calendar. With the tight international schedule, the ICC and the leading cricket boards in the world may need to work closely with the BCCI to make IPL a biannual event. Moreover, with the ICC yet to announce the schedule for the international matches after 2012¹⁰, many of its stakeholders may have to take some tough decisions with regards to diluting the importance of international cricket. While, the popularity of the club culture over international matches is not uncommon in sports, whether this happens in cricket remains to be seen.

8. Publicly available information (<http://www.pluggd.in/google-india-youtube-grabs-2-years-exclusive-rights-to-ipl-297/>)

9. Publicly available information (http://www.dnaindia.com/money/report_in-face-saver-for-govt-3g-auction-dates-finally-set_1352189)

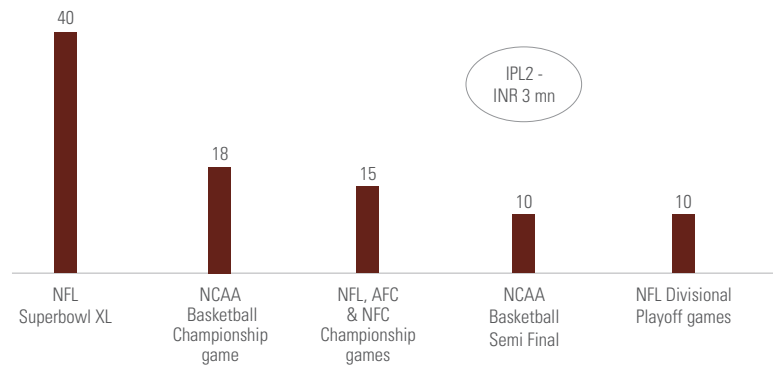
10. Publicly available information (<http://sify.com/sports/ipl-likely-to-be-the-part-of-icc-calendar-news-cricket-jegrNPebdae.html>)



Advertisement rates have headroom for growth

Interestingly, IPL still commands lower advertisement rates, compared to the leading North American sports franchises. While the North American levels are not likely to be reached in the near future, advertising rates are likely to grow at a healthy rate over the next five years.

Effective advertising rates per 10 seconds for leading American sports properties (based on USD per 30 second slots)



Source: Brand Reporter

Note: Figure in INR million

Note: Advertising rate for IPL2 championship game are PPP adjusted

Player salary costs are likely to be key factors that may influence profitability

Various systems are followed by leagues around the world for player salaries. While the National Hockey League (NHL), National Football League (NFL) and National Basketball Association (NBA) (all American leagues) have implemented salary caps, the European Soccer leagues have no salary caps. For example, the NFL has 32 clubs and in 2008 each club was allowed to spend up to a maximum of USD 116 million on player salaries¹¹. This figure has been arrived at, as a percentage of the gross revenues of the league and in 2008, the proportion was 57.5 percent. On the other hand, in the English Premier League, there are no salary caps and the richest clubs are able to offer huge salaries to star players. A fall out of this is that the EPL is dominated by the "Big 4" clubs – Manchester United, Arsenal, Chelsea and Liverpool. The current IPL contracts of the players with individual teams are until 2010. The rules, post-2010, have not yet been decided by the IPL. The IPL auctions of 2008 and 2009 had salary caps of USD 5 million and USD 2 million respectively¹². As was seen in both auctions, some team owners have deep pockets and are ready to pay large amounts to get "big-name" star players into their teams. The salary model that IPL opts post 2010 is likely to be a key factor in shaping the future course of IPL.

Involvement of the teams in grass roots level activities is likely to increase and this might manifest in teams setting up cricket academies

As player costs increase, franchises may adopt the strategy of recruiting "home grown" players. Emerging Media, the owner of Rajasthan Royals, owns a format called Cricket Star. This is an interactive multimedia cricket talent hunt. In 2006, Dinesh Salunkhe was chosen in the first season of the talent hunt. In 2008, he was awarded a contract to play for the Rajasthan Royals¹³. There are likely to be increasing incidences of such scouting, spotting and nurturing of talent. Many teams are likely to start cricket academies to this end. This is likely to serve two purposes – one, it can serve as a source of revenues and two, it could be an apt platform to spot and hone talent for their benefit.

11. Publicly available information (<http://www.webarticles.co.za/articlebase/?p=61556>)

12. Publicly available information (<http://sify.com/sports/salary-cap-on-ipl-players-to-stay-modi-news-cricket-jegrAmihec.html>)

13. Publicly available information (<http://www.cricinfo.com/india/content/player/278482.html>)

The Champions League is an important source of revenue for the teams and this is likely to increase the stakes of winning in IPL

The first edition of the Twenty20 Champions League, an international Twenty20 cricket competition between clubs from Australia, England, India, Pakistan and South Africa, could not be held in 2008 due to the terrorist attacks in Mumbai. The finalists of each IPL season qualify to play in the Champions League. The second edition of the Champions League was held in October 2009. Given the high stakes involved, it promises to be another money making machine for the cricket franchisees. For instance, ESPN Star Sports acquired the global commercial rights for Champions League Twenty20 for USD 900 million for a 10 year period¹⁴. This sum is expected to be distributed between respective national cricket governing bodies and the franchisees leading to incremental revenues for qualifying teams. Moreover, the prize money pool is USD 6 million each year of which the winning team is likely to get USD 2.5 million¹⁵. Therefore, the Champions League can also be an important source of revenue for IPL teams and given the high amount of prize money and broadcasting revenues, stakes to reach the finals of the IPL may be very high.

Institutional funding/strategic partnerships (including brand associations)

Given the success of IPL, there is an increasing interest from private equity investors and strategic partners to look at acquiring equity stakes in franchises.

Whilst cricket in India is a coveted commercial property, it is important to realise that IPL has transformed into an independent brand commanding significant brand exposure potential. Investors/sponsors are therefore increasingly expected to realise over time that they may have to pay higher values to be associated with the league and its successful franchises.

14. Publicly available information (<http://www.crickworld4u.com/articles/epsn-star-sports-get-champions-league-ri-150.php>)

15. Publicly available information (<http://techblogbiz.blogspot.com/2009/10/champions-league-twenty20-2009-prize.html>)



ADVERTISING

MOVING TOWARDS A BRAND
LED SOCIETY



ADVERTISING

MOVING TOWARDS A BRAND LED SOCIETY



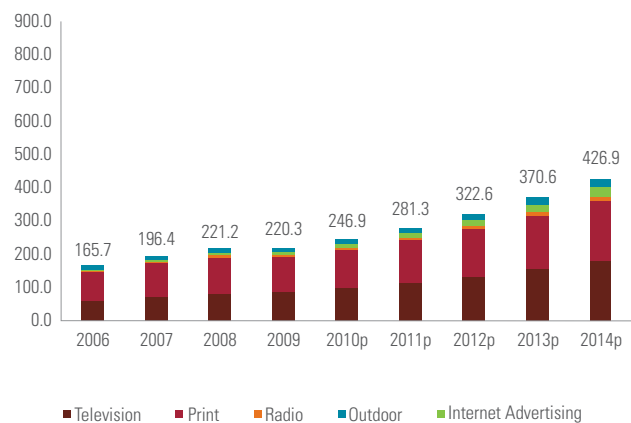
Indian Advertising Industry:

Amidst an uncertain economic environment and low industry sentiment that prevailed in 2009, the Indian advertising industry managed to sustain its media spend levels of 2008. While the worldwide advertising forecast for 2009 was estimated to fall by 5.5 percent¹, Indian advertising revenues were not subjected to similar reductions. The marginal fall of 0.4 percent² was not pervasive across media platforms as television and internet advertising managed a growth of 7 percent and 25 percent respectively, while other platforms registered a degrowth of over 5 percent. The year 2009 brought in a renewed focus on the bottom line margins and greater consciousness on discretionary spend amongst advertisers.

With the market picking up in the second half of 2009, the Indian advertising industry is expected to grow by 12 percent in 2010 to reach INR 246.9 billion³. Internet advertising, in particular, continues to generate huge interest and, given its small base, is expected to grow the fastest at a CAGR of 29.6 percent over the next five years.

Country	2009 Ad spend forecast
	-4.30%
	-13.90%
	-19.00%
	-15.90%
	-9.80%
	3.20%

Size of the Indian Advertising industry



Source: KPMG analysis

"2009 was a great teacher. The boom times had made business managers very romantic in their world-view, 2009 shook them up and brought them back to reality. It was a time when we as an organization took lots of tough calls, made all the changes we had to make, to create a future facing organization. Changes that we otherwise could not have made had the environment been different."



– Mahesh Chauhan,
Managing Director,
Rediffusion Y&R

1. Group M – This Year Next Year – Summer 2009
 2. KPMG Analysis, Industry Interviews
 3. KPMG Estimates, KPMG Interviews



Size of Indian Advertising Industry

Advertising industry (INR billion)	2006	2007	2008	2009	CAGR (2006-09)	2010p	2011p	2012p	2013p	2014p	CAGR (2009-14)
Television	61.0	71.1	82.5	88.0	13.0%	98.6	113.3	132.6	155.2	181.5	15.6%
Print	85.0	100.0	108.0	103.0	6.6%	113.6	126.7	141.5	157.8	176.4	11.4%
Radio	6.0	7.4	8.4	7.8	9.2%	8.7	10.0	11.7	13.8	16.4	16.0%
Internet advertising	2.0	3.9	6.2	7.8	56.4%	11.0	14.6	18.2	22.8	28.5	29.6%
Outdoor	11.7	14.0	16.1	13.7	5.5%	15.0	16.7	18.7	21.1	24.1	12.0%
Total Size	165.7	196.4	221.2	220.3	10.0%	246.9	281.3	322.6	370.6	426.9	14.1%

Source: KPMG Interviews, KPMG analysis

Indian Advertising Industry - Year on Year Growth

Advertising industry Y-o-Y Growth	2007	2008	2009	2010P	2011P	2012P	2013P	2014P
Television	16.6%	16.0%	6.7%	12.0%	15.0%	17.0%	17.0%	17.0%
Print	17.6%	18.0%	-4.6%	10.3%	11.5%	11.6%	11.5%	11.8%
Radio	23.3%	13.5%	-7.0%	12.0%	14.0%	17.0%	18.0%	19.0%
Internet advertising	91.2%	60.0%	25.0%	40.4%	33.3%	24.7%	25.3%	25.0%
Outdoor	20.0%	15.0%	-15.0%	10.0%	11.0%	12.0%	13.0%	14.0%
Overall advertising industry	18.5%	12.6%	-0.4%	12.1%	13.9%	14.7%	14.9%	15.2

Source: KPMG Interviews, KPMG analysis

Percentage contribution by media to overall advertising spends									
Television	36.8%	36.2%	37.3%	39.9%	39.9%	40.3%	41.1%	41.9%	42.5%
Print	51.3%	50.9%	48.8%	46.8%	46.0%	45.0%	43.8%	42.6%	41.3%
Radio	3.6%	3.8%	3.8%	3.5%	3.5%	3.5%	3.6%	3.7%	3.8%
Internet advertising	1.2%	2.0%	2.8%	3.5%	4.4%	5.2%	5.6%	6.2%	6.7%
Outdoor	7.0%	7.1%	7.3%	6.2%	6.1%	5.9%	5.8%	5.7%	5.6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

While print continued to dominate advertising spend in 2009, it lost a fraction of its overall market share to other mediums. Despite a 4.6 percent fall in advertising revenues, agencies continue to be bullish on print advertising in 2010 and 2011. Going forward, television is expected to garner a greater percentage of the total advertising revenues and constitute the largest share of the overall media spend eventually.

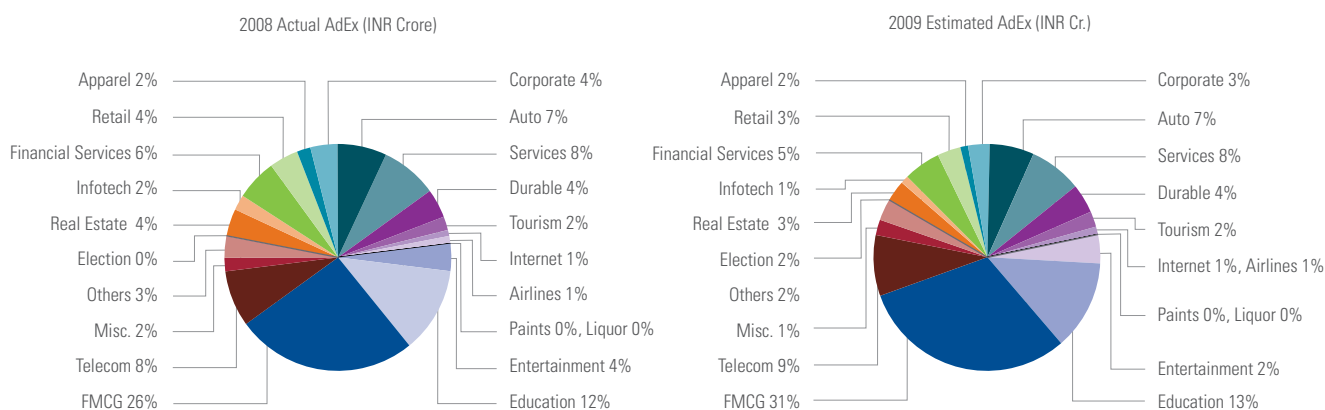
It is interesting to note that in 2009, with declining spot rates and an increased focus on expanding the market, the total number of advertisers increased by 7 percent on print and 11 percent on television⁴. Compared to 2008, both regional print and television gained a larger share of advertising volumes while national players marginally lost their hold.

Percentage of regional vs. national ad volumes (CC) on print		
National	4%	3%
Regional	96%	97%
Percentage of regional vs. national channel ad volumes (secs) on TV		
National	58%	53%
Regional	42%	47%

4. TAM AdEx Analysis

Advertising spend by category: The advertising spend by Real Estate, InfoTech, Financial Services, Retail and Apparel sectors fell significantly in 2009 while that by FMCG, Telecom and Education are believed to have increased over 2008⁵. However, the distribution of advertising spends across categories saw some shift. Several FMCG brands including Coke and Pepsi joined the online advertising platform. IT and Telecom players continued their digital spend while the share of BFSI sector in online advertising volumes declined⁶. Education, which largely dominates advertising on print media, found coverage on national television and radio. The luxury segment which had until recently restricted advertisements to English newspapers and magazines saw television and OOH campaigns for niche brands such as Mont Blanc.

Advertising spend by category



Source: KPMG analysis
Note: All percentages rounded to the nearest decimal

Key trends of 2009

1. Premium media property – IPL: The ability of a good product to attract greater advertising revenue was evident when Sony Entertainment Television (SET) made INR 4.5 billion in the second season of IPL⁷. Despite tough market conditions, the revenues from IPL witnessed significant growth rates as compared to the previous year. In 2010, SET is expected to make approximately INR 6.5 billion in advertising during the third season. Moreover, with Youtube acquiring the online video streaming rights for IPL⁸, additional advertising inventory has been added for this premium media property

2. The roadblock strategy: In 2009, several brands adopted a roadblock strategy on print and television. FMCG major HUL did a roadblock across the entire Star and Zee network of channels in September⁹ to promote 20 of its brands. The Times of India print edition on 11 November, 2009 saw advertisements of Volkswagen showcasing three of its brands –Beetle, Jetta and Touareg. In an attempt to gain maximum brand exposure, advertisers are resorting to increase ad spends that range from INR 80-90 million per day for a leading television channel bouquet¹⁰ and over INR 70 million for a leading English national daily¹¹

5. KPMG Interviews, GroupM Estimates – This Year Next Year 2009
6. IAMA Online Display Advertising report - December 2009
7. Mint – 29th January 2010
8. www.guardian.co.uk – 20th January 2010
9. Indiantelevision.com – 16th September 2009
10. Indiantelevision.com – 28th October 2009



3. Focus on creativity and innovation: There were several creative advertising campaigns across mediums in 2009. With the array of successful Zoozoo advertisements during IPL and the festive season of Diwali and Christmas, Vodafone generated universal appeal without any celebrity endorsement. In order to showcase India's first planned hill city development project by the infrastructure group HCC, Times of India undertook a multi million Lavasa Future City Campaign that focused on City Management, Infrastructure and Environment¹². Volkswagen also experimented with their OOH campaign that had a toy car moving around the Logo, using it as a road

4. Social messaging: Promoting social messages through the brand is gaining popularity amongst advertisers nowadays. The "Walk and Talk" campaign by Idea followed by the recent Aircel promotions on "Save the Tiger" are cases in point. Tata Tea's "Jago Re" campaign during the elections urged citizens to vote, thus promoting a social message through its brand

5. Greater volumes but lower revenues: 2009 saw the launch of 83 new television channels and a 31 percent increase in advertising volumes¹³. While print ad volumes dipped by 3 percent in the first quarter of 2009¹⁴, it closed the year with a 3 percent increase compared to the previous year¹⁵. However this increase in volume did not reflect in increase in ad revenues primarily due to their inability to realise higher ad rates in 2009. While television advertising revenues grew by 7 percent, advertisers pulled back on print resulting in a 5 percent drop in print ad revenues

6. Market leaders maintain their advertising spends and newer advertisers enter the market: At a time when most advertisers pulled back on their advertising spend, the leaders in most categories continued with their advertising investments thus increasing brand exposure. FMCG market leader HUL increased its advertising and promotion budgets by over 30 percent for the period from April to September 2009¹⁶. Moreover, new brands such as MTS and Tata DoCoMo invested significantly in advertising¹⁷.

"One notable observation over the last 18 months is that leaders in different categories didn't curtail advertising investments. This helped them attain greater visibility during times of economic turbulence due to lower clutter. We also noticed that these players didn't require heavy spikes in their advertising spends once the market stabilized. Advertising needs to be a continuous endeavour, not just a sporadic activity."



– Madhukar Kamath,
Managing Director and CEO,
Mudra Group

12. Exchange4media – 9 November 2009
13. TAM-AdEx Analysis
14. Exchange4media – TAM AdEx- 19th May 2009
15. Exchange4media – TAM AdEX 22nd January 2010
16. Business Line – 12 November 2009
17. Industry interviews

7. Elections 2009: The general and state elections in 2009 helped bridge the downturn impact on advertising industry with campaigns spread across media including Print, TV, Radio, Internet and OOH. While print accounted for 40-50¹⁸ percent of the advertising spend, television saw a total of 176,001 ads aired across 150 channels.

Election campaign -2009 in TV	
Number of Election Ads	1,76,001
Election Campaign Duration	1439 Hours
No of Channels used	150
No of Individual Parties Advertised	52
Election Campaign Reach	93.70%

Source: TAM PeopleMeter Systems TG: CS 4+ Market: All India Period: Jan-May, 2009

Emerging focus areas for the industry

1. Regionalization: The number of regional television channels has gone up from 114 in 2008 to 135 in 2009 while only five additional Hindi channels have been added during the same period¹⁹. The six key regional television markets comprising of the four southern states, West Bengal and Maharashtra have been growing at a much faster rate compared to the overall television market in India. The average weekly television consumption in the south is also substantially higher than the HSM and all India markets. Advertisers looking to specifically target these regional markets could benefit from devising a strategic marketing and branding methodology, inclusive of the local flavours to attract the consumer

Size of key regional television markets		
Key languages	Size of advertising market (INR Cr)	Estimated growth for 2010
Telegu	700	20%
Malayalam	350	15%
Karnnada	300	20%
Tamil	900	20%
Bengali	400	25%
Marathi	320	20%

Source: KPMG Interviews, Industry Estimates

“There are two parallel forces erupting in India; one is a strong regionalisation wave emerging from the south as evident from the growing regional television and print media. The other is an equally powerful homogenising force arising from the Hindi and English language markets that dominates the major business cities. Effectively targeting this mix of audience will be the key.”



