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FICCI FRAMES2014

The stage is set

FICCI-KPMG
Indian Media and Entertainment
Industry Report 2014

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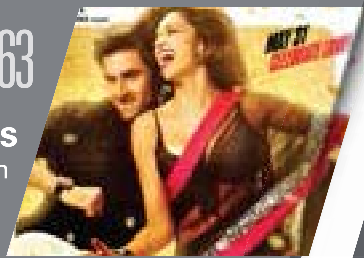

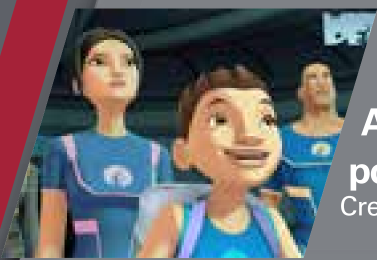

Foreword

Transforming lives…

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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01

Introduction

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

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

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

Industry size and projections

Overall industry size (INR billion)	2008	2009	2010	2011	2012	2013	Growth in 2013 over 2012	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
TV	241.0	257.0	297.0	329.0	370.1	417.2	12.7%	478.9	567.4	672.4	771.9	885.0	16.2%
Print	172.0	175.2	192.9	208.8	224.1	243.1	8.5%	264.0	287.0	313.0	343.0	374.0	9.0%
Films	104.4	89.3	83.3	92.9	112.4	125.3	11.5%	138.0	158.3	181.3	200.0	219.8	11.9%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	15.0%	16.6	19.0	23.0	27.8	33.6	18.1%
Music	7.4	7.8	8.6	9.0	10.6	9.6	-9.9%	10.1	11.3	13.2	15.1	17.8	13.2%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	5.9%	21.2	23.1	25.2	27.5	30.0	9.2%
Animation and VFX	17.5	20.1	23.7	31.0	35.3	39.7	12.5%	45.0	51.7	60.0	70.2	82.9	15.9%
Gaming	7.0	8.0	10.0	13.0	15.3	19.2	25.5%	23.5	28.0	32.3	36.1	40.6	16.2%
Digital Advertising	6.0	8.0	10.0	15.4	21.7	30.1	38.7%	41.2	55.1	69.7	88.1	102.2	27.7%
Total	**580**	**587**	**652**	**728**	**821**	**918**	**11.8%**	**1039**	**1201**	**1390**	**1580**	**1786**	**14.2%**

Source: KPMG in India analysis

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

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

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

Highlights

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

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

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

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

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

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

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

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

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

Round up of the key trends and themes for growth

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

Digitisation –Taking the next step

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

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

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

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

Continued growth in Regional Media

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

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

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

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

India goes more mobile

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

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

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

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

The need for youth to stay socially connected through media

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

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

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

Necessity of regulatory support

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

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

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

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

Growing contribution of live events in M&E industry

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

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

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

Beyond borders

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

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

Conclusion

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

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