

Business of Culture in India

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CONTENTS

1. Introduction
2. Newspaper Industry in India
3. Filmed Entertainment Market in India
4. Film Distribution – Multiplex Phenomenon
5. Funding the Film Business
6. Overseas Market for Indian Films
7. Home Video Market
8. Television Market in India
9. Cable TV Market in India
10. DTH Market in India
11. IPTV Market in India
12. Radio Market in India
13. Music Market in India
14. Internet Usage in India
15. Gaming Market in India
 - Global Gaming Market
16. Animation Sector in India
17. Amusement Parks in India
18. Retail Market in India
19. Luxury Market in India
 - Luxury Watch Segment in India
 - Luxury Car Segment in India
20. Wedding Market in India
21. Gambling Market in India
22. Advertising Market in India
23. Out of Home Advertising Market in India
24. Art Market in India
25. Sports Market in India
 - Horse Racing In India
26. Entertainment Companies in India
27. Emerging Trends in the Culture Industry
28. Select Bibliography

Business of Culture in Contemporary India

Introduction

This report titled the ‘Business of Culture in India’ attempts to compile statistical information as well as analyse the most important business trends in Culture Industry of contemporary India. The report is meant to provide a snapshot of the major components of the culture industry, the economics of the various components as well as a brief sketch of the regulatory environment in the industry. The report lays more emphasis on the market trends, the size of the market as well the latest developments rather than an analytical analysis of the nature of the culture industry. Wherever possible, the report has tried to understand the largest segment of a particular business rather looking at each and every component. This is focus on the larger segments of a particular business is essentially meant to retain the focus on the culture industry but also to avoid looking at too many small segments. In short the report attempts to understand the business and business dynamics rather than (re)interpret the culture industry in India. An understanding of the business dynamics has become essential as the famous business adage ‘price is what you pay, value is what you get’ becomes important in the business.

The Indian media segment, especially the film business, has grown after it was accorded the status of industry in 2001. New business and revenue models have replaced the traditional models. The recent economic boom has not only blurred the lines on which a particular price can be placed in a particular industry. The boom has also replaced a number of traditional valuation models with the industry now laying more emphasis on ‘valuations’ rather than cash flows as an important barometer for understanding the businesses that comprise the culture industry.

Newspaper Market in India

The newspaper market like the television market is becoming more stock market oriented in its ownership. This trend is more like most of the western countries, where stock market ownership is an important feature of the newspaper market. India is estimated to have 393 newspapers¹ and more than 200 million readers². The National Readership Survey 2006 claims that the number of readers increased from 206 million to 222 million over the previous year. Dailies continue to grow, adding 12.6 million readers from last year to reach 203.6 million while there has been a drop of 7.1 million magazine readers³. It has been pointed that there are another 360 million readers who do not read any newspaper in India⁴.

Seven of 10 of the world’s 100 best selling dailies are now published in Asia. China, Japan and India account for 60 of them. The five largest markets for newspapers are: China, with 98.7 million copies sold daily; India, with 88.9 million copies daily;

¹ <http://www.wan-press.org/worldpresstrends/articles.php?id=22> (Last Visited 14 February 2008).

² <http://www.guardian.co.uk/media/2007/feb/05/pressandpublishing.business> (Last Visited 14 February 2008).

³ <http://www.thehindubusinessline.com/2006/08/30/stories/2006083004170500.htm> (Last Visited 14 February 2008).

⁴ “Adding Pages”, *Business Standard*, 12 January 2007, p.13.

Japan, with 69.1 million copies daily; the United States, with 52.3 million; and Germany, 21.1 million. Indian newspaper sales increased 12.93 percent in 2006 and 53.63 percent in the five-year period⁵. The Indian Newspaper Society, the ‘accredited spokesman’ of the Indian newspaper industry claims that ‘over 990 dailies, bi-weekly, weeklies, fortnightlies and monthlies are published in 18 languages⁶.

The English media accounts for nearly 15 percent of the total newspaper market in India but has at least seven times fewer readers than the Hindi media. However, the English media claims more than half-the share of total advertising pie of the print space⁷. Hindi newspapers account for about 40 percent of the market, English comprises of about 15 percent and other vernacular languages comprise of the remaining 35 percent of the space. GroupM, a WPP company estimated that the total market for advertising in the newspaper market in 2006 was Rs. 7856 crores and increased to Rs.9,290 crores in 2007. It is expected to grow further to Rs.10,962 crores⁸. It estimates a growth of 18 percent year on year for the newspaper segment of the market.