– Nakul Chopra,
CEO – South Asia,
Publicis

18. News reports, Centre for Media Studies

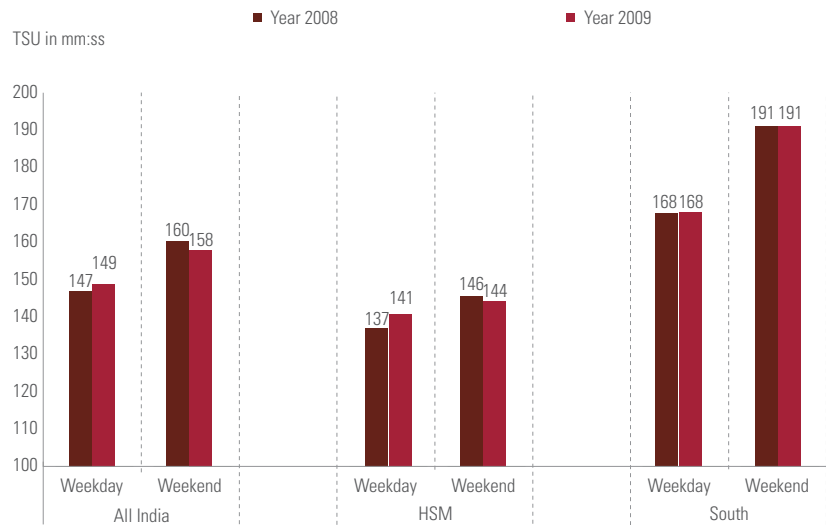
19. TAM Peopleometer system - Market : All India - TG CS 4+

“Recruiting the right talent is one of the key concerns for the Advertising business. Earlier agencies sourced talent from some of the best B-schools of the country; however, today, they find it difficult to match compensations offered by other industries. Moreover many individuals consider advertising as their launch pad for entering film and television production and thus creative agencies continue to lose talent to these two forms of media”



– Suman Srivastava
CEO, Euro RSCG

Average weekday and weekend time spent on levels of TV



Source: TAM peoplemeter system

2. Investing in talent: While institutes like MICA were set up to hone advertising and marketing skill sets, there has been little effort to further this initiative. Creating a larger local talent pool and developing specialised skill sets for an array of services and emerging media platforms will help overcome the current specialised resource constraints faced by the industry

3. Engaging in the consumer’s ecosystem: Advertisers today have realised the value of non traditional advertising mediums to enable a broader spectrum of touch points to target consumers. They are increasingly engaging with the consumer in his ecosystem through retail, activation, banners advertisement, in-game advertising, product placements in films, ambient media and online portals. Recently, ambient advertising has seen an expression in the most unconventional forms – take the case of 3 idiots again which saw stickers pasted across 10000 auto rickshaws in India with the caption “Capacity 3 idiots”

“Brand building earlier was the exclusive domain of the marketer. Today however, brands are co-created with the active participation of the consumer. Hence, it is imperative to engage the consumer through all the relevant touch points. This in turn affects the way an agency works, because the experts in all touch points will need to collaborate to communicate the idea with consumers and engage them in the best way possible”



– Madhukar Kamath,
Managing Director and CEO,
Mudra Communications



4. Looking beyond the top cities: It was interesting to note that in 2009 when clients pulled back on their advertising spend, there was limited deferment on their rural initiatives. As purchasing power of these inhabitants' increases, these markets continue to be a focus area for many advertisers. However, matching up to the distribution reach for their products along with the growing awareness through advertising is posing to be a bigger challenge for advertisers

5. Measurement systems: Measurement systems for media reach have been evolving gradually and suggestions to improve the different metrics are slowly being addressed. TAM has not only increased its universe but has also added digital homes to its sample. Print is likely to see the merger of IRS and NRS²⁰ and MRUC has finally undertaken the annual Indian Outdoor Survey for Mumbai and Pune. Adding other cities such as Delhi and Bangalore is also on the radar. As clients continue to demand a value for their advertising spend, measurement systems across media platforms are likely to continue to evolve

6. Ad Funded entertainment: Consumers are typically not receptive to ads on personal media such as mobile phone and emails, they are ready to accept advertisements in lieu of free content or services. A recent KPMG poll on Consumers and Convergence showed that 80 percent of those surveyed in India were open to receiving ads on their mobile phones in exchange for music downloads while 53 percent would view ads in exchange for free games. Moreover, with increased competition in the mobile services market, free minutes in return for advertisement on the mobile phone could be a market differentiator. YouTube is expected to stream the third season of IPL free of cost thus generating substantial interest from advertisers

7. Digital advertising: Recently, UK became the first major country where advertising spend of online advertising exceeded that of television²¹. With the growing number of internet users, online print editions, and recent uptake in social networking and gaming platforms, advertising on online media is expected to grow the fastest amongst all advertising media in India

20. Hindu Business Line – 26th August 2009
21. News.bbc.co.uk

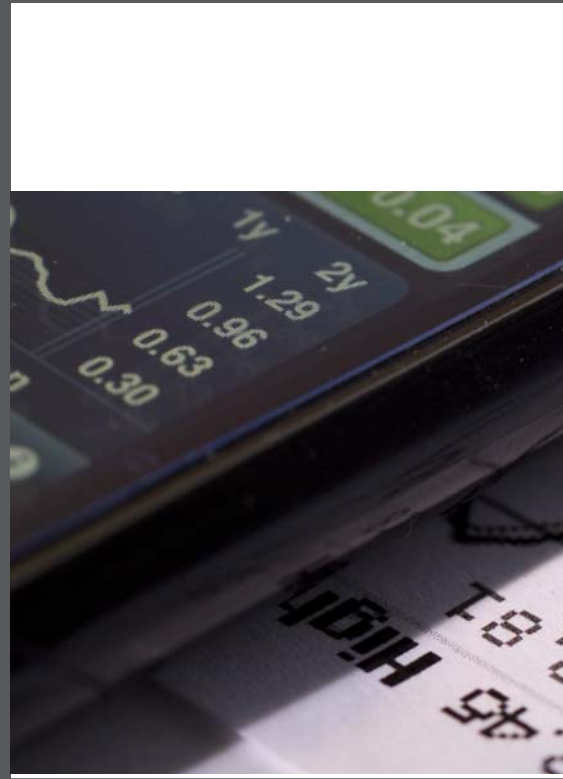
Percentage contribution by media to overall media spends in UK									
TV	31%	30%	30%	30%	28%	27%	26%	26%	26%
Radio	4%	4%	4%	4%	3%	3%	3%	3%	3%
Newspapers	40%	39%	38%	35%	33%	30%	27%	23%	23%
Magazines	16%	15%	14%	13%	13%	11%	11%	10%	10%
Cinema	2%	1%	1%	1%	1%	1%	1%	1%	1%
Outdoor	6%	6%	6%	6%	6%	6%	6%	6%	6%
Internet	2%	4%	6%	11%	16%	21%	26%	30%	31%
Media total USD mn	14,155	14,686	15,953	16,722	17,077	18,293	17,808	15,334	14,920

8. In-film product placement: The brand recall that James Bond movies have enabled for Aston Martin is perhaps too steep a comparison for Bollywood at this stage, but strategic product placements can help create an alternative branding platform for an advertiser. Recently, 3 Idiots roped in several brands that including Fortis Hospital, Mahindra (for its latest 2 wheeler), Airtel, Samsung, Pepsi Aquafina and Volvo²². If these opportunities are appropriately utilised,

Advertising spend over the last few years has accounted for approximately 1.2 to 3.5 percent of the GDP for other Asian markets such as Singapore, Hong Kong, China, Japan and Philippines²³. However the share of advertising spends in India remained in the low range of 0.4 to 0.47 percent. With India's GDP expected to grow at nearly 7 to 8 percent in 2010, the outlook for the year looks to be more promising with advertising growth returning to double digit levels. Last year saw several companies deploying creativity in brand campaigns and unique marketing strategies across innovative media formats. Going forward these trends will be more prominent as advertisers look to differentiate themselves in the market.

²². Hindu Business Line – 8th January 2010, Moneylife – 8th February 2010
²³. Pitch Magazine – February 2008





DEAL ACTIVITY AND INVESTMENT TRENDS



DEAL ACTIVITY AND INVESTMENT TRENDS



Deal volumes and values in 2009

Over the last few years, the Indian media and entertainment industry has seen a significant amount of deal activity from strategic and financial investors alike. However, against the backdrop of a challenging business environment, 2009 saw a dip in the overall values as well as volumes of deals in the Indian media and entertainment segment. In 2009, 36 deals were valued at USD 471 million as compared to 52 deals in 2008 at USD 879 million. Overall deal volumes registered a 31 percent drop in 2009.¹

In 2009, the sector witnessed 10 private equity deals as compared to 18 in 2008 with deal values amounting to USD 210 million. The segment also witnessed 26 mergers and acquisition deals valued at USD 261 million as compared to 34 deals in 2008.¹

Top deals in 2009 and YTD 2010

Date	Target	Buyer	Percentage sought	Deal value (USD million)
2010				
January	Maya Entertainment	Aptech Ltd	100%	16 ²
January	Taj Television	Zee Entertainment Enterprises Limited	45%	NA
January	Fame India	Inox Leisure	43.28%	14
2009				
December	Dish TV	Apollo Management LP	11.01%	100
December	NDTV Imagine Limited	Turner International India Private Limited	92%	126.5
November	NDTV Lifestyle	Scripps Networks	69%	55
June	Network18 Media and Investments Ltd	Saif Partners	11.34%	25.41

1. GT deal tracker 2009 and 2008 annual volume

2. Publicly available information (<http://www.indiantelevision.com/headlines/y2k10/jan/jan227.php>)



Television broadcasting

Catalysed by the global economic slowdown, the Indian media and entertainment sector witnessed its first wave of consolidation in 2009. The downturn had a considerable impact on corporate spending across media platforms, thus adversely impacting the Indian advertising industry. The decline in advertisement spending directly affected the major source of revenues for broadcasters. This led to considerable pressure on broadcasters, who sought to rationalise their existing portfolios by focusing on core competencies and exit segments which had witnessed hypercompetition in the preceding period.

A specific example of this is the Hindi GEC segment which saw large volumes of funding in 2007 and 2008 from both strategic and financial investors. Global broadcasting major Viacom entered into a joint venture with Network18 to launch Colors, 9X raised capital from a consortium of private equity investors, NBC acquired an equity interest in NDTV Networks and Time Warner - backed Miditech to mark their foray into the Hindi general entertainment segment, thereby expanding the market from three players to six within a short period of time. While the increased number of GEC channels expanded the market from a viewership perspective, it also led to fragmentation of advertising revenues, an increase in carriage fees and substantial investments in content. While the leading players in the space were able to withstand the economic slowdown, late entrants were forced to rethink their strategy to focus on this space. NBC exited NDTV Networks by selling their stake back to NDTV, reportedly at a discount to entry price. NDTV exited the GEC space by selling to Turner International 92 percent stake in NDTV Imagine for a consideration of USD 81 million. Turner committed to investing a total of USD 126.5million in NDTV Imagine including a primary round of equity infusion to fund the channel's expansion plans.³ Real, Turner's existing venture with Miditech, was unable to garner audience interest in the Hindi GEC space and thus the acquisition of NDTV Imagine effectively provided Turner with another shot at the lucrative but competitive GEC space.

In the near term, the Hindi GEC segment is expected to remain competitive with the leadership position at stake. With over 7 players competing for market share, channels are expected to invest substantially in placement fees and content to gain viewership share. The Zee Group increased its equity interest in Ten Sports from 50 percent to 95 percent indicating that the sports broadcasting segment is likely to witness consolidation primarily due to existing players focusing on a sports network model. As a result, consolidation between existing broadcasters is expected to continue and only broadcasters with sound financial strength, strong channel bouquets and innovative content are expected to survive.

The regional advertising market boosted by increasing reach and consumption in Tier II and Tier III towns is also reasonably under explored. Regional channels, with a disproportionate share between viewership and advertising, are expected to be the next growth driver for broadcasters. In addition, with sectors such as consumer durables, telecom and automotive showing robust growth in Tier 2 and Tier 3 towns and rural areas, advertising for regional channels is also expected to increase significantly. Consequently, broadcasters with a strong focus on regional markets are expected to see investor interest in the near to medium term.

Television distribution

The television distribution industry in India continued to witness increasing funding interest from private equity investors, financial institutions and retail investors alike. DEN Networks Limited, a leading cable television distributor, successfully tapped the capital market to raise INR 4 billion.⁴ Hathway followed with a public issue soon after to raise over INR 6.6 billion from the capital market. In a significant development in the DTH industry, Apollo Management, a US - based private equity fund, acquired 11percent equity stake in Dish TV for USD 100 million.³ The capital raised by cable and DTH operators could provide them with the funds to accelerate marketing and customer acquisition initiatives, which in turn will drive digitisation of the distribution landscape in India.

3. Mergermarket

4. http://www.mynews.in/Den_Network's_IPO_price_band_fixed_between_Rs_195-205_N28306.html



Going forward, the sector is likely to witness disruptive change brought through technology, digitization, which is likely to shift the balance of power towards MSOs and DTH players, unlocking value for operators in this space.

Deal activity in 2010 is likely to be driven by acquisition of LCOs by MSOs in order to gain last mile connectivity, consolidation amongst the MSOs and capital raises by MSOs and DTH operators to fund infrastructure augmentation /roll out and customer acquisitions.

Print

The print industry witnessed a low level of deal activity in 2009. The only major deal was the IPO of DB Corp, a leading print and radio player in India and publisher of the Hindi broadsheet daily 'Dainik Bhaskar'. The IPO received a good response from both retail and institutional investors. The IPO also paved way for the partial exit of Cliffrose Investment Ltd., the Mauritius-registered affiliate of Warburg Pincus which in May 2006 had originally invested in Writers and Publishers Ltd. (WPL) subscribing to 76,305 equity shares.⁵ The printing and publishing business was subsequently demerged from WPL and consolidated under one entity, DB Corp., in which Cliffrose held 7.14 percent stake.

The magazine sub-segment too witnessed some deal activity with Raghav Bahl promoted Network18 Group entering into a joint venture with Forbes, a leading US - based publishing and media company, to launch business magazines in India.⁶ In another deal, Heinrich Bauer Verlag KG, a German publishing company, exited their investment in Next Gen Publishing, a niche publications company in India. Heinrich Bauer Verlag KG had inherited this investment from Emap plc which had invested in Next Gen in 2007.⁷

India is one of the few growing print markets in the world and is expected to sustain a compounded growth rate of approximately 9 percent driven by increasing literacy, favourable demographics and increasing consumption in rural areas, and presence of a large vernacular market. Moreover, print media also continues to be an important medium for advertisers and media buyers.

In the near term, regional print companies are expected to raise capital either through public capital markets or private equity to expand their presence across news distribution media and also launch niche city centric supplements in an effort to ward off the threat from larger print companies. In addition, with over 398 daily newspapers published in India⁸, consolidation is imminent in the print industry with larger players seeking margin growth and geographic expansion by acquiring smaller regional players. International newspaper majors remain positively inclined towards the Indian print market but deal activity from such players is likely to be limited until the FDI caps are rationalised.

Film

2009 was an eventful year for the Indian film industry. The two month strike between Hindi film producers and multiplex owners over profit sharing led to huge losses for the Hindi film industry.⁹ The year 2009 also saw the Aamir Khan starrer '3 Idiots' become the one of the biggest hit in Hindi film history and helped exhibition companies recover partly from the strike. On the deal front, the film exhibition segment witnessed the first signs of consolidation with Inox Leisure buying out 43.3 percent equity interest in Fame India from its promoters for approximately USD 14 million. However, this deal has its own complexities, with ADAG - owned Reliance Mediaworks making a counter offer for Fame. The deal is important for the ADAG group as it can help its domination in the exhibition business in India. With 242 screens, the acquisition of Fame could increase its tally to over 337. However the deal is equally important for INOX, since the 95 screens that Fame owns can take its total screen tally to 205, closing in on ADAG's BIG Cinemas.

5. Publicly available information (<http://www.livemint.com/2008/03/14001243/PE-firm-Warburg-Pincus-to-sell.html>)

6. Publicly available information (<http://ibnlive.in.com/news/forbes-comes-to-india-in-collaboration-with-network18/93085-7.html>)

7. Mergermarket

8. Publicly available information (<http://www.pressreference.com/Gu-Ku/India.html>)

9. Publicly available information (<http://movies.rediff.com/report/2009/jun/05/producers-multiplex-standoff-ends.html>)

In another story of consolidation, PVR Cinemas also expressed their interest in acquiring DT Cinemas, the theatre chain owned by the DLF Group, only to be later called off apparently on account of a valuation mismatch. The exhibition business also witnessed private equity interest, with IFCI acquiring a minority equity interest in Satyam Cineplex, a movie theatre chain based in North India.

With over 3.5 billion tickets sold annually and over 1,000 movies produced annually, India is the largest film consuming market in the world and continues to attract interest from large global studios.¹⁰ In the near term, the Indian film production segment is expected to see interest from major global film production studios by way of film acquisition or co-production deals.

With economies of scale being a prime value driver in the film exhibition space, the film exhibition segment is expected to witness further consolidation.

Radio

In the radio segment, Astro increased its equity interest in South Asia FM from 6.98 percent to 20 percent¹¹. South Asia FM, is one of the two FM arms of Sun TV Network and owns 23 FM stations across the country.

India has an estimated 180 million radio sets reaching 99 percent of the Indian population. In addition, it is estimated that 25 percent of the 500 million mobile subscribers in India have radio - enabled handsets leading to increased popularity. However, the presence of over 240 radio stations across 90 cities in India with minimal content differentiation has hampered the economics of radio broadcasting in India.¹²

Regulatory changes such as relaxation of FDI limits, granting permission to own multiple frequencies in a city and the permission to air news and current affairs hold the key to the growth of this segment.

In the near future, relaxation of regulatory norms is likely to facilitate consolidation amongst domestic players as well as drive active interest from large international private equity players and global radio majors.

Emerging segments

The emerging segments such as animation, gaming and OOH witnessed limited deal activity in 2009. In the animation segment, Aptech Ltd. acquired Maya Entertainment, a leading player in animation education segment for USD 16.4 million. Maya Entertainment is engaged in the studio business and has a production studio for animation, visual effects and gaming content while in the education sector it is involved in training in animation and visual effects in India and abroad.

10. IDFC SSKI – February 2010

11. Mergermarket

12. Netscribes – December 2009



KNOW YOUR CONSUMER

IT'S ALL ABOUT
YOUR CONSUMER



KNOW YOUR CONSUMER

IT'S ALL ABOUT YOUR CONSUMER



It's all about your consumer!

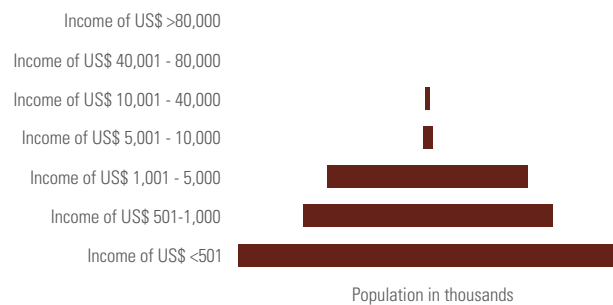
As media companies compete within and across media sectors, for share of increasingly fragmented audiences, they find that they cannot afford to invest in projects based purely on past experience or creative expression. The stakes on a new product performing have increased manifold. There is a need to identify projects with real and sustained target audience demand.

Furthermore, realising fair value in terms of paying audiences is likely to be effective when the product is developed for and marketed to the right audience who are likely to find the content engaging and aligned with their lifestyles and interest. Better informed, and demanding consumers with varied tastes, are already challenging media players to develop a consumer oriented approach. To work towards greater viability and 'hit rate' of content, this orientation is key right from product development, through to customising the marketing plan for the target audience – across pricing, distribution and promotion. This would serve to enrich and grow the content market overall.

Many 'Indias', many consumers

Within India, there exist multiple segments and niche markets that one can explore, by understanding the divisions across consumers. At the same time, the difficulty is also that purchasing power rests with a limited few within this hugely diversified market.

Percent distribution of population in India by income category



Source: Euromonitor International 2010

For media companies, the upper end of the pyramid represents premium pay market opportunities, and different categories of advertisers are likely to look at different target segment cuts ranging from mass appeal to niche segments.

Globally it has been observed that choice in media is often collective (with audiences clustering around popular products) – as well as individual; audiences are at the same time fragmenting into niches and consolidating around blockbusters¹. The scale and diversity in India presents immense opportunity for mass as well as niche markets where media products – visual, audio, print and any other – could be streamlined to appeal to the target audience.

Furthermore, technology and digital delivery platforms (e.g. rapid uptake of DTH and multiplexes) are enabling media players to segment their audience effectively and target with differentiated content; hence the need for deeper consumer insight becomes more relevant.

1. The Economist, Nov 26, 2009, 'A World of Hits'



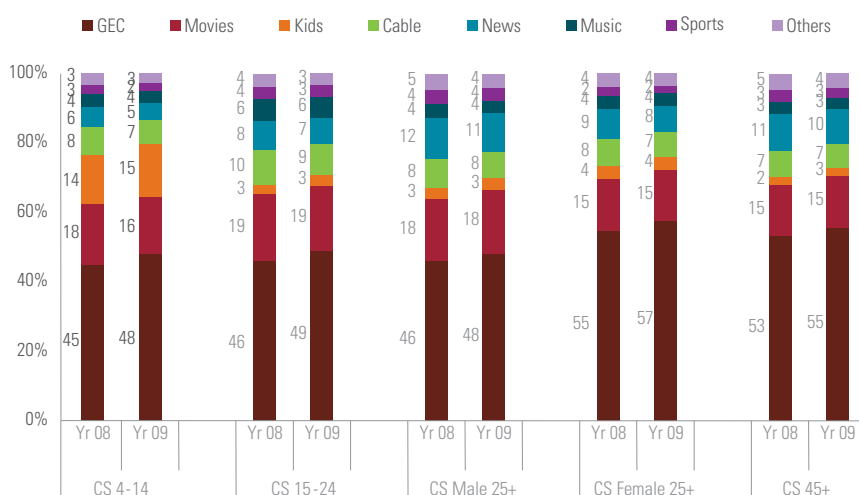
Need to understand the consumer:

Multiple segments exhibit divergent media behaviour

The potential segmentations are multi-fold. Audiences can be segmented on the basis of demographics (gender and age, language, education), socio-economic, geographic (Tier 1, Tier 2, metros versus towns), social class, lifestyle, media consumption patterns, attitudes and perceptions, benefits, and usage situation differences. Each of these segments often exhibit unique media behaviour.

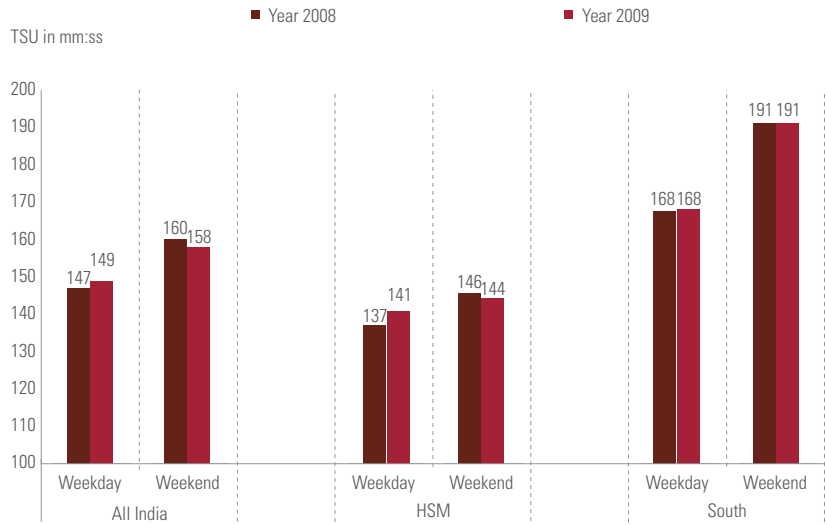
For example, television viewership varies across segments and locations across the country. There are varying patterns of viewership visible across different age and gender-based segments of audience (all India) – e.g. greater extent of GEC viewing by females and greater extent of music channel viewership in the age group 15-24. The average time spent on TV also varies significantly between Hindi Speaking Markets (HSM) and South segments.

Genre share across TGs



Source: TAM '09

Time spent by south indian vis a vis HSM audience

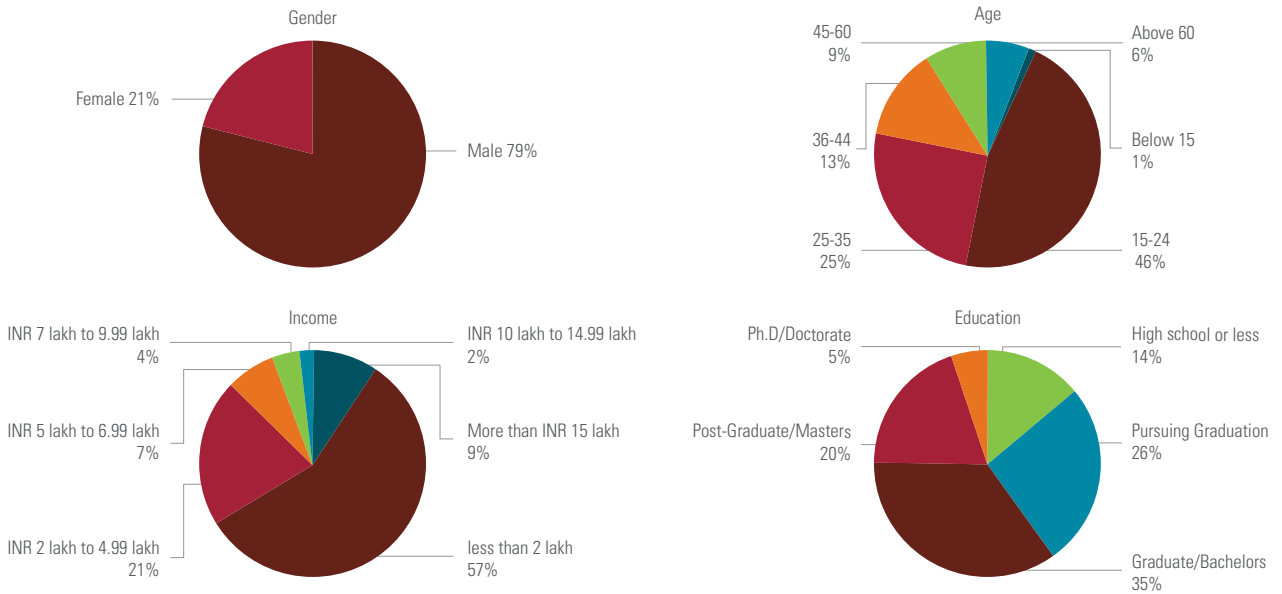


Source: TAM peoplometer system

Another classic example of different media habits across segments is given below for Facebook usage in India.

Audience Demographic Summary for facebook for January 2010

Audience demographic summary



Source: Vzizense.com

Seventy nine percent users of Facebook are males! Those in the age group of 15-24 tend to use facebook the most, followed by those in the 25-35 range.

A third example could be seen in the film sector, where consumer preferences vary greatly from state to state, particularly between north and south India. Many south Indian films dubbed in Hindi and released in the northern belt have not found box office success (Eg: *Aparichit*, *Chandramukhi*) although they may have been hits in their home state. *Aparichit*, the dubbed version of the Tamil movie *Anniyan* managed to rake in only INR 83 lakhs (it was made for INR 26 crore) across the north Indian belt².

2. www.boxoffice.com, www.bollywoodhungama.com



In summary, different segments of consumers have divergent media habits. By intelligently identifying such segments, there is a huge scope for advertisers and media houses to package content/media products accordingly to suit their varying tastes.

“The idea of niche is not lost - there is an appetite for good stories and good content. UTV invested heavily in consumer research and came out with new concepts and shows like Dadagiri 2, Big Switch, Emotional Atyachaar and Dadagiri 3”



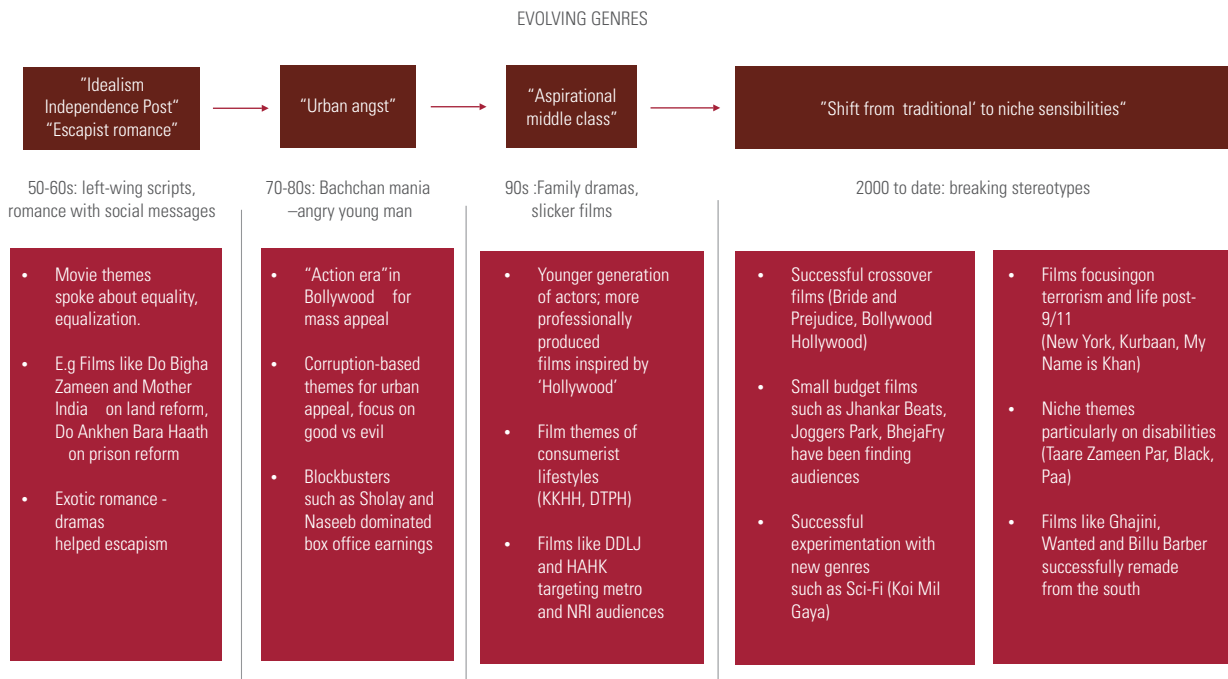
– M.K Anand,
CEO,
UTV Global Broadcasting Ltd

Media consumption habits change over time with evolving socio-economic context, and shifts in technology

Media consumption patterns across audience segments tend to vary over time. It is important to continually keep aware of trends to be able to identify changing patterns and niche segments.

The schematic below indicates the nature of evolution of consumer preference for film genres with changing socio-economic contexts.

Discontinuities in films/music produced, caused by the evolving cultural context.

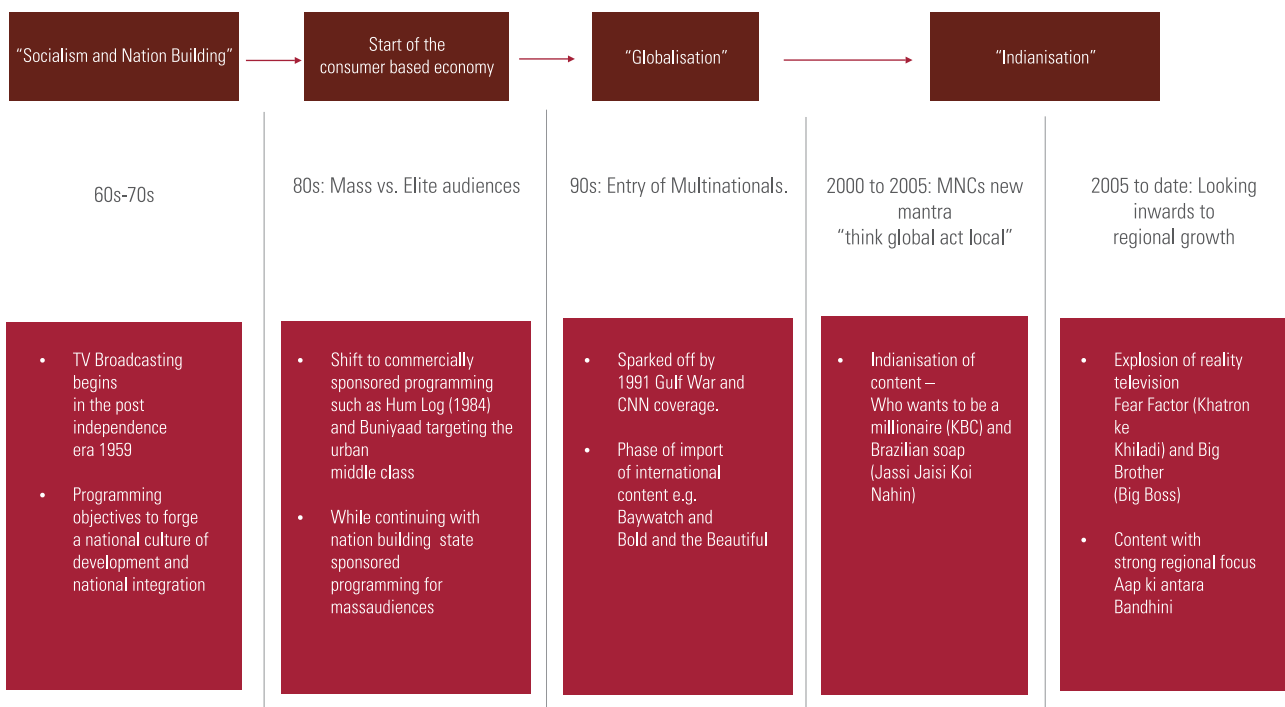


Source: KPMG analysis

Movies have moved with evolving trends from the 1960s till the current day. It started with idealism and escapist romance movies and movies like *Mother India* on reforms. Trends then moved onto the rebellion era where Amitabh Bachhan's 'angry young man' avatar fighting the corrupt system became popular with themes around good vs evil. The yuppie lifestyle took over in the 1990s with films like *Kuch Kuch Hota Hai* and *Dil To Pagal Hai*. The shift to niche sensibilities took place with the arrival of multiplexes in the 2000s, with specialised themes being explored.

Likewise, content preferences on TV have also undergone a sea change over time.

Discontinuities in TV programming caused by the evolving economic context.



Source: KPMG analysis, IMF website

Television broadcasting began in the post-independence era, where there was focus on national integration and culture development. The 80s saw a shift in trends with a mass vs elite programming, both of which continued. Serials like *Buniyaad* and *Hum Log* made their entry. The 90s saw a complete shift with liberalisation and the entry of multinationals into the country. Broadcasting content was imported from abroad – shows like *The Bold and the Beautiful* and *Baywatch* were hits on television. Localisation of global content and formats to Indian sensibilities took place with the coming of 2000s. Mega serials and soap operas reigned during the first half of the 2000s decade, while with the second half, reality television took over. There was also an emphasis on the regional space with content focused on culture within regions coming into focus.



The situation today – still a long way to go

While the context for need for consumer insights has been established, how much research actually goes into assessing audience tastes, demands, habits as well as audience segment differentiation and targeted content creation? There are currently a limited number of external media agencies conducting consumer research in India. Some broadcasters also have in-house research teams. However, the approach to consumer understanding tends to be people and perception-driven, and to an extent trial and error based.

The following are the key challenges that appear to be constraining investments at this stage:

- **Lack of awareness** of the value of consumer research/insight is one key issue as to why many media players make low investments in this area, at times stemming from the belief that creative sectors need not be based on audience-driven product development
- The second concern related to **lack of easily available transparent data**, or the ability to conduct meaningful market research in a culturally and demographically complex market
- Outsourcing consumer research is also held back based on **concerns over confidentiality of IP** or maintaining secrecy until release
- There are also beliefs that **market is volatile** because of quickly changing fads/trends
- Another concern is that **research cannot be generalised** because each media project is unique.

While these pose implementation challenges, none of these factors are insurmountable, or belie the core need for consumer insight to guide the creative and content development and marketing process.

3. 'A World of Connections' from The Economist, Jan 28 2010
4. 'De Facebook' by Amulya Gopalakrishnan in The Indian Express, Feb 7, 2010



How and where can consumer study prove valuable?

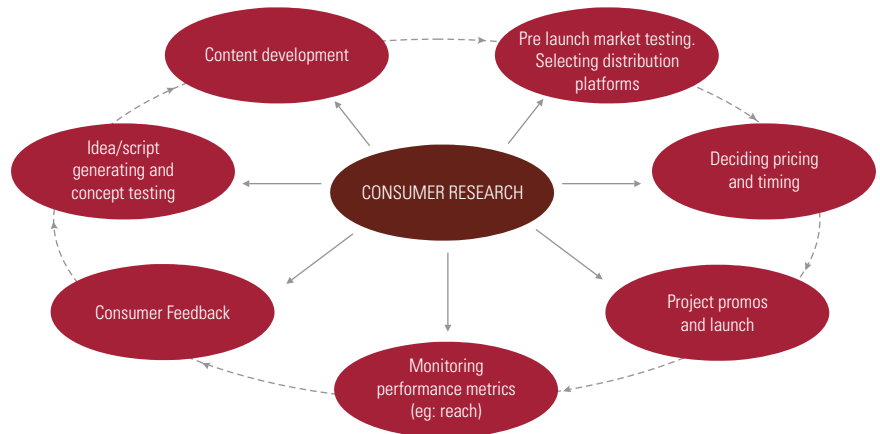
To reflect society, one must know society. Successful product adaptation implies a targeted approach – right from identification of multiple market segments and selection of target audiences, studying their needs and behaviour to understanding their drivers of media consumption and developing the right media product, and finally in ensuring a tailored plan for pricing, distribution and promotion, and monitoring to assess the feedback across the lifecycle of the product.

This underlies the fact the scientific consumer research should ideally be ongoing, and a part of each stage of production of the media project.

“At Turner, research is used not only for fine-tuning content like before the launch of a localised channel or introducing a new segment in an already existing show, but also for multiple areas like promotional licensing, marketing, scheduling, etc.”

– **Manasi Narasimhan**,
Associate Director - Research,
Turner International India Pvt. Ltd.

Stages of consumer research cycle



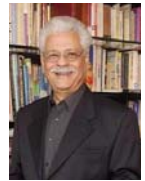
Source: KPMG Analysis

Test audience responses can also help film-makers sharpen marketing strategy. In the case of Ishqiya's – a recent Hindi film release - test audience results, it was observed that men enjoyed the film more than women. Hence it was decided to increase advertising spends on news channels substantially from 5 percent to 20 percent⁵

Hollywood film studios carry out intense audience research and adjust production and marketing budgets with respect to the size of the group they are targeting.

There is a new and encouraging trend in the film sector in India, in the form of screenings for focus groups before the actual film gets released to mass audiences. Such focus groups are not just segmented according to age or gender, but more for their disposition to genres. Be it the scene in 3 Idiots where Aamir Khan rushes his friend's paralytic father to the hospital which was changed to an extent so as to obtain continuity, reduction of an element of violence (women reacted badly to the metal bone crunching sounds) in the female lead's death scene in Ghajini⁶ - there are many times reactions from test audiences that have worked to the benefit of the general acceptance of the film. The final cut of the movie Ishqiya also differs from how the episode was narrated originally because test audiences said the story wasn't clear⁶.