A rather new development has been the attempt to create an integrated media empire among some hitherto television companies. TV18 has decided to form a joint venture with *Jagran Prakash*, publishers of *Dainik Jagran* newspaper to launch a Hindi business newspaper and business dailies in other regional languages. This was the third deal by TV18. The first being its acquisition of 40 per cent of Infomedia Limited. The second was a tie up with Forbes Media to launch a business magazine in India⁹. a number of newspaper companies have listed on the stock exchanges in the past three years. They include the south based Deccan Chronicle, HT Media Limited, Jagaran Prakash (publishers of *Dainik Jagaran*) apart from the Sun Group and Zee Group. The other media group listed is TV Today group, owned by the India Today group, which too has forayed into print media. A number of Indian companies are rushing to enter into a collaboration deal to publish various foreign journals and magazines. The present regulations stipulate that foreign ownership in print (and electronic media) cannot exceed 26 percent. This has regulation has acted as a dampener in the attempt by foreign publishers to enter the Indian market, the fastest growing print media market in the world.

The print media sector witnessed excellent growth in 2007. The print media industry (newspapers and magazines) is estimated at about Rs.6500 crores (about US\$1.6 billion)¹⁰ and this is estimated to grow to about Rs.10,690 crores in the financial year 2008¹¹. A buoyant advertising growth rate of 19-25 percent in the print media only enabled larger investments and expansion. The overall share of the print media in the total advertising market is 47-48 percent¹². In India, newspaper advertising revenues

⁵ <http://www.wan-press.org/article14362.html> (Last Visited 14 February 2008).

⁶ <http://www.ins.org.in/aboutins.htm> (Last Visited 14 February 2008).

⁷ “English media gets the most of print space advertisement pie”, *The Financial Express*, 22 March 2008, p. 5.

⁸ *This Year, Next Year – India Media Forecasts*, April 2008, p.4.

⁹ “TV18’s print foray may prove profitable”, *Businessline*, 20 December 2007, p.17.

¹⁰ “Adding Pages”, *Business Standard*, 12 January 2007, p.13.

¹¹ ICICI Securities *Media Sector Update*, June 18, 2008, p.8

¹² “Adding Pages”, *Business Standard*, 12 January 2007, p.13.

increased 23.18 percent over one year and 85 percent over the last five years¹³. ICICI Securities estimates that in 2008, the print media would continue to corner the largest share of the advertisement pie and would grow by 18 percent¹⁴.

The Hindi print media grew faster than its English compatriots by adding more additions and expanding its footprint. A number of newspapers are looking at starting new editions. Bennett & Coleman Company Limited has announced plans to expand into regional language newspapers market by buying out Vijay Times, Vijay Karnataka and Usha Kiran from Vijayanand Printers, Bangalore¹⁵. It also launched its Gujarati version of *The Economic Times*, while Business Standard launched its Hindi version. The south has seen a number of new launches and some consolidation in the industry. One new newspaper has been launched in Andhra Pradesh (Telugu daily *Surya* and *Saakshi* were the two new Telugu dailies to be launched. *Saakshi* owned by the son of the Andhra Pradesh Chief Minister, Dr.Y.S.Rajasekhara Reddy, claims that its circulation is about 1.3 million. However unofficial estimates place the circulation at 450,000. In Tamil Nadu, the Sun Group (listed on the stock exchanges) acquired a controlling stake in the newspaper *Dinakaran* and evening paper *Malai Murasu*¹⁶.

The Government of India liberalised the rules and regulations for printing Indian editions of foreign magazines in the news and current affairs category. The foreign company will have to enter into agreements with Indian publishers in order to include local content and carry domestic (Indian) advertisements – both of which were prohibited in the past. This is expected to significantly reduce the cost of subscriptions for these foreign journals and expand the market. It has been estimated that this measure will enable the market to expand from about Rs.1900 crores in 2007 to about Rs. 3800 crores by 2012¹⁷. Advertising in this segment is expected to grow at 16 percent (compared to circulation revenues of 10 percent) to reach Rs. 3000 crores in 2012 from the current Rs. 1400 crores¹⁸. English magazines account for nearly 5 percent of the print advertisement market.

However, it is pertinent to note that this relaxation is possible only for those companies that are being published in their country of origin, and “should have been published continuously for a period of at least five years, and the publication must have a circulation of at least 10,000 paid copies for the last financial year in the country of its origin” to be eligible for an Indian edition. Industry sources expect the government to liberalise the ownership regulations that will allow 49 percent ownership to foreign companies in Indian media companies.

Category wise share of Advertisers in Newspapers

¹³ <http://www.wan-press.org/article14362.html> (Last Visited 14 February 2008).

¹⁴ *ICICI Securities Media Sector Update*, June 18, 2008, p. 4.

¹⁵ “Adding Pages”, *Business Standard*, 12 January 2007, p.13.