"In Hollywood, there is testing at every stage from concept development through to pre marketing and rollout, they have reached a level of sophistication where they know where to test and the value of those being tested. Here we are gradually getting exposed to the concept and value of consumer research"



– Vispy Doctor,
Director,
Ormax Media

Selection of a representative responder audience is key. Several creative heads make the mistake of asking the opinion of people familiar to them, which may not be reflective of the target audience views.

Need for selecting the right bases of segmentation

The demographic variables such as age, sex, and education, are essentially descriptive segmentation bases. They may identify groups which are different, but they do not account for the differences for which there is a need for deep insights on the basis of cultural, behavioural and attitudinal-based segmentation.

5. 'De Facebook' by Amulya Gopalakrishnan in The Indian Express, Feb 7, 2010

6. Bollywood producers take a shine to film focus groups' by Gouri Shah in Mint on Feb 16, 2010

For example, in the case of current Television and Print measurement systems in India, the outputs reflect media consumption behaviours across demographics, and there is a gap to be filled in terms of understanding the drivers of different media patterns explained by cultural and attitudinal characteristics. **Cultural differences in India tend to be a greater determinant of media behavior, vis a vis demographic or geographical breakup, since culture defines behavioural patterns.**

“Cultural variations are key differentiators for segmentation in India. None of the rules that apply to one segment apply to another, which in turn drives behavioural patterns, likes and dislikes, permissions and sanctions, and this impacts your media consumption.”



– **Shailesh Kapoor**,
Director,
Ormax Media

Successful case-studies from the West⁷

Jim Henson and Joe Raposo were two of the people behind the hugely successful US based kids’ television show *Sesame Street*. Intense research and study went behind the scenes with a responder audience of kids of varying ages to assess what exactly would hold their attention. According to the study, the psychology in holding the kids’ attention to the television was vastly different from the methods that would help adults stick on to watching a programme. Apart from comparing the promos of the shows with existing successful kiddies programmes like *Tom and Jerry* and *Captain Kangaroo*, the makers of the show went into in-depth research to find out how exactly to programme content on the show so as to not only entertain but also educate kids (about spellings, alphabets etc.).

Their results were pathbreaking. *Sesame Street* went on to become one of the most successful and longest running shows (from 1960’s onwards) in global television, the format being successfully converted and modified to several countries including UK and China. It also rewrote the (then) basic rule of television that one would not be able to educate children through television.

Blue’s Clues was a kids programming show that came decades after *Sesame Street* was running successfully to high ratings. And likewise, managed to top the ratings charts within weeks of its release. *Blue’s Clues* went a step ahead and worked on the idea that kids loved repetition. Unlike adults who lose interest in a show if the same episode is repeated more than once or twice, the makers of *Blue’s Clues* found that kids were enthusiastic about watching exactly the same episode over and over again upto 14 times without losing the initial enthusiasm – for them, repetition ensured familiarity and hence it managed to keep their attention. *Blue’s Clues* premiered in 1996 and like its predecessor, the show had its format adapted to many countries the most prominent being UK.

⁷ ‘The Tipping Point’ by Malcolm Gladwell

The way forward

Marketing concepts can be successfully implemented if they are based on a scientific understanding of the needs of consumers. An on-going continual programme of consumer research is essential to monitor consumers' behaviour and changing patterns, particularly in a dynamic industry like media and entertainment. While not replacing creativity, understanding of consumer research methods and available secondary sources of data is also of prime importance for the successful marketing implementation of a media product.

The media and entertainment industry needs better quality research into the factors that determine the choice of a particular programme/media product by different segments of consumers. It can help enable media companies to specifically target the specific audience segment who are likely to respond, which could make all the difference. With the potential of a hugely diversified market like India, the possibilities are limitless.

As is with any developing industry, there are likely to be several constraints. Media companies now need to embrace this concept full-on, realise its value and adopt it for beneficial results. It can help sharpen views, add feedback to existing media products, and even support discovery of new audience segments and new product development.

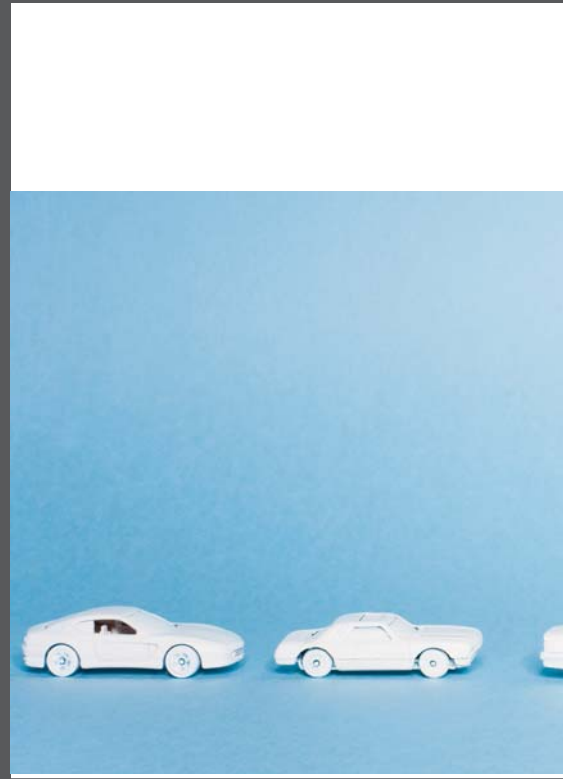
“Indian consumers are very discerning, and we see this in every product or service offering in the market today...that they are price sensitive and demand value for money...like other industries we need to better understand our consumers and tailor our products to match their needs and at times delight them”



– Anil Arjun,
CEO,
Reliance Media Works

In summary:

- India has a hugely diverse market with scope for niche audience differentiation. In addition to demographic segments, parameters like culture/lifestyle patterns create distinct consumption and media patterns
- Lack of awareness and availability of data and lack of feasibility in generalising research are some of the current obstacles to investments in consumer research
- However, there are several instances of successful companies which have institutionalised consumer orientation across the business model, to create and deliver consumer-driven products – be it delivering relevant and engaging content to audiences, or delivering target and engaged audiences to advertisers
- Over time, the media business model is sure to undergo a sea change with audiences paying for content, and the growth may be driven by in-depth research into trends of consumption patterns of the audience, going beyond basic monetisation of audience through ad sales. Development of consumer-driven media products is likely to, in turn, enable the offering of more targeted marketing solutions to advertisers.



INNOVATION

THE DIFFERENCE BETWEEN
THE LEADER AND
THE FOLLOWER



INNOVATION

THE DIFFERENCE BETWEEN
THE LEADER AND
THE FOLLOWER

14



Planning is very often focused on managing efficiencies in an existing business. This has especially been true in the recent slowdown. However, an organisation's ability to survive and compete in the market place is dependent to a large extent by its capability to recognise changing times and discontinuities, and to innovate and reinvent ways of current thinking. It is necessary for companies to continually keep adapting to the changing markets, technologies, and varying consumer habits. It requires ongoing market intelligence to be responsive and alert regarding trends in the external environment.

Innovation, if done rightly – helps in making a difference in the competitive marketplace. It helps in customer retention and could help target hitherto undiscovered segments of consumers. It could be an incremental or a paradigm shift – involving varying levels of experimentation and risk.

In this chapter, we have profiled instances of successful innovation as examples across the following areas:

- New product and service introduction
 - T20 – introduction of a new format that merged entertainment and sport creatively, to attract new audiences to cricket
 - Mobile applications – a new focus for mobile phone manufacturers/telcos to boost customer adoption and VAS revenues
 - Breaking the formula in TV – an example of programming that caused discontinuity in a time of audience fatigue and fragmentation, is the programming strategy of the TV channel Colors

- Delivery channels
 - New devices such as Kindle and the iPad are expected to bring about significant changes in the way consumers experience and consume content. The i-Pad is a new device likely to revolutionise the delivery channels available to publishing industry
- Process innovations
 - HPs Print-on-demand solutions eliminate the need to outsource large print runs and make it possible for consumers to customise the content of their books and have them printed, bound, and delivered.
- Marketing – innovations in price, promotions, product features and packaging
 - Leveraging social networks and viral marketing – We have examined the 360 degree marketing campaigns of two films that have scripted success stories - Avatar and 3 Idiots¹ – to examine how these have identified multiple audience touchpoints, and reached out effectively through digital media and experiential marketing techniques

Cases in point: innovation in delivery

Delivery of IPL as live streaming on YouTube²

The Board for Control of Cricket in India (BCCI) is partnering with Google India for live streaming of IPL matches. This is likely to include 44 days of IPL with 59 matches. YouTube has an existing video channel dedicated to the highlights and clips of IPL-2. This development, however, may offer another platform for delivery of content for cricket fans over and above the television rights by Multi Screen Media (India) and World Sports Group (globally).

1. KPMG Analysis

2. "YouTube to stream IPL-III matches live" by Aminah Sheikh on Mar 9, 2010 on BusinessStandard.com



Innovation in delivery: New devices

E-readers are an example of digital device that is quickly gaining converts after years of unfulfilled promise. Amazon's Kindle, Sony's Reader and Apple's upcoming i-Pad are examples of platforms that provide content publishers the opportunity to monetise digital content through delivery on devices with compelling user interfaces. If these devices gain wide acceptance, this can in turn fuel more demand for content, hence leading to a very similar effect that the iPod had on music and iPhone for mobile apps.

Tata DoCoMo, the GSM brand of Tata Teleservices, has launched DOCOMICS, partnering NTT DoCoMo, to offer world-renowned comics, Manga and Marvel, to its customers. DOCOMICS, is the mobile-Comics service, wherein customers can read full comics books, along with special effects such as character vibration, sounds, zooming text bubbles, and also downloads smoothly on a 2.5 Edge Network³.

Cases in point: new 'product' introductions stand out from the clutter

Television Sector: Innovation in content and marketing to 'break the formula'

Colors television channel was one of the most successful launches in the Hindi GEC space in recent times. It managed to end the nine-year reign of Star Plus in the general entertainment genre⁴ and make the top slot a competitive space.

The Colors case was a combination of content and marketing. This included:

- **Progress in programming** – Colors came at a time when there was audience fatigue with existing soap formulas focused around family dramas. It introduced shows with varied themes and this broke the clutter. The reality programming factor and high dose of popular movie content also clicked. There was a focus on three-four flagship programs with high number of

repeats - and hence concentration of marketing. It started with four hours of original programming and averaged six later⁵.

- **Aggressive and innovative marketing and distribution.** There was a focus on ensuring strong day one reach and recall. Heavy investments in marketing were made across media – including the leading introduction of BTL and buzz elements in the media mix. For example, in HSM markets – there was significant print PR. Taking Mumbai as an example of metro markets – elements of buzz were created like tying up with Mumbai dabbawallas as an example of marketing innovation. Further, 3000 taxis in Mumbai and 2000 auto rickshaws in small towns along with local trains and school buses were painted with the Colors brand. For the show Mohe Rang De, Colors organised street plays in Punjab and Delhi⁶.

The focus on providing differentiated content with emphasis on entertainment plus a disruptive marketing and scheduling and finally, intelligent distribution helped Colors break the mould in the Hindi GEC space.

Introduction of new services

Pinstorm revolutionised the concept of advertising. It was an innovative concept in digital advertising. As opposed to paying for creative or media costs, Pinstorm follows the performance model where payment is made only in proportion to the (measurable) results that the advertising brings in for the clients. Pinstorm also practices SEM (Search Engine Marketing) rather than just SEO (Search Engine Optimisation) for better results and brand visibility.

3. "Docomo unveils comic service" in The Hindu and Business Line on 12 Jan 2010
4. "Colors takes Viacom18 in the black; group to turn profitable in 2010" by Dipali Banka from exchange4media.com
5. www.exchange4media.com
6. www.labnol.org



Mobile Applications: Technology fuelled new product introduction

A lot of innovative trends tend to be technology driven or influenced in the M&E sector. The arrival of 3G in telephony is a highly awaited development and is expected to fuel a lot of innovation in the country.

Appropriate content and affordable handsets could be the aftermath of the rise of the same. The ascent of mobile internet is one of them.

Mobile applications also hold a lot of promise for the industry and offer potential to innovate. Following the falling revenues (ARPU) from voice data, the industry is looking to content usage to boost its margins. This is following the success of the Apple applications store (1.33 lakh third-party applications available on Apple app stores with total downloads of over three billion)⁷. Many operators (Bharti Airtel, Reliance, etc.) are opening their own mobile apps shops where consumers can download the required application and the amount gets automatically calculated to the bill.

At this point however, many of the mobile software works on only one type of device or for one network operator. An iPhone application would not work on a Nokia phone, and neither would it work on Google's Android system or Microsoft's Windows Mobile. Bringing in a common platform to hold programmes/applications from various operators would still take sometime in the future.

One of the latest developments is that India's largest telco by subscribers and revenues, Bharti Airtel has joined forces with 23 other global communication giants to challenge the dominance of handset makers, especially that of Apple, in the mobile applications (apps) space. The rationale behind the 24 largest mobile operators joining hands on the apps space is that service providers have lost billions of dollars in revenues to handset makers which have allowed independent developers to access their platforms to build thousands of apps that have been monetised⁸. Airtel's mobile application store christened Airtel App Store plans to add 200-250 applications per month after working in collaboration with both local and overseas mobile application developers. The Airtel store is apparently recording INR 1 – 1.5 lakh downloads everyday⁹.

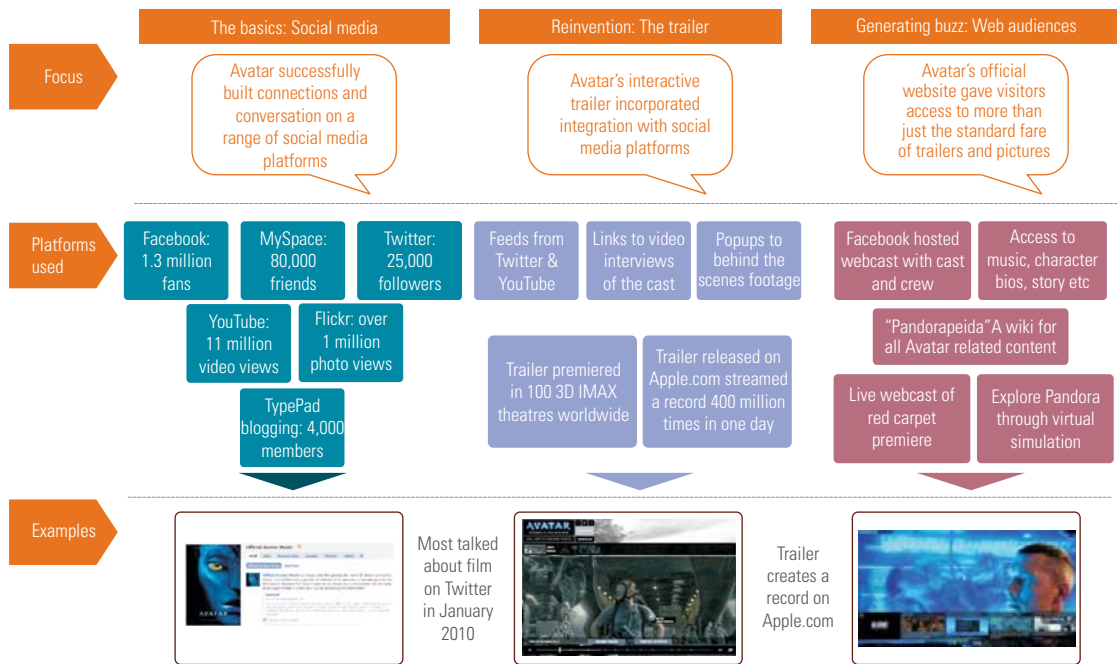
Cases in point: innovative marketing

Film sector – Innovative 360 degree campaigns of Avatar and 3 idiots create buzz

There has also been a rapid change in the concept of marketing and advertising in general with the advent of social media like Facebook, Twitter and Orkut which are used to gather momentum and media attention. This has enabled brands and advertisers to generally attract attention of people and tap in to the same to reflect in ads.

7. "Telcos bet big on applications stores to hike margins" by Nikita Upadhyay in the Financial Express
8. "Bharti teams up with 23 telcos for apps market" by Joji Philip in the Economic Times on March 3, 2010
9. "Airtel plans to add 250 apps per month" in The Economic Times on Mar 5, 2010

Marketing campaign of Avatar



Highest grossing film of all time crossing USD 1.86 billion in worldwide sales

The results in this progressive marketing campaign became evident. 'Avatar' grossed USD 2 billion worldwide in total ticket sales¹⁰.

360 degree media approach of 3 Idiots

'3 Idiots' has been one of the many successful Indian films of recent times and has set new box office benchmarks. Along with a strong script and star cast, the marketing and promotion of 3 Idiots contributed to its success.

360 degree marketing

Co-Branding:

Reliance Life Insurance was co-branded along with a popular song and tagline, 'All Izz Well' from 3 Idiots. This tagline was used extensively throughout the film, and Reliance Life Insurance too used this as their tagline and created an entire campaign around this tagline.

Online:

Aamir Khan, the main protagonist in the movie, used platforms like social networking and gaming to promote the film in a very different way before its release. The movie used social networking sites like Facebook to connect with its audiences by creating a profile called "Pucca Idiots" which generated more than 1 lakh fans. Aamir Khan teamed with Zapak to introduce a game that used the real world as a gaming platform.

¹⁰. 'How digital marketing help 'Avatar' break box office' by Nick Mendoza on Feb 8, 2010



Merchandising:

3 Idiots collaborated with Pantaloons, a leading retailer, to launch the movie's apparels and accessories.

Buzz' Marketing:

As part of another innovation, stickers reading Capacity: 3 Idiots were pasted on the back of a number auto rickshaws across various cities including Mumbai, Hyderabad, Jaipur, Kota, Lucknow, Kanpur, Patna, Kolkata, etc. Posters and Banners were also put up at key locations across the country.

In-Theatre Advertising:

Apart from carrying the promos of 3 Idiots much before its theatrical release. Theatres also converted their lobbies into a '3 Idiots' zone by installing seats which were used in the print posters of the film.

The runaway success of '3 Idiots' proved that innovative marketing has a critical role in helping movie projects break through the clutter and attractively position themselves to their target audience. 3 Idiots had a total domestic gross of over INR 2 billion making it a blockbuster with the highest gross domestic collection¹¹.

In summary

- Disruptive changes in the environment (shifting audience tastes, new technologies) drive the need for constant market monitoring and progress in business across products, supply chain, systems, people, etc.
- Knowledge of the market, changing audience tastes, and awareness of upcoming trends is essential to fuel innovation
- What works for one need not work for another. The 'me-too' syndrome does not guarantee success
- Constant innovations in content, brand positioning and distribution, can help garner success and stay one step ahead of the curve
- Technology often creates disintermediation, and companies may have to learn to stay ahead of it by rethinking existing business models. Every major technological progress in media and entertainment has helped expand the market significantly

Hence, the disruptive forces of changes can be harnessed to work productively for you, eg in today's digital world, innovative use of digital media for publicity/marketing can help successfully promote content. To succeed in the changing world, it is imperative to invest in innovation to sustain and create a future competitive advantage.

¹¹ 20. Indianboxoffice.com





HUMAN CAPITAL MANAGEMENT

DRIVING BUSINESS THROUGH PEOPLE



HUMAN CAPITAL MANAGEMENT

DRIVING BUSINESS THROUGH PEOPLE



“The business challenges experienced by the recent downturn have brought the HR issues right into to the boardroom and have challenged the HR heads to take a strategic business view on their deliverables. HR function's focus has moved from cafeteria events to boardroom choices”



– Ganesh Shermon,
Partner and Country Head of People & Change Advisory Services,
KPMG in India

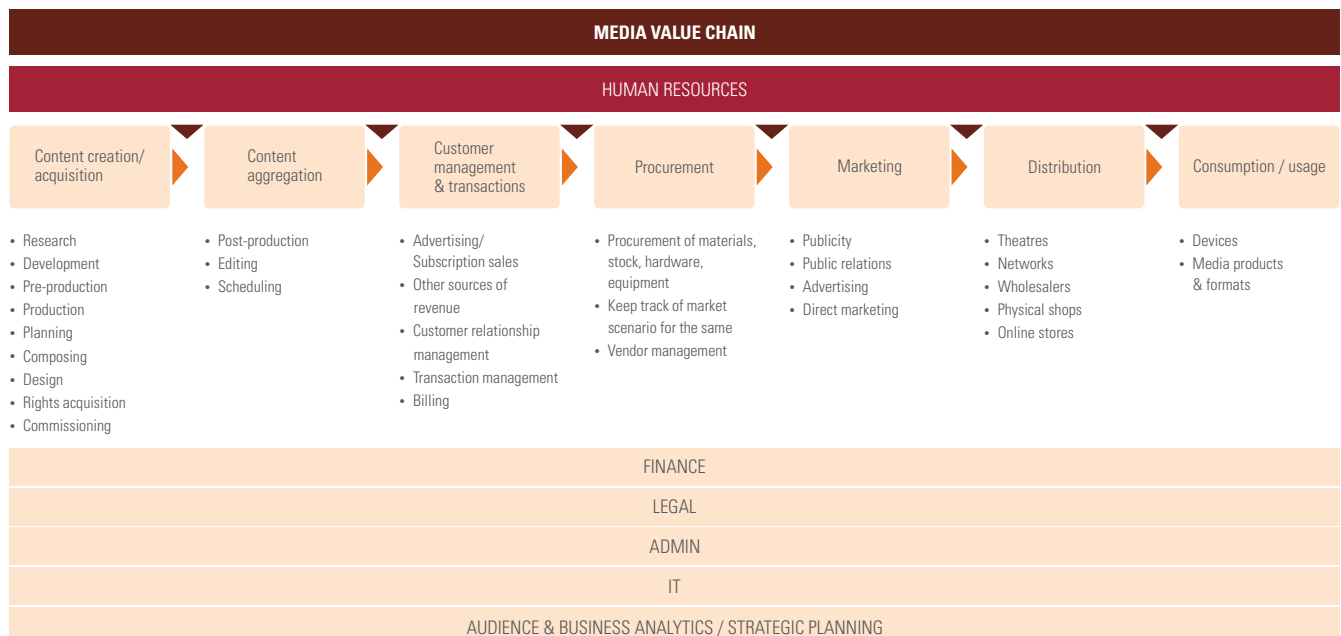
Prior to 2009, the industry saw high growth rates and capacity additions including rapid ramp ups in team sizes. However, the global economic slowdown that affected the Indian economy in general, affected the media industry as well, and pockets of downsizing took place across many of the segments. Over the last 18 months, the focus for HR professionals was primarily on productivity and the quality of output with optimum utilisation of resources. As the economy is picking up, there is an increased focus on balancing individual talent aspirations with the operating cost pressures.

Introduction

Being talent driven, the media and entertainment (M&E) sector relies on its human capital for business success and differentiation. While there are wide variations in maturity levels of HR practices institutionalised across various sectors of the M&E industry, a rapid metamorphosis in people management is evident in general. Certain sectors like television and broadcasting have relatively better developed human resources management systems while others like production houses are still in their nascent stages.

Importance of human capital in the media value chain

The media industry value chain follows a direct chain (see chart). Certain stages of this value chain – like content creation and customer relationship management - are relatively more knowledge intensive and therefore, competitive advantage through human capital assets is accentuated in those areas.



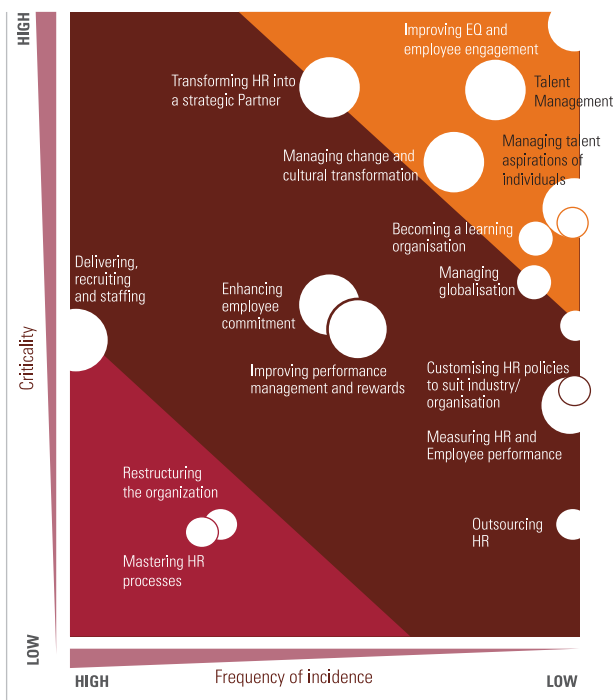
Source: KPMG Analysis, Industry interviews



There is a strong impact of technology evolution on the value chain, triggering off structure and skills alignment requirements. The ability of media organisations to adopt and adapt to technology changes is a key market differentiator, laying greater stress on the organisation's human capital.

Top HR challenges for the M&E Industry

There were some common trends identified across sectors in the M&E industry regarding HR policies and practices. The key top-of-the-minds challenges being faced by the H.R heads of organisations across the industry have been captured through the following schematic chart.



Source: KPMG Analysis, Industry interviews

Cost effective measures

One of the most critical challenges that many HR departments faced during the slowdown was to inevitably fall back on cost cutting measures, while helping ensure optimum utilisation of resources with minimal budgets. Attrition was relatively lower, and it helped people had lesser expectations. But now that the market is starting to look up, the HR departments are starting to prepare themselves for the inevitable challenge of retaining high quality talent. While the churn at the lower levels have been systemically managed, many HR leaders are now being very cautious about developing the next in commands for their key personnel who have become the face of the organisations. Over the last 18 months, some media houses resorted to mass downsizing. What worked against certain media houses was the fact that they hired at a large scale during the economic boom with little planning, creating organisational structures with no forecast about the future aspects. Hence, the slowdown took its toll leaving little choice, but to part ways with many of the people hired in the previous growth phase. The national players had to bear this recalibration much more-as opposed to regional players who played it relatively safe in this aspect.

Talent: Supply vs. demand

One of the most important issues that many of the media companies are handling is the disproportion between the demand for and supply of talent – especially for jobs that require specific set of skills. In case of news organisations for example, attracting journalists with fluent grasp of languages and ability to express them clearly is a task that requires significant effort. While this is particularly difficult with the English speaking set, it is relatively easier with the regional languages group who are more receptive to the existing compensation and still thinks of media as an aspiration field, while the former move on to greener pastures at a far quicker pace.



Even for other media organisations, the supply of quality talent is turning out to be less of a concern for sales/marketing teams than it is for creative/content teams. While for the business functions like advertising and marketing many media organisations have successfully brought talent from other industries, the supply of creative talent has proven to be uncertain to a large extent. The gap between the demand for talent and the supply in number terms is not worrying, the quality of talent is found to be a bigger challenge according to many of the HR heads in the industry. FM Radio channels, for example are finding it difficult to retain the same levels of talent quality of their RJs conversant with the colloquial language in regional channel as against the quality available in the metros.

Employability of media graduates

Many companies are now slowly open to the concept of hiring employees from outside the media industry and later on fine-tuning their understanding with on-the-job training. This is partly due to the fact that the curriculums in a lot of media/journalism schools is too theoretical. The needs of the market being significantly different, the graduates often end up having to unlearn much of the theory and show spontaneity in wanting to pick up things along the way. This is also the reason why many of the major media players are aligning themselves with media schools for providing specialised courses, streamlined for the media industry.

As a result, many media houses experimented with hiring people from other industries and backgrounds, with successful results. The positive aspects and learnings of many other industries end up being adopted into this industry. Media houses who experimented and were able to adapt, got successful results.

“The curriculum which is followed in journalism schools needs to be better aligned with broadcasting requirements in the market. There is a gap between what is imparted and what is useful on the field.”



– Gagan Bhargava,

Associate Vice President – Human Resources at NDTV

Compensation

With the rising challenge to optimise the operating costs and with the employee costs being a significant part of the operating costs for the media organisations, there is an increasing trend to institutionalise variable pay as part of the total compensation, thereby keeping the fixed cost low. Traditionally, the industry was not in a position to measure the KPIs and KRAs of the creative team, while business functions such as sales and advertising was still easier, given the direct linkage to revenues generated. However now many media organisations are linking the creative team’s compensation to the success of the media product/idea/service they created/worked on. Television channels, for example, are linking their TRPs and the overall success of their channel to the individual goals of the employees, hence making it more performance based.

"It was a relatively challenging proposition to measure the KRAs of creative teams. How do you quantify the level of creativity involved and create a measurable tangible for it?"



– Roopa Badrinath,

Group Head - Human Resources, Rediffusion Y&R

The other issue regarding compensation in the M&E industry is the compensation benchmarking issues. Barring a few specific sectors like broadcasting, the M&E industry has still not adopted formal benchmarking of compensation and benefits which is a standard practice across other industries. By and large, there is a general tendency to be hesitant about sharing information, especially regarding compensation, so the salary structure setting comes from a general understanding of the industry and the informal ways of sharing information.

"A key HR issue in the industry is to walk the fine line balancing internal equity with market competitiveness."



– Zahira Crasta,

Head - Human Resources, Times Global Broadcasting Co. Ltd.

Many of the HR heads believe that a common forum where the HR heads of media players can meet for discussion and exchange of ideas is a much-needed concept.

Customisation of talent management plans

The talent management needs for the creative and sales teams have proven to be very different with both working with completely different career anchors and motivations. The nature of their work being opposite ends of the spectrum, many of the HR departments try to maintain a fine line between the creative vs. the sales teams. Showing too much inclination towards any one team could result in difficult situations. This is especially true while dealing with a dynamic and spontaneous industry like media, where creativity stems from thinking "out-of-the-box". The HR heads of media organisations are increasingly developing talent management and retention programs customised to the varied orientations of different employee groups.



“The perspective/outlook/approach of the sales team vis-à-vis the programming team is different and hence misunderstandings tend to arise between the two. It is like when the idealist meets the realist.”



– Madhvi Arora,

Senior Vice President for People and Innovation, ENIL

HR Policies and information systems

Many of the top media players do have some kind of an HRIS (HR Information System) in place although the extent to which their HR practices are followed online or are standardised is still disparate. Appraisals usually do not take place online, it is more a manual and one-to-one procedure. The development of HR policies and practices leaves much to be desired and it is likely to take sometime before the industry can have a fully automated system in place for all their HR functions and processes. There is a clear consensus amongst leading media organisations on following a well-structured HR policy framework and more importantly sharing that transparently with employees.

Strategic focus on HR function

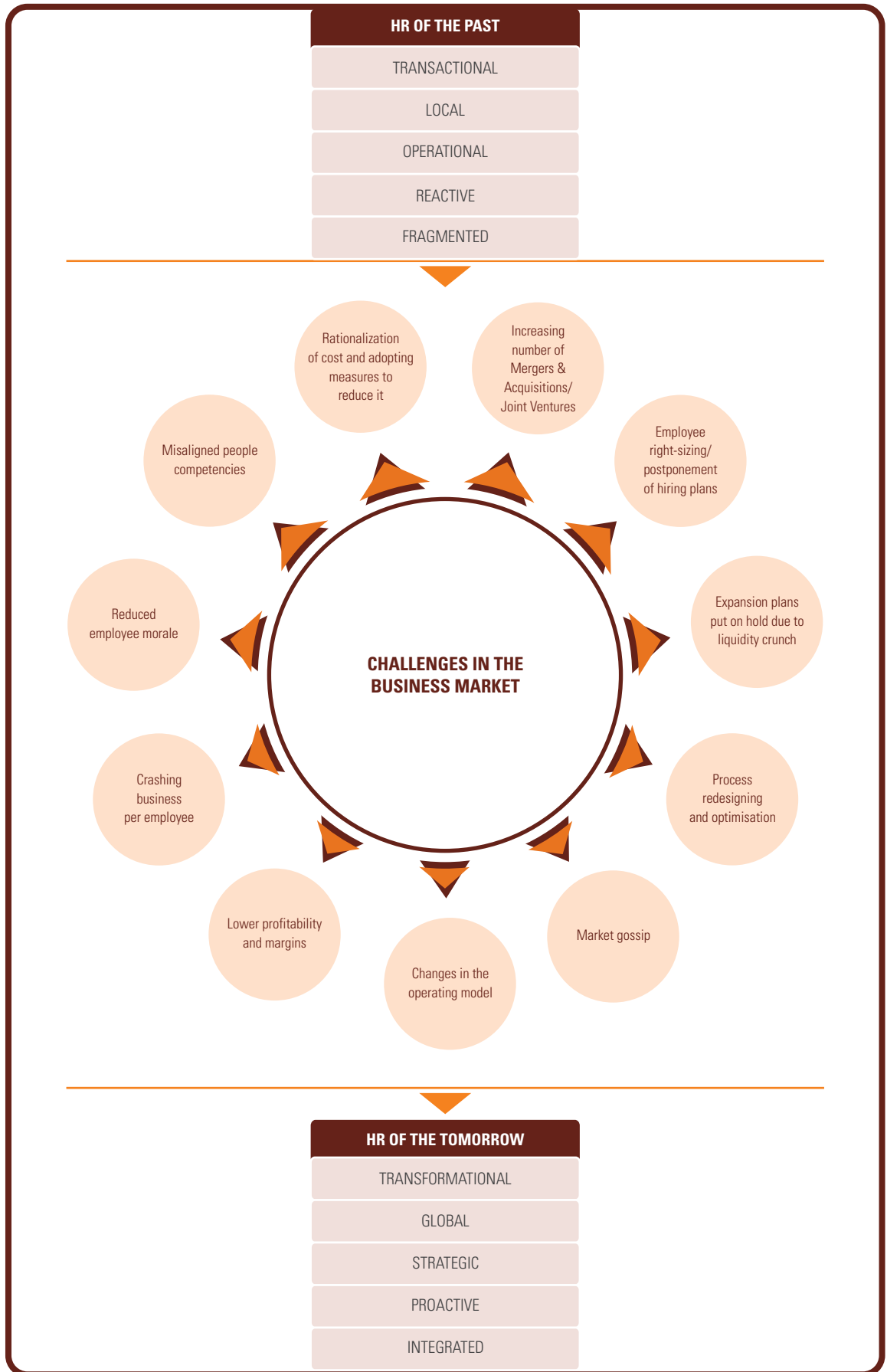
In the recent times, the HR leaders have increasingly made strategic contributions to their organisations with a shift in their focus to budgets and cost effective measures, considering the situation of the economy last year. Top managements are now personally focusing on the people aspects of business. Attitudinal changes towards human resource management and its relevance is being felt in the industry as is evident from the change in the profiles of HR heads of media companies in India. Increasingly more and more media organisations are hiring career HR specialists to lead this function. The recent business challenges have only compelled business heads to awaken to HR challenges and opportunities and the fact that the human resource department can be a strategic business partner rather than just a support function.

“Support from the top management is essential for human resource management to prosper in an organisation.”



– Anjani Kumar,

Executive Vice President of Enabling &
Technical Services at Sony Entertainment Television



Source: KPMG Analysis, Industry interviews

Current scenario



Source: KPMG Analysis, Industry interviews

Leading HR Practices in the M&E industry

Effective induction for new hires

In an industry where the talent pool remains relatively small, hiring from other industries is also being followed by many media players. Whether it is such talent coming from other industries or new hires from media schools or lateral hires from competitors organisations, the companies who have met with success in customising talent and retaining them over a period of time have focused strongly on ensuring detailed and customised induction programs for new hires. Active participation in supporting different media schools and hiring from them is increasingly growing. The practice is starting to pick up but more media houses can afford to participate in it and make this a stronger custom by which the right talent for the right job gets effectively recruited.

Roles and responsibilities linked to organisation's strategic priorities

It is important to have the roles and responsibilities of each employee clearly defined so that the employees know what their target goals are, and that their appraisal is conducted effectively. It is also important for those roles and responsibilities to be aligned with the goals of the organisation, its vision mission and long-term strategy.

Increasingly, media and communication organisations are focusing on aligning the focus of different teams within the organisation to leverage synergies and offering a one consistent customer experience across the regions and divisions. The individual roles are being increasingly strengthened to bring clear performance indicators and the linkages between the individual roles with the overall organisational results.

“To increase productivity of the employees, we need to introduce process automation in organisations and bring in an efficient professional work culture.”



– Mahesh Chauhan,
CEO, Rediffusion Y & R

Employee engagement

Managing emotionally-charged talent and keeping them engaged with the overall organisation priorities requires that the talent management initiatives are customised to individual employees. The ‘one size fits all’ approach is increasingly being exchanged for the ‘cafeteria’ approach of engagement which essentially focuses on giving choices to individuals to manage their work, compensation and careers in a manner that works best for them. A constant connect with the employees helps to keep abreast of their activities as well. Furthermore, gradually introducing career progression and leadership development customised to the needs of the industry would be going the extra mile to ensure the development of the human capital (at an industry level).

“There will always be someone who pays better than you do, so retaining talent is not just about high pay packages. It involves so much more, like an open and collaborative work culture, leadership and development opportunities, career and succession planning, rewards and benefits, work-life balance and growth opportunities on a global scale.”



– Rohit Suri,
Executive Director of Human Resources,
Turner International India Pvt. Ltd.

Development of talent

Many of the players agreed that the quality of talent especially at the entry levels requires much focus. What industry players can come together to do is to help hone young talent by aligning with major media schools and providing specialised courses sensitive to the actual needs of the industry. This would foster lesser manpower hours spent on training and development from scratch, the moment a person joins an organisation, since he would be relatively more equipped to deal with the market and it can help increase productivity.

Furthermore, it is likely to help develop a better talent pool from which new candidates can be recruited, thus reducing the need for hiring people from other industries, particularly for managerial, sales and administrative positions. Media players could well afford to learn to identify staff with a high potential and retain them.



"It is not easy to define the aspirations of creative people. Money may not always be the motivator. A well-paid executive may throw it all away to start freelancing a movie script by him/her."



– **Amita Maheshwari**,

Executive Vice President of Human Resources at Star India Pvt. Ltd.

Now that the economy is starting to get out of the recession mode, recruitment, as well as retention of good employees is likely to become a primary concern. Employees with flexible or multiple skills (within different sectors of media) as well as in-depth knowledge of each sector may be required. Employees with niche as well entrepreneurial skills-set are likely to increase, considering the rise of new media.

The scope of convergence of two or more media into one entity is gradually increasing. For example: music/radio being available on podcasts, IPTV, arrival of Wi-Max, newspapers with online editions, etc. When the line separating the boundaries of each media becomes invisible, media organisations and their existing organisational structure are likely to undergo a massive change, depending on the need of the hour.





CORPORATE GOVERNANCE

POSITIONING THE INDIAN
M&E INDUSTRY FOR
COMPETITIVE ADVANTAGE



CORPORATE GOVERNANCE

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COMPETITIVE ADVANTAGE

16



The overall perception

Many industry players view corporate governance from a narrow perspective i.e. it is about complying with regulations. However, those companies that have regarded good corporate governance as a business necessity, express the view that corporate governance has helped professionalise the business, strengthen operations and accountability, and influence stakeholder and employee perceptions positively.

Functioning of the board

Many industry players express the view that the composition of their boards are not aligned to key strategic priorities. Cultural barriers associated with challenging the promoters and a reluctance on the part of management and promoters to share information with non-executive directors and seek their inputs on the more substantive issues (e.g. strategy, risks) are critical impediments to achieving good corporate governance.

Risk management

While many express satisfaction in the way operational risks are mitigated, there is a consensus that current approaches to risk management are not geared to address strategic challenges (shifts in industry trends and competitor strategies).

Internal audit and assurance

Internal audit processes are largely focused on financial reporting accuracy and regulatory compliance. However, assurance processes need to transcend from a traditional approach (transaction based and cyclical audits) to a value-based model (real time monitoring using data analytics and ongoing review of critical business risks). More is expected of internal auditors in the areas of process improvement and sharing industry best practices.

Business ethics

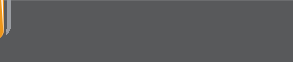
A majority believe that strengthening the ethical eco-system needs to be achieved through proper training, extending the code of business ethics to external parties and through implementation of whistle blowing policies.

Perspectives from the Media and Entertainment industry

Many of the industry players view corporate governance from a narrow perspective i.e. it is about the board's functioning. However, promoters in Indian companies need to change this mindset and realise that good corporate governance goes beyond the board of directors and it is about having robust structures and processes around information for decision making (MIS and Delegation of Authority), implementation of strategy (risk management), IT and human capital systems (business processes, control systems) and assurance (Internal audit), all of which are critical components of good corporate governance.

Survey of corporate governance in the Media and Entertainment (M&E) industry

We surveyed a select group of companies in the M&E industry, both listed and unlisted, to understand their perceptions about, and current practices in corporate governance within the industry. In doing so, we conducted interviews with Chief Financial Officers (CFOs) and Executive Directors and obtained their views on how their organisations are approaching corporate governance.



Key governance aspects across M&E sectors

Functioning of the board							
Code of conduct and ethics							
Risk Management and oversight							
Internal control systems							
Management information and IT systems							
Internal audit							
Legal and regulatory compliance							

Source: KPMG Analysis

Excellent
 Good
 Average
 Poor

What does good governance look like?

	<ul style="list-style-type: none"> • Enterprise wide risk management process • Risk management linked to strategy • Direction and oversight by board and audit committee • Clarity on risk ownership and responsibility for mitigation activities
	<ul style="list-style-type: none"> • Detailed review of complex accounting areas and disclosures • Review effectiveness of internal controls over financial reporting
	<ul style="list-style-type: none"> • Implement control self assessment program • Monitor results of ongoing monitoring by management • Audit committee members interaction with process owners • Require internal and external auditors to validate control effectiveness
	<ul style="list-style-type: none"> • Head of IA reports functionally to audit committee • Audit committee explicitly approves IA charter and plan • Audit Committee fosters IA plan is risk based • Audit committee reviews IA performance atleast annually • IA has unrestricted access to audit committee
	<ul style="list-style-type: none"> • Audit committee reviews and approves external audit plan • Audit committee reviews external audit risk assessments and seeks inputs on complex accounting areas • Private sessions with external auditors • Require external auditors to test ICOFR • Audit deliverables include management letter • Audit committee approves letter of representation

What does good governance look like?

	<ul style="list-style-type: none"> • Establish a framework for compliance with many of the applicable laws • Establish accountabilities for regulatory compliance • Quarterly reporting on compliance matters • Seek Internal Audit assurance on compliance
	<ul style="list-style-type: none"> • Mechanism to monitor compliance with code of conduct • Introduce whistle blower mechanism • Direct Audit Committee monitoring of whistle blower incidents
	<ul style="list-style-type: none"> • Require management to undertake IFRS impact assessment and formulate road map for IFRS implementation • Enhance undertaking of IFRS and implication for the company
	<ul style="list-style-type: none"> • Board provides input to the balanced scorecard • KPIs are approved by the board • Review how the information systems are aligned to MIS needs
	<ul style="list-style-type: none"> • Wider focus areas such as risk management, internal controls, succession planning and strategy • Have in place board and audit committee charters • More board meetings to address areas of responsibility • Focus on skill enhancement and training • Self evaluation process • Undertake formal evaluation of external and IA performance • Focus on information needs and preparedness for meetings

Good governance – The three lines of defence

The three lines of defence is a widely recognised corporate governance model which has been adopted by a large number of global multinationals

Recommended evidence



Business unit frontline

- | | |
|---|---|
| <ul style="list-style-type: none"> • Day to day risk management • Model business processes • Control processes • Monitoring protocols • Risk profile | <ul style="list-style-type: none"> • Policies and procedures • Adequate resources • Business processes and controls • Control accountabilities and sign-off |
|---|---|



Oversight functions

- | | |
|--|---|
| <ul style="list-style-type: none"> • Objective oversight and monitoring of risk management and compliance • Use of specialist resources (e.g. compliance, risk management, HR) • Support function for first line of defence | <ul style="list-style-type: none"> • Audit/ Risk committee terms of reference • Presentations to the board • Testing of controls • Remediation projects |
|--|---|

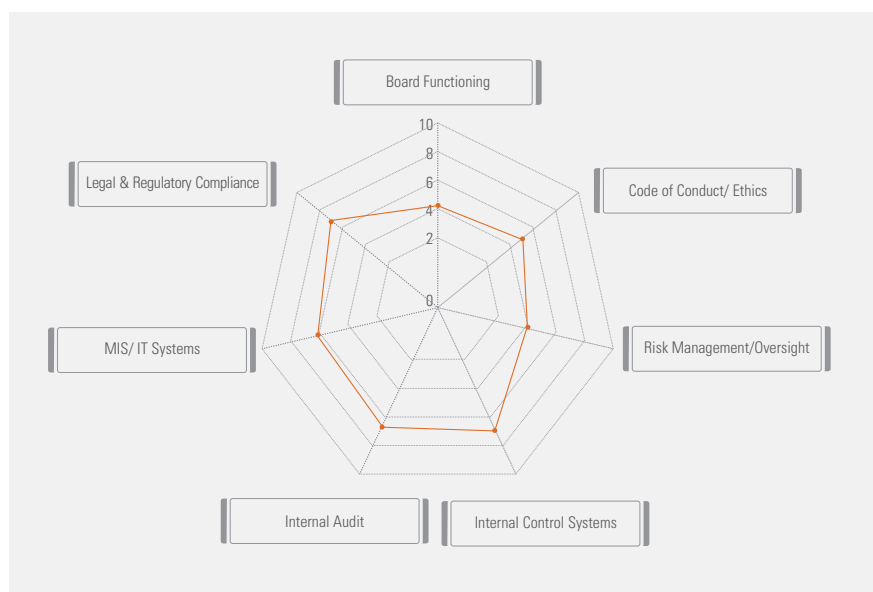


Independent assurance

- | | |
|---|--|
| <ul style="list-style-type: none"> • External audit • Internal Audit committee • Use of external subject matter specialists • Compliance and ethics | <ul style="list-style-type: none"> • Internal audit review • External auditor review • Benchmarking • Risk reviews |
|---|--|

Key insights

Based on a survey, we have summarised the current practices across seven areas covered on a scale of 10, the results of which are as follows:



Source: KPMG Analysis

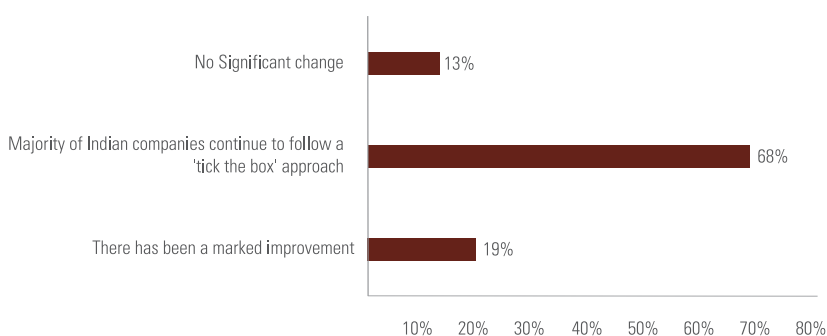
As one CFO noted: "The promoters and senior executives are fully in the know of strategy but we are selective in the way we communicate our strategy and related information to non-executive directors as we would not like to be unduly challenged. We would like our non-executive directors to contribute when specifically consulted".

Survey of corporate governance in the Media and Entertainment (M&E) industry

Functioning of the Board: "We need to move our boards from being compliance boards to contributing boards".

Traditional oversight areas continue to dominate the board agendas at the expense of more important areas. Companies need to do more in terms of aligning their strategic priorities and linking them to board composition, board agendas and the dynamics of the board's functioning. There are gaps between the skills present on the board versus the skills required to add value to corporate performance. In the absence of industry knowledge and robust induction processes, many non-executive directors are unable to add value on strategic matters. This in turn, has contributed to the perception amongst senior executives and promoters that independent directors are not adding much value beyond meeting regulatory requirements. We also noted that there are cultural barriers such as the inability of non-executive directors to challenge promoters and lack of information flow from management to non-executive directors.

In our Corporate Governance survey we asked: "Since early 2001, India has seen some key regulatory steps being taken towards reinforcing corporate governance. Do you see a marked improvement in corporate governance levels in India Inc. before and after the introduction of Clause 49?"



Source: KPMG in India's Poll on Corporate Governance 2009

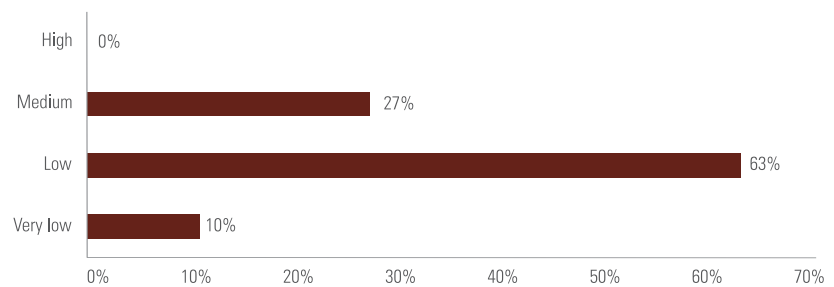
The CFO of a leading advertising company noted as follows: "Our customers are becoming more demanding and margins are continually shrinking. We have to consider radical rather than step change alterations to our business model. However, our current risk management and assurance processes are unable to provide the answers to these critical questions".

Risk Management: "Focusing on risk intelligence and elevating risk management to a strategic level is clearly the need of the hour"

Given the entrepreneurial approach to business decision making within the industry, there is a perception at the Promoter/CEO level that a defined process to manage risk is not a critical business necessity. A majority believe that their risk management processes do not address strategic challenges.

Existing risk systems, while adequate to deal with operational process level risks, are not equipped to respond pro-actively to industry trends and market shifts.

In our Corporate Governance survey we asked: "A large number of Indian companies are embarking on the road to risk management. How would you rate maturity levels of risk management practices in Indian companies?"



Source: KPMG in India's Poll on Corporate Governance 2009

KPMG insights on risk management

Boards should demand and obtain a holistic view of risks both on and off balance sheet, their ownership and how they are mitigated:

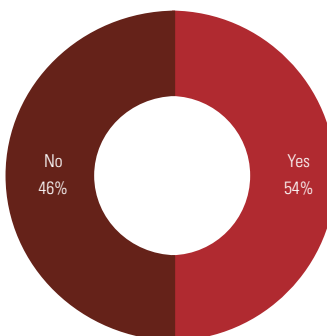
- Diversity of skills on the board is fundamental to effective risk management
- Boards should have a clear understanding with senior management regarding their risk appetite in various areas and help determine that these are articulated and considered in designing of policies and procedures
- Boards should consider the risks inherent in strategic choices and whether these are acceptable
- Evaluate evolving risks – what impact does strategy have on the suite of operational, financial and compliance risks and whether this is consistent with the company's risk appetite?
- Boards should challenge the basis for risk assumptions and whether these have been stress tested.



Internal control systems: “Robust on-going monitoring is essential to sustain growth. We are not confident that bad news will flow to the top if our auditors are not around”

Many companies place a lot of value on having sound internal control systems that could help ensure the integrity of financial and management reporting. Organisations continue to largely rely on their internal auditors to provide assurance on the effectiveness of the control environment. Organisations that we have surveyed have expressed a strong desire to supplement internal audit reviews of the internal control systems with a robust control self assessment process. Conflicting priorities, low level of confidence in the level of controls consciousness and inadequate training are the impediments to achieving this.

Is a control self assessment process used to obtain assurance on internal controls?

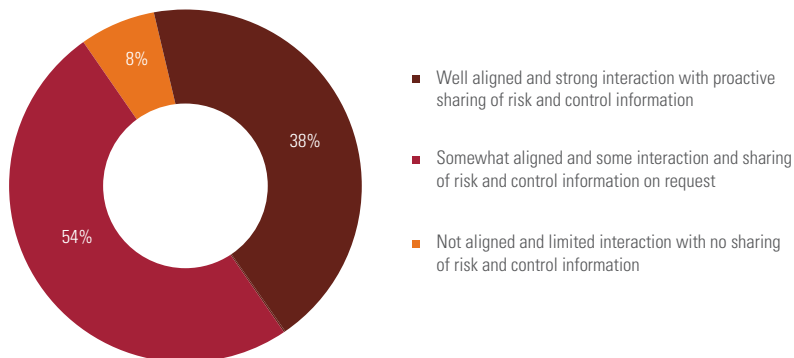


Source: KPMG in India & The Bombay Stock Exchange Joint Survey on Internal Audit 2009

Internal audit and assurance: “Internal audit needs to transcend from a transaction based cyclical approach to a risk based real time assurance approach”

We noted that many companies have outsourced their internal audit activities to accounting and consulting firms that provide these services. This has resulted in bringing in an element of independence and objectivity to internal audit activities. Amongst the listed companies, the audit committees are also actively involved in selection of the internal auditors and in approving their scope of coverage. Stakeholders are generally satisfied with the assurance provided by the internal auditors on operational risks and in validating the internal control systems. However, business leaders and CFOs express the desire to get more value from their internal audit function especially where enhancements to internal control systems have already been achieved.

What is the level of alignment and interaction between the multiple risk assessment activities conducted across the organisation?



Source: KPMG in India & The Bombay Stock Exchange Joint Survey on Internal Audit 2009

KPMG insights

To achieve this, there is a strong desire that internal auditors should step away from routine compliance audits and pay greater attention to understanding high impact industry issues and share best practices with their client organisations. There is a need for internal auditors to stay glued to the organisation's risk assessment processes and align audit plans to provide real time assistance on new and emerging risks.

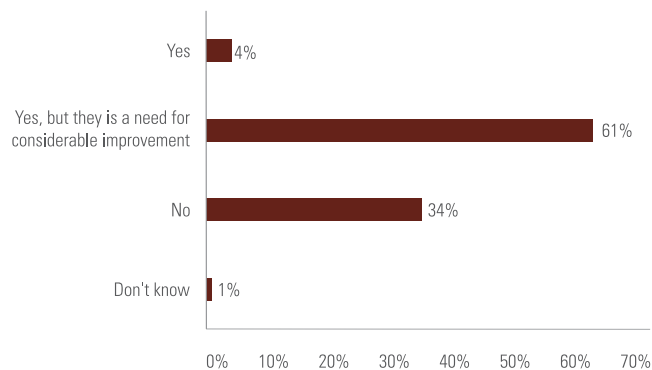
Another aspect that business leaders acknowledge is that there should be a periodic assessment of the quality of the internal audit function including outsourced service provider. This could help organisations assess where the expectations and competency gaps lie and hence determine the enhancements necessary.

Business Ethics: "Sound ethical values is fundamental to meeting stakeholder expectations"

Companies that have overseas shareholding are conscious of the implications of regulations such as Foreign Corrupt Practices Act (FCPA) and are accordingly taking measures to comply with these regulations.

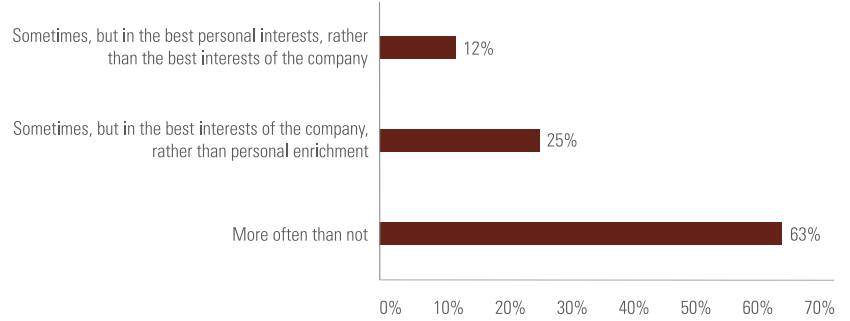
While the companies that we interviewed have implemented a code of conduct, almost many of them indicated that more needs to be done to operationalise the code of conduct. It is widely believed by several respondents that the introduction of whistle blowing policies that facilitate independent reporting of unethical practices without fear of retribution would go a long way towards improving the adherence to the code of ethics. There is also a feeling that to promote greater accountability and transparency, the code of conduct and whistle blower policies should be extended to third parties (vendors, trading partners and contractors) besides employees.

In our Corporate Governance survey we asked: "Codes of conduct and whistle blower mechanisms for employees and supply chain alike, are emerging as a fundamental of good governance. Are integrity and ethical values given the same sort of importance by Indian companies?"



Source: KPMG in India's Poll on Corporate Governance 2009

In our Corporate Governance survey we questioned: "Indian markets continue to have instances of insider trading or significant decisions affecting the company not being adequately informed to shareholders. Do you feel that minority shareholder groups in India are generally taken for granted by Indian companies?"



Source: KPMG in India's Poll on Corporate Governance 2009



Several studies have conclusively established that organisations that have taken this holistic approach have reaped the benefits such as:

- Adoption of formal governance and operating structures that would enable the promoters to delegate decision making to management and devote their energies to growing the business
- Being able to demonstrate to investors and other stakeholders (employees, customers, vendors, trading partners, regulatory authorities and financial intermediaries) the promoters' commitment and approach to transparency, financial reporting integrity and ethical conduct
- Facilitating access to capital for growth in the form of raising funds from the capital markets and reducing in the cost of capital overall
- The ability to attract capable non-executives as directors on the Board who can bring their external perspectives to bear on the company's strategy and performance
- The ability to attract talented human capital
- The enhancement of overall reputation in the marketplace with wider stakeholders.

The way forward

The early adopters of good governance practices are clearly seeing the benefits coming through

The listed companies that we covered have complied with Clause 49 of the SEBI Listing agreement. What is particularly heartening to note is that some of the better practices in governance within the industry emanate from unlisted companies. The companies that have adopted good corporate governance practices are unlisted companies that are Indian subsidiaries or associates of international companies listed overseas. Many multinationals perceive emerging economies such as India to be high risk destinations and are therefore keen to implement robust monitoring processes within their Indian operations. Despite the parent governance practices being thrust upon their Indian subsidiaries and joint ventures, promoters and senior executives of these companies readily acknowledge the benefit that have resulted from the adoption of improved corporate governance.

The CFO of one television company surveyed; said: "Good corporate governance has helped improve the organisation's brand image amongst customers and employees and helped take the business to the next level which is good in the long term. The key is not to completely change what you are doing, but consider the other side as well. Clearly we see the value flowing from adopting the governance standards of our parent. At the board level too there is a lot more focus on the medium to long term, what our key priorities are and how we should be monitoring progress against these priorities".

Does governance stifle creativity?

There is also a general perception that the M&E industry is prone to entrepreneurial risks since it is a people dependent industry that thrives on intellectual capital. There is a feeling in certain quarters that the introduction of corporate governance structures and processes may have the effect of restricting creativity of people. But is this perception really valid?

The situation in the M&E industry today is somewhat similar to the BPO industry during the early part of this decade. The Indian BPO industry has thrived not only due to its unique product offerings and customer delivery models but also due to exemplary service delivery to customers. Many mid-market players in the BPO industry in India today cater to a reputed international clientele who adopt stringent entry barriers/quality standards for their service providers. These players have shown the ability to meet customer standards in areas encompassing data privacy, information security, accurate processing and providing value added services (transition from BPO to KPO). Clearly, this has been achieved due to the focus on robust systems and processes which have been subjected to extensive scrutiny by customer segments. Effective governance structures and oversight processes have therefore been at the heart of this transformation exercise. Today we see a similar trend in the M&E industry. Over the past five years (barring the blip resulting from the global financial crisis), there has been a spurt in the number of private equity deals in the industry and this trend is expected to continue going forward. Clearly the strategic and financial investors are likely to expect higher standards of transparency, accountability and governance from their Indian partners and investees.

We also reviewed how M&E companies are governed in other parts of the world. An analysis of the corporate governance practices of Newscorp, Time Warner, Walt Disney and Viacom reveals that almost many of these listed companies have adopted corporate governance practices that go beyond the stipulated listing requirements as per stock exchange and regulatory guidelines.¹

¹ KPMG analysis



The number of board and committee meetings that are held exceed the minimum requirements and these companies also have exclusive meetings devoted to strategy and business plans which is aimed at developing robust business strategies with crucial external perspectives. Practices such as mapping the strategic priorities to skill sets required on the board, executive sessions of independent directors, annual board performance evaluations and having lead independent directors driving board agendas/ information requirements are widely prevalent.

Some countries have also introduced specific regulators for the industry to play the role of the societal watchdog (e.g. Ofcom in the UK plays this role very effectively and brings to book unethical or irresponsible practices of industry players)². Where such industry regulators exist, industry players have voluntarily adopted stringent corporate governance guidelines to put in place checks and balances that are likely to ensure that their practices do not unduly compromise stakeholder interests.

In Germany, some of the largest M&E companies that are unlisted with diversified business interests have constituted supervisory boards comprising a majority of non-executives who have veto powers to negate the decisions made by the Executive Boards.³ The supervisory boards are responsible for oversight of company management, succession planning and maintaining stakeholder balance in terms of decisions made.

Corporate governance voluntary guidelines (CGVG) and its implications

Clearly the M&E industry in India Inc has some way to go before it achieves the corporate governance standards prevalent globally. But there are encouraging signs that augur well for the future.

In this context, it is important to mention here the CGVG recently released by the Ministry of Corporate Affairs (MCA). These guidelines are aspirational in nature. Through CGVG, the bar on corporate governance standards has been raised. Also these are guidelines and not rules thereby implying that CGVG is a framework of principles that companies are encouraged to adopt. Through CGVG, the MCA has expressed a strong intent to move to a principles-based system of governance (identical to the UK system of governance) which is based on the philosophy of “comply or explain.” Companies that do not make sincere efforts to implement these guidelines in a manner that works best for them are expected to disclose the underlying reasons to the shareholders (based on the “comply or explain” philosophy).

Industry players should use CGVG as a framework for evaluating their existing standards of governance and consider how they can improve oversight and governance processes through adoption of CGVG. In doing so, early movers can clearly have an advantage in terms of demonstrating much higher levels of transparency and stakeholders’ confidence besides positioning their boards as a strategic tool to gain competitive advantage. Companies that fail to pro-actively adopt these guidelines or do not adequately disclose the underlying reasons for non-adoption with clarity and a sense of purpose could potentially face adverse reputational consequences from stakeholders.

2. www.ofcom.org.uk

3. Corporate Governance of Media Companies, ROBERT G. PICARD



TAX & REGULATORY





Direct Taxes Code Bill, 2009 (DTC or the Code)

As part of the tax reform process, the Finance Minister released a draft of the proposed new Direct Taxes Code for public debate in August 2009. With the twin objective of introducing simplicity and minimization of litigation/controversies, the code proposes a number of changes in the current direct tax regime, including those with respect to taxation of foreign companies and anti avoidance rules.

Key proposals impacting the Media and Entertainment industry

One of the changes proposed by the DTC, which is relevant for the media industry, entails the extension of the definition of 'royalty' to include the following:

- Use or right to use transmission by satellite, cable, optic fibre or similar technology (also refer discussion under 'Developments on the characterization of satellite payments')
- Live coverage of any event.

The aforesaid issues have been a bone of contention in the past, and their specific inclusion in the DTC is likely to have far reaching implications for the industry.

Other key proposals

The DTC represents a complete overhaul of the present tax regime with numerous changes being proposed. Some of the key highlights have been discussed below:

General anti-avoidance rule

The DTC proposes to introduce general anti-avoidance rules, wherein wide discretionary powers have been vested with the tax authorities, enabling them to ignore or re-characterise a transaction for tax purposes.

Treaty override

The DTC (as currently drafted) provides that provisions of tax treaties or the Code, whichever is the later in time, will prevail. This position is contrary to the existing position wherein the tax treaties override the Income-tax Act if more beneficial.

Tax residence of a foreign company

In order to widen the 'tax residency' net, the DTC proposes provisions deeming a foreign company as tax resident in India even if it is partially controlled from India at any time during the financial year.

Minimum Alternate Tax (MAT) based on 'gross assets'

The DTC also proposes to change the basis of calculation of MAT from 'book profits' to 'gross assets' (proposed rate of 2 percent). Accordingly, even loss making companies would now be liable to pay MAT. Further, there are no provisions for carry-forward of MAT credit in the future years. This change is likely to severely affect capital intensive companies.

The DTC is proposed to come into force on 1 April 2011.¹ However, there is a strong likelihood of various changes prior to its enforcement. The Code is likely to be enacted after due approval by the Indian Parliament.

1. Draft Direct Taxes Code Bill, 2009



Developments on the characterisation of satellite payments

Indian perspective

The payments made by a television channel company towards the lease of transponder capacity to a non-resident company owning satellites have been a subject matter of extensive litigation for a long time. Their specific inclusion under the definition of royalty in the DTC seems to stem from the controversy created by two contradictory decisions issued by the Delhi Tax Tribunal in the case of Asia Satellite Telecommunications Co. Ltd.² and PanAmSat International Systems Inc.³

In the case of Asia Satellite Telecommunications Co. Ltd., such payments have been characterised as royalty based on the provisions of the Act (no treaty benefit available). Whereas in case of PanAmSat International Systems Inc., the same has been characterised as 'business profits' and not 'royalty' based on the interpretation under the India-US tax treaty.

Recently, to resolve the anomaly arising from the aforesaid decisions rendered by the Delhi Tax Tribunal, a Special Bench was constituted to decide on a similar matter⁴. Broadly, the Special Bench held that a process is involved in the transponder through which telecasting companies uplink and downlink data and the same constitutes royalty. It was also held that the satellite's existence in the Indian territory is not a necessary condition for a royalty received by the satellite companies to be taxed in India.

It is pertinent to note that this judgment distinguishes itself from the ruling of Authority for Advance Ruling (AAR) in the case of ISRO Satellite Centre⁵. The AAR in this case discussed the use of transponder in the context of 'equipment' and held that leasing of transponder capacity does not constitute the 'use of equipment' and accordingly, is not 'equipment royalty'. However, the New Skies judgment has considered leasing of transponder facility as use of process and hence, royalty.

The Special Bench's decision in case of New Skies Satellite NV as aforesaid has far reaching implications on withholding tax payments involved in such transactions. The case has been agitated before the High Court of Delhi and is pending adjudication.⁴ Meanwhile, the uncertainty surrounding this matter continues to remain till the case reaches its final conclusion. However, its impact merits analysis on a case to case basis.

The problem is further compounded with the introduction of an amendment by Finance Act (No.2), 2009 with effect from 1 April 2010, wherein foreign companies are required to obtain Permanent Account Number in India in order to enjoy the beneficial withholding tax rates in India

International perspective

Recently, a 'Discussion draft on tax treaty issues related to common telecommunication transactions' has been released by the Organisation for Economic Co-operation and Development (OECD). On a general basis, the draft mentions that payments made by customers under 'transponder leasing' agreements are made for the use of the transponder transmitting capacity and will not constitute royalties. However, the same may be classified as 'equipment royalty' in certain cases, based on the factual pattern.

However, it may be noted that this amendment is pending finalisation of the OECD. Though India is not a member, the views of the OECD may have a persuasive value before Indian courts.

2. Asia Satellite Telecommunications Co. Ltd. vs DCIT [2002] 78 TTJ 489

3. DCIT vs Pan AmSat International Systems Inc. [2006] 103 TTJ 861

4. New Skies Satellites NV vs ADIT, Shin Satellite Public Co. Ltd. vs DDIT and Asia Satellite Telecommunications Ltd., In re [2009] 319 ITR 269

5. ISRO Satellite Centre (ISAC) vs DIT [2008] 307 ITR 59 (AAR)



Goods and Services Tax

The Media and Entertainment industry suffers from a plethora of Central and State levies including levies by local bodies and authorities. These multiple taxes, administered by different Government authorities, are largely not creditable and add to the cost of business. The proposed introduction of Goods and Services Tax (GST) is expected to address this anomaly.

GST is possibly one of the most significant reform under the indirect tax regime in modern India. The current indirect taxes such as Excise Duty, Service Tax, Value Added Tax (VAT), Entertainment Tax, etc. together with surcharges and cesses thereon levied at Central and State levels are proposed to be subsumed into the GST regime.

The new system is likely to be a dual structure with both the Centre and the States having the right to levy and administer this tax. To elucidate, all transactions involving sales and supplies goods or provision of services will be simultaneously subjected to Central GST (CGST), a central levy and State GST (SGST), a state levy. It is proposed that inter-State transactions be taxed only by the Centre under the nomenclature of Intermediate GST (IGST). This can enable credits also on inter-State transactions and address the loss of credit suffered under the present Central Sales Tax regime.

Taxability of goods and services for both domestic and cross border transactions would be determined on the basis of 'Place of Supply Rules'. Rate of tax under GST is under discussion and debate and may range from 16 percent to 22 percent. However, this impact could be diluted by the availability of better credits - the credit pertaining to input IGST, CGST and SGST should be available and fungible between goods and services.

Customs duty

The levy of basic customs duty on import of goods is likely to remain unchanged. However, Countervailing duty (CVD) and Additional Duties of Customs in lieu VAT/Sales tax (SAD) may be replaced by the levy of GST. Therefore, the credit of the GST paid on import of equipment such as cameras, lights, etc. could be available against the payment of output tax liability of GST. This is likely to be beneficial to the media and entertainment industry.

Entertainment tax

Entertainment tax, currently levied and administered state-wise (and in some states, by the local authorities), is likely to be subsumed under the GST. Presently, with the levy of entertainment tax, credit of the other taxes (such as VAT/ Sales tax, service tax, excise duty, etc.) paid on inputs and input services is not available against the entertainment tax payable on film exhibitions, theatrical performances, amusement parks, games/sports events, DTH and cable operators, live entertainment, etc. Therefore, these input taxes become a cost. With the introduction of GST, credit of the said input taxes would be available against the output tax liability which is expected to be hugely beneficial to this industry. The continuation of exemptions for entertainment granted to multiplexes is however uncertain.

Also, taxes on lottery, betting and gambling are also proposed to be subsumed under GST. This would clearly take within its fold the online lotteries, lottery and game-shows on television thus, making these activities exigible to GST.

Copyrights

Currently, copyrights for movies, serials, stories, etc. are exigible to State VAT/CST. However, it is likely that under the GST regime, copyrights could be taxable as services. Taxability of the same could be governed by 'Place of Supply Rules'.

At present, the credit of the service tax paid on input services is not available against the liability for payment of VAT on copyrights. However, under GST, credit of the taxes paid on input goods and services would be available against the taxes paid on the grant of copyrights.

Print media

At present, the print media enjoys exemption from taxes like service tax, CST/VAT, etc. There is a possibility that advertising revenues of the print media may be brought to tax though exemption on revenues from newspapers and publications may continue. On the other hand, enhanced credits to advertisers could boost advertisement spends. The fate of credit availability/refund of input taxes paid, etc. is unclear at this point.

Meeting the challenges

GST is likely to throw up numerous challenges for the media and entertainment industry. The key challenges include issues like taxation of transactions not exempt earlier, taxable event vis-à-vis intangibles, transition of exemptions, etc. Some typical transactions include:

- Determination of taxable event for internet based services like content downloading through internet, through mobile, etc. which are currently under dispute under both service tax and VAT laws. It could be necessary to provide for unambiguous 'Place of Supply Rules' to resolve taxation of such transactions. This is particularly necessary as these are normally B-2-C transactions.
- Barter transactions (between goods and services as well) are likely to be comprehensively covered under the tax net under GST.
- Currently, the grant of rights to capture events like cricket matches, live entertainment programmes, etc. is not liable to tax under service tax/VAT. This may possibly be covered under services.
- Stock transfer of goods and services may be treated at par with sales and supplies and subjected to GST. Though credit of such GST paid should be available, this may adversely impact the working capital requirements of businesses.
- In certain states, multiplexes have been granted exemption from entertainment tax for a specified period. The continuation of these exemptions at the time of transition to GST in the case of entities where specified period has not expired may be a challenge.
- The compliance for service providers which are currently centrally administered (viz. centralised registration for service tax) may be required at the state level in view of the dual GST regime.
- Document and record maintenance as well as the IT system requirements is likely to be extensive.

Further, to enable systematic, smooth and successful transformation of the current indirect tax system into proposed GST model, Centre is actively engaged with the Empowered Committee to finalise the GST structure and modalities for its implementation, and there is an indication to introduce GST implementation from 1 April 2011. There are numerous issues which need to be addressed before the final rollout as also the preparations required by the Central and State Governments.



With the Indian government committed to ushering in a new era in tax reforms through the implementation of the DTC and GST, the country seems to be gearing up for the next phase of transformation in the overall tax landscape.

Key highlights of Union Budget 2010-11

The Finance Minister, vide the Union Budget 2010-11, has proposed few major changes for the Media & Entertainment Sector.

Copyrights

Prior to the Union Budget 2010-11, Copyright was outside the purview of Service tax. However, post-budget, copyright on '*recording of cinematographic films*' and '*sound recording*' has been proposed to be brought under the taxable category of 'Intellectual Property Services'.

This would mean that all the reproduction/ distribution/ communication rights given by a producer would attract Service tax. The film & music industry is already burdened with applicability of VAT on provision of such rights. Further, applicability of Service tax would create a double whammy, especially for the Exhibitors, who would not be able to claim credit of such Service tax paid as their output activity of selling movie tickets attracts Entertainment tax.

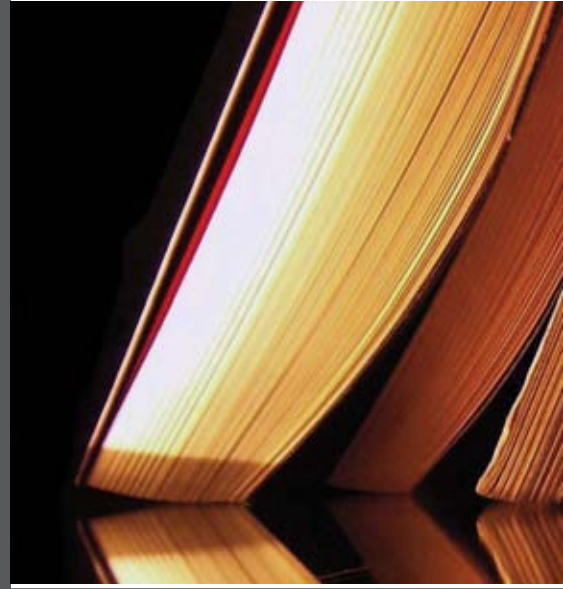
Further granting right / permitting commercial use/ exploitation of an event has been proposed to be made liable to Service tax. Going forward the grant of rights to exploit events like IPL, T20, etc. would be liable to Service tax.

Apart from the issue of multiple taxation and restricted availability of credit, the industry would also have to deal with other practical issues such as what would happen if contract between the producer/ distributor with the exhibitor is in the nature of revenue sharing, etc. Also, wherever the recipient of services is not able to claim credit, the Service tax would become stranded cost for them.

However, in this Union Budget there have been certain beneficial changes that would have a positive impact on the Media and Entertainment Sector. Such changes are as follows:

- project imports status is being accorded to 'Setting up of Digital Head End' with 5 percent concessional basic customs duty and nil rate of special additional duty of customs. The same would impact cable operators and MSOs;
- for movies imported on digital medium (CD/ DVD etc.), it is being provided that customs duty would now be charged only on the value of the carrier medium (including freight charges incurred in respect of carrier medium). Earlier this exemption was available only to movies imported on cinematographic films. However, it is pertinent to note that while the value of rights pertaining to the movies has been exempted from Customs duty, the same is proposed to be made liable to Service tax; and
- promotional material like trailers, making of films etc. imported in the form of electronic promotion kits ('EPK')/Beta cams are being fully exempted from basic customs duty and CVD, provided the same are imported free of cost.

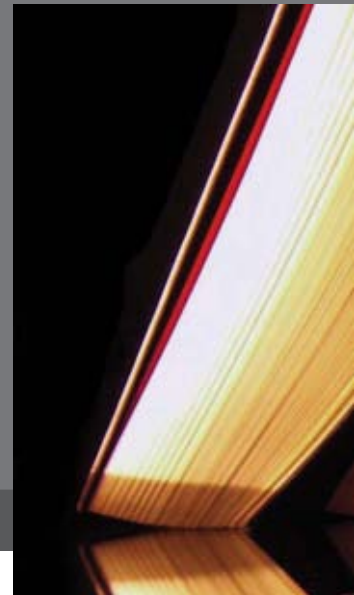




IMPACT OF IFRS ON MEDIA AND ENTERTAINMENT COMPANIES



IMPACT OF IFRS ON MEDIA AND ENTERTAINMENT COMPANIES



“Convergence with IFRS will result in significant accounting changes for media and entertainment companies. People would need to be trained, and systems and processes will need to be modified to address these changes.”



– **Jamil Khatri**

Head of Accounting Advisory Services - KPMG in India

irrespective of the legal form of the transaction, such acquisitions be recognised on a fair value basis using the ‘purchase method’ (i.e. pooling of interests method is prohibited). Under this approach, all assets and liabilities (including contingent liabilities) of the acquired company would be fair valued on the acquisition date. Similarly, unrecorded intangible assets such as brands, copyrights, publishing and distribution rights and program assets would also be recognised, with only the balance amount recorded as goodwill.

Overview

In line with the global trend, the Institute of Chartered Accountants of India (ICAI) has proposed a plan for convergence of Indian Generally Accepted Accounting Principles (Indian GAAP) with International Financial Reporting Standards (IFRS). The announcement by the Ministry of Corporate Affairs (‘MCA’) lays down a phased approach to convergence which is similar to the proposed approach of other countries such as Japan and the United States. The converged standards will initially apply i.e. effective 1 April 2011, to certain large-sized companies (Nifty 50, SENSEX 30, companies having shares/securities listed outside India or any companies having net worth in excess of INR 1,000 crores). Whilst companies with a net worth in excess of INR 500 crores will be covered, effective 1 April 2013, the converged standards will eventually apply to all listed companies effective 1 April 2014. However, early adoption by companies is permissible.

Top accounting issues

Although Indian GAAP is similar to IFRS in certain respects, many differences exist. These differences can be significant and can have entity-wide implications. This publication highlights some of the top accounting issues that are likely to arise when Media and Entertainment companies (Film, Television, Radio, Music and Print) converge with IFRS.

Acquisitions

Indian Media and Entertainment companies have made several acquisitions over the last few years. IFRS would require that

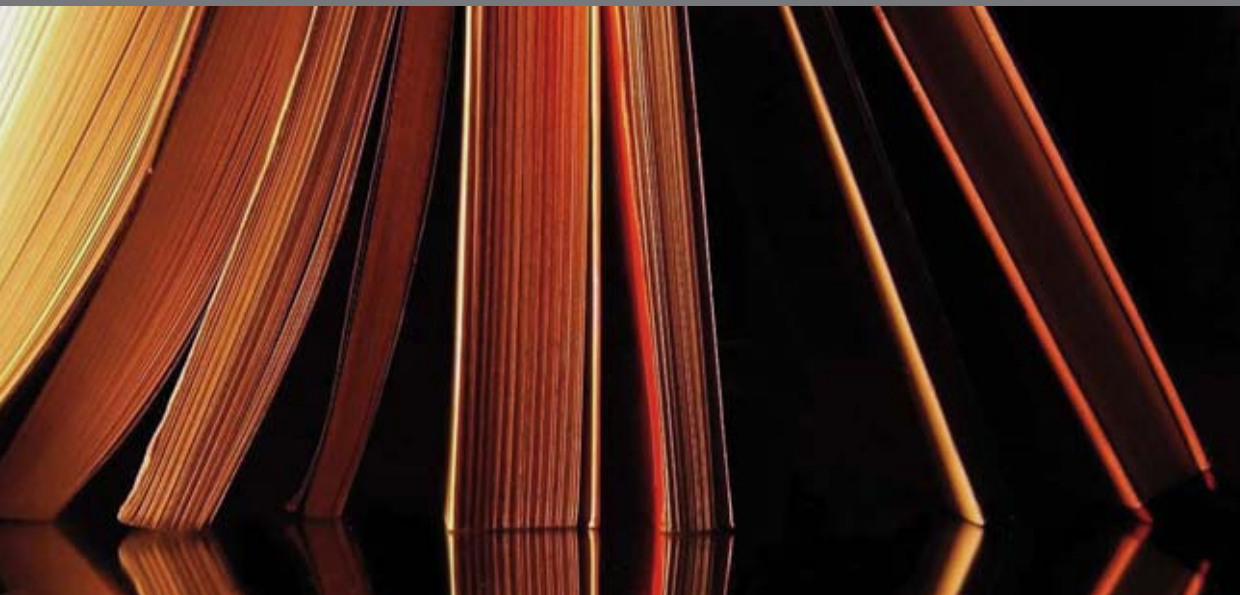
Further, IFRS would require that the results of the acquired company are included in the financial statements of the acquirer only from the date when control is obtained – and not from a designated effective date. Under Indian GAAP, companies typically designate an effective date (which may be prior to closing) and record assets, liabilities and goodwill based solely on book values in the financial statements of the acquired company.

Several of these acquisitions may also include earn-out payments linked to future performance. IFRS requires that such cash earn-out arrangements also should be fair valued on the acquisition date. Any subsequent changes in the fair value of such earn-out arrangements are not capitalised, but are recorded through the profit and loss account. Under Indian GAAP, all earn-out payments are generally capitalised at the time of the payment.

Further, IFRS requires that transaction costs incurred for the acquisition (finder’s fees, due diligence costs) are charged to the profit and loss account. This is again different from Indian GAAP, where capitalisation of direct costs is permissible.

Lastly, under Indian GAAP, court approved schemes often provide for an accounting treatment divergent from the underlying accounting standards. This may not be permitted post-convergence.

Convergence with IFRS would result in significant income statement impact for acquirers. Also, internal systems, processes and controls would need to be changed to determine fair values of various assets, liabilities, intangibles and earn-out arrangements.



Consolidation

Many Media and Entertainment groups in India operate through multiple legal entities for different businesses. Some of these entities/businesses have participation by external strategic or financial investors who may hold a significant minority interest. Some entities are operated as 'joint ventures'.

Under IFRS, consolidation is based on the concept of 'control'. Thus, while a majority voting interest would generally evidence control; all other facts and circumstances would need to be evaluated to determine if the majority owner has control over the entity. For example, consider an entity where the Indian partner (majority shareholder) owns 51 percent of the ownership interest and the foreign partner (minority shareholder) owns 49 percent interest. Under the terms of the shareholder's agreement, the majority shareholder controls the Board of Directors. However, certain decisions such as approval of annual budgets and appointment, dismissal and remuneration of key management employees; require the approval of the minority shareholder Board nominees. Under IFRS, even though the majority shareholder has a majority voting interest and controls the Board, the presence of important veto rights with the minority shareholder may indicate that unilateral control does not rest with the majority shareholder. In such cases, the majority shareholder would not consolidate the investee, but may treat the entity as a jointly-controlled entity or an associate. Under Indian GAAP, control of majority shareholding/Board control would automatically result in consolidation by the majority shareholder.

In the case of jointly-controlled entities, IFRS currently permits proportionate consolidation. However, it is likely that IFRS may be amended to require that jointly-controlled entities be accounted for using the equity method (one line consolidation). This may adversely affect the consolidated revenues, although it would be net profit neutral.

Many companies currently report consolidated financial results only on an annual basis and report standalone financial results on a quarterly basis. Under IFRS, consolidated financial statements are

mandatory. Further, IFRS requires the use of consistent accounting policies across a company's subsidiaries, joint ventures and associates. This may introduce further challenges due to adjustments required to align the accounting policies and practices across the group.

Revenue recognition

Under IFRS, revenue recognition is based mainly on a single standard that contains general principles that are applied to different types of transactions. IFRS does not provide specific guidance on revenue recognition for the media and entertainment industry. These general principles are largely similar to the principles under Indian GAAP. However, several specific differences exist.

Free/Discounted advertising and bonus spots

Television broadcasters sometimes guarantee their advertising customers certain minimum audience ratings in their target group failing which the television broadcaster will often grant reductions on future advertising prices or free advertising time. Under IFRS, since the broadcaster has a constructive obligation to compensate the advertising customer, revenue is deferred based on the 'fair value' of the obligation. Such deferred revenue is recognised only subsequently when the free/discounted advertising is utilised; or on expiry of the maximum period available for utilisation (if the free/discounted advertising is ultimately not utilised by the customer).

Similarly, broadcasters may enter into arrangements for free/bonus spots, bundled with normal paid spots. The arrangement may be documented in one overall agreement or through separate agreements entered contemporaneously. Under IFRS, the total consideration for advertising services is allocated to the 'paid' spots and the 'bonus' spots based on their relative fair values. Revenues allocated to bonus spots are recognised only when such spots are utilised.



Currently under Indian GAAP, constructive obligations are generally not recognised and no revenues are allocated to the free/bonus spots. Accordingly, revenues are generally recognised when the paid spots are aired with no deferral.

Barter transactions

Across the media and entertainment industry, barter transactions are quite common whereby one party provides advertising services and in return receives advertising services from the other party.

Under IFRS, revenue from such a barter transaction is required to be recognised by the service provider if:

- Dissimilar services are exchanged; and
- The amount of revenue can be measured reliably.

Dissimilarity of services is required to be analysed by considering factors such as; nature of the media (television, print, radio), target group of the audience, frequency, timing, etc.

Similarly, whether the revenue can be measured reliably is analysed based on whether the advertiser provides similar advertising services to customers on a non-barter basis.

If the above analysis indicated that dissimilar advertising services have been exchanged and amount of revenue can be reliably measured; revenues are recognised at the time when the advertising services are provided and equivalent costs are recognised when the corresponding advertising services are utilised.

By contrast, exchange of similar services or services whose fair value cannot be reliably measured, does not result in any revenue/cost recognition.

Under Indian GAAP, practice in this area is varied and several companies do not recognise revenues and costs related to barter transactions.

Licensing arrangements

Contracts for licensing of film rights may provide that the exploitation date commences on a date subsequent to the date when the beta tapes are delivered and non-refundable consideration is received. Under IFRS, the licensor can recognise revenue only on the commencement date of exploitation, even though the licensor does not have any pending obligation and the consideration received is non-refundable. Contractual restrictions during the period of exploitation do not impact revenue recognition.

Consider that a Distributor syndicates satellite rights to three broadcasters on payment of non-refundable advances as per the following terms and conditions:

- Date of delivery of tapes and requisite documentation to all three broadcasters: February 1, 20XX
- Date of receipt of non-refundable advances by the Distributor: 1 February 20XX
- Date of beginning of license period for Broadcaster 1: 1 February 20XX
- Date of beginning of license period for Broadcaster 2: 1 March 20XX
- Date of beginning of license period for Broadcaster 3: 1 April 20XX

The licensing arrangement allows each broadcaster to telecast the film only once per quarter over the license period. Moreover, the licensing arrangement also requires each broadcaster to agree telecast dates in writing with the Distributor in advance.

In this case, the Distributor shall recognise revenue from syndication of movie rights to Broadcaster 1, 2 and 3 on 1 February 20XX, 1 March 20XX and 1 April 20XX respectively.

Subsequent restrictions on periodicity and dates of telecast do not impact upfront revenue recognition.

Currently under Indian GAAP, revenue is generally recognised once the non-refundable payments have been received and the tapes are delivered, even if the exploitation can commence only at a future date.

Bundled contracts

In the media industry, there are multiple-element arrangements which may involve sale of a cable subscription agreement combined with the provision of the necessary decoder at a discounted price, activation and setup fees associated with a channel subscription and triple-play agreements (where the deliverables are television, telephony and internet). Similarly, in the publishing industry, publishers may sell comprehensive "information solutions" that combine print and online products. While the print product has a fixed edition status at the time of sale, the online product includes regular updates to the information contained in the print product, which are provided over the internet for a certain period of time in the form of a time-limited subscription.

Under IFRS, it may be necessary to segment a single contract into its components (elements), with different revenue allocations for each component. Generally, if separate elements have standalone value to a customer, allocation of overall revenues to individual elements would be required irrespective of whether all elements are documented in one single contract or in separate concurrent contracts. Thus, the substance of the arrangement is evaluated to determine whether multiple elements are involved. After identification of the separate components, revenue is allocated based on the "relative fair value method" or another appropriate fair value based method.

As per historical practice under Indian GAAP, many Indian media and entertainment companies account for each deliverable within the overall arrangement based on the form of the documentation in the contract and based on the prices stated in the contract. Typically, no separate evaluation of multiple elements existing in a single legal contract is performed. Similarly, separate fair value for each element within the contract is not determined if separate prices are stated in the contract for each deliverable.

Accordingly, application of IFRS may result in a deferral of revenue in several cases where upfront recognition is currently followed.

Additionally, internal reporting systems (including IT systems), processes and internal controls, would need to evolve to determine separation of multiple elements embedded in a single or concurrently negotiated contracts, and for helping ensure the availability of sufficient benchmark data to support fair value allocation.

Gross v/s net presentation

Given the chain of intermediaries involved in the media industry and the structuring of various contracts, the distinction between whether an entity is acting as an agent or a principal assumes significance as it helps determine whether the entity should account for a particular stream of revenue on a gross or net basis.

Usually an entity working as an agent does not have exposure to the significant risks and rewards of ownership of goods or rendering of services. An entity having exposure to the significant risks and rewards associated with the sale of goods or rendering of services is acting as a principal. The following features should be considered to determine if an entity is acting as a principal or an agent. None of the indicators noted below should be considered presumptive or determinative, but an overall assessment would need to take into account

the direction of the majority of indicators. Indicators that an entity is acting as a principal include that it:

- has primary responsibility for providing the goods and services to the customer or for fulfilling the order, i.e. it is the primary obligor;
- has inventory risk before or after the customer order, during shipping or on return;
- has discretion in establishing prices (directly or indirectly); and
- bears the customer's credit risk for the amount receivable from the customer.

For example, in the case of film exhibition where the theatre owner (exhibitor) and the film distributor contractually share revenue based on a pre-determined percentage, the exhibitor generally accounts for revenue from sale of tickets on a gross basis and accounts for the distributor's share as an expense. This is primarily because of strong indicators relating to it being the primary obligor; having discretion in establishing the ticket price, bearing the credit risk (especially for corporate and bulk bookings where the exhibitor may extend credit to the end customer) and having at least a part of the inventory risk emanating from occupancy levels. A similar situation would arise where the film distributor and the film producer agree on a revenue-sharing model: in this case, the film distributor would account for revenue (net of exhibitor's share) on a gross basis and disclose the producer's share as cost.

Program assets and similar rights

Various types of 'rights' exist in the media and publishing industries. In the media industry, such rights comprise of film and television rights held by a television broadcaster or the rights portfolio held by a film producer or rights trader. In the publishing and publicity industry, such rights are primarily publishing, title and distribution rights that a publisher holds for the purpose of exploitation.

Media and publication rights are intangible assets. The key factor is not the physical substance of the book or the film or sound storage medium, but the extensive opportunities to exploit the rights to the content. This gives rise to specific accounting issues.

For example, publishing, title and distribution rights can be generated internally by the publishing company or acquired from third parties. The cost of such rights acquired from the third parties must be recognised as an asset because, in most cases, they meet the definition and recognition criteria for an intangible asset, i.e. the entity controls the resource and expects future economic benefits to flow to it, the cost can be measured reliably, etc. However, the costs associated with internally generated publishing, title and distribution rights may not be recognised as intangible assets because though they appear to satisfy some of the above criteria, expenditure on such internally generated rights cannot be distinguished from the cost of developing the publishing company's business as a whole.

Under IFRS, program assets and distribution rights that meet the recognition criteria must be recognised at cost. Cost includes the purchase/production cost and any other directly attributable costs required to exploit the rights.

For example, the cost of the publishing right includes all fixed components of the author's remuneration, e.g., guaranteed or minimum amounts, fixed prices, and all-in royalties. Generally, if the remuneration paid to the author consists of a combination of a fixed, guaranteed amount and a variable, unit- or revenue-based payments, only the agreed guaranteed amount must be recognised as a part of the cost. On initial recognition of the publishing rights, the variable remuneration does not represent a present obligation and is not therefore a component of the cost. Instead, the variable remuneration must be



recognised as an expense in the same period as the relevant unit sales or revenues are recognised. In the case of film rights, for example, dubbing or subtitling costs to translate an acquired foreign language film are also included as cost. However, cost does not include storage costs and marketing costs incurred prior to release of the program/film, for instance. These represent expenses at the time they are incurred.

The annual amortisation expense for such assets is calculated on the basis of useful life. Such amortisation must reflect the pattern in which the right is expected to be exploited. The straight-line, units of production, or revenue-based method of amortisation are possible depending on the type of right and the contractual arrangements. The revenue-based method is typically used for publishing and program rights because it suitably reflects the decline in value of the right over time. The revenue-based method is also appropriate, for example, if an entity expects to generate revenue primarily in the first few years that it exploits a right, and believes that exploitation shall be significantly reduced in subsequent years.

Similarly, in the television segment, a program asset intended for multiple broadcasts is typically amortised using a diminishing balance of amortisation rates depending on the number of permitted or planned broadcasts. The diminishing balance of the amortisation expense appropriately reflects the decline in value of the program assets. Experience may show that this value is highest on first broadcast, and falls with subsequent broadcasts or repeats.

Also, in the free-to-air TV segment, cash flows from licenses mainly consist of the advertising revenue generated by broadcasting the licensed film or program. Advertising income depends largely on the number and composition of viewers and entails broadcasting attractive programs at attractive broadcast times that primarily reach the audience defined by the advertising industry as its target group. For example, despite its appeal, an expensive blockbuster would generate much lower advertising revenue if it was broadcast on a weekday afternoon than it would on a Sunday evening. Management can therefore play a key role in determining an entity's advertising income and ultimately its cash flow forecasts through its program scheduling. The calculation principles used must also be applied consistently.

Another issue arises if television broadcasters acquire expensive films and can predict that the cash flows achievable in the form of advertising revenue are likely to be less than the cost of the film. The reason why companies still acquire these expensive films is usually to improve their image and increase their market share. This has a positive knock-on effect on other programs that are broadcast before or after the film in question, as well as on the broadcaster's overall image. These knock-on effects are therefore included in practice, for example, by considering individual advertising spaces (e.g., Saturday evenings) as a cash-generating unit when calculating cash flow forecasts, i.e. individual programs within the advertising space are regarded as interdependent.

While the accounting concepts discussed above are generally similar to the concepts under Indian GAAP, practices in India vary. For example, several distribution companies amortise a pre-determined percentage of the film costs in the first year and use other pre-determined rates for future years. These percentages may or may not reflect the manner in which different individual rights may be exploited. Companies may need to reassess their amortisation policies in such cases.

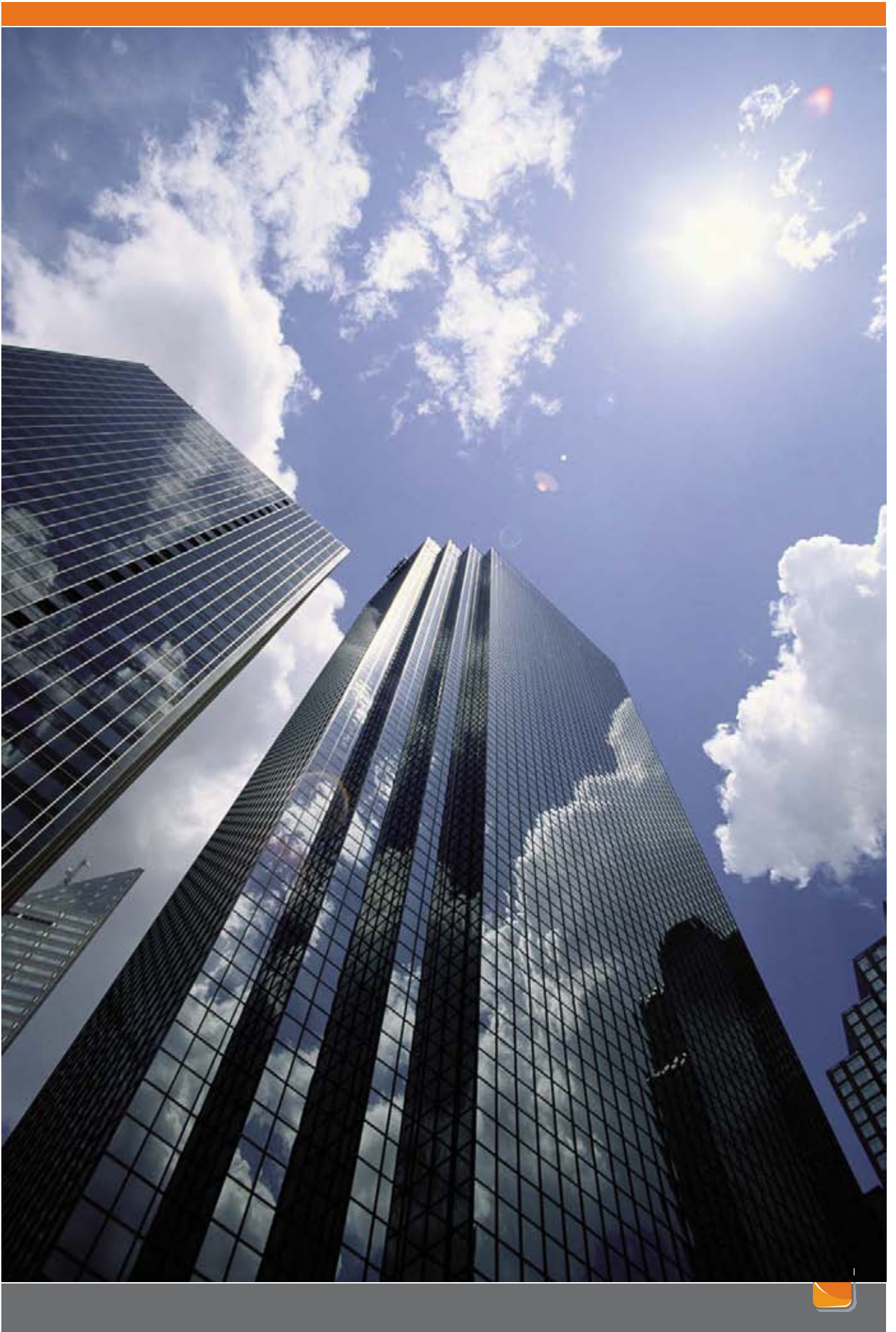
Time to start IFRS is 'now'

While we have only touched upon certain industry specific headline issues, there are various other accounting and disclosure issues that companies need to identify and address in order to protect and enhance shareholder value, such as those relating to:

- property, plant and equipment
- financial instruments and derivatives
- employee compensation
- deferred taxation
- leases
- segment reporting.

The next few years are likely to be exciting, as convergence to IFRS is more than a mere technical exercise. It needs to be viewed as an important business priority and companies must scale up not only their systems but also their intelligence quotient to meet the challenge. Finally Adoption of IFRS standards will also have an impact on fund raising by Media and Entertainment companies.





We would like to
thank all those who
have **contributed**
and shared their
valuable **domain**
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