¹⁶ “Adding Pages”, *Business Standard*, 12 January 2007, p.13. (Last Visited 14 February 2008).

¹⁷ “News magazine segment liberalized”, *The Financial Express*, 19 September 2008, p.1.

¹⁸ “News magazine segment liberalized”, *The Financial Express*, 19 September 2008, p.2.

Advertiser	2006	2007	Year on Year % Change
Educational Institutions	6%	7%	33%
Real Estate/Property	6%	6%	14%
Independent Retailers	4%	5%	50%
Cars/Jeeps	4%	5%	46%
Corporate/Brand Image	4%	4%	32%
Events	4%	4%	25%
Internet Services	4%	3%	43%
Miscellaneous	3%	2%	17%
Travel and Tourism	3%	2%	8%
Audited/Unaudited Financial Results	2%	2%	18%

Source: *This Year, Next Year – India Media Forecasts*, April 2008, p.7.

Filmed Entertainment Market in India

The film business grew exponentially after the industry was granted the status of 'Industry' in 2001. In 1999 the size of Indian film industry was estimated at approximately Rs.600 crores but by 2007, it had grown to nearly Rs.9000 crores¹⁹. Indian film industry is the largest in the world in terms of the number of films produced. Though it would be inappropriate to think of the Indian film industry as homogenous, Bollywood or the Hindi film industry may comprise of the largest segment in the Indian industry in terms of volume of business. FICCI-PricewaterhouseCoopers estimates the size of the film industry at Rs.8500 crores in 2006, a growth of about 24 per cent from 2005²⁰. ASSOCHAM has estimated that the domestic film industry is like to touch Rs.40,000 crores by 2010 from the present Rs.23,000 crores. It is expected to provide employment to about 6 million people by 2010²¹, up from the 2.5 million people that it employs presently²². FICCI estimated that about 1146 films were produced in India in 2007²³. Bollywood accounts for about 250²⁴ of the films produced in India every year. An estimated 3.76 billion tickets were sold in the country in 2006²⁵.

A new trend has been film producers now view new media, merchandising and other promotional activities as vital sources of revenue. The domestic box office revenues account for about 75 percent. The rest is distributed among overseas box office, home video and the sale of music and satellite rights²⁶. However, other recent estimates claim that the 63 percent of revenues accrue from box office, about 13 percent from home video

¹⁹ "Cinema Capital Venture Fund, Scheme 1 Material.

²⁰ "Bollywood Calling", The Smart Investor, *Business Standard*, 21 January 2008, p.2.

²¹ "Film Industry likely to grow to Rs.40,000 crore by 2010", *The Financial Express*, 8 December 2007, p. 5.

²² "Beyond nostalgic NRIs", *The Hindu Businessline*, Life Section, 7 December 2007, p. 4.

²³ "Corporates go to the movie", *The Hindu*, 11 September 2008, p.24.

²⁴ "Northern Lights", *The Economic Times*, 8 September 2007, p.9.

²⁵ "Regional cinema should monetize fragmented and localised cultures", Assocham Advertisement in *Businessline*, 21 December 2007, p.5.

²⁶ "Bollywood Calling", The Smart Investor, *Business Standard*, 21 January 2008, p.2.

sales and other sources contribute anywhere between 2 and 25 percent of earnings²⁷. The non box-office revenues are currently estimated at US\$2.9 billion²⁸. One estimate places theatrical revenues at 50-60 percent and is expected to go down further while other sources increase. The present sources of non box-office revenues include home video (5-7 percent), music (5-7 percent), satellite (15 percent) and new media (5 percent)²⁹. Apart from the above sources, the new growth areas include remake rights, gaming rights, animation rights, movie merchandising and in-movie advertising.

The rise of corporate players is a trend that has become more discernible in the past four years. The trend of major corporate players acquiring existing players started in earnest when Reliance acquired Adlabs. Adlabs is estimated to process about 70 percent of all the Hindi movies produced in India³⁰. The most recent entrant into the arena are Moser Baer and Mahindra and Mahindra (M&M). M&M entered the film industry through its media ventures. Its first film *Mumbai Chaka Chak* produced at a cost of nearly Rs.10 crores is slated to be released soon³¹. The size of the Indian film industry is considered to be very large if we factor in the fact that an additional 42 percent of the revenues are affected by film piracy³². It is imperative to note that presently, India produces films in about 52 languages³³. The emergence of a number of regional television channels is expected to boost the demand for films in different languages.

The film industry has increasingly seen the rise of new all-India distribution houses that have larger resources at their command. These large distribution houses, some of which are listed on the stock exchanges, have gradually replaced the multitude of small time distributors and have bid for the domestic and international distribution rights for films slated to be released in 2008. These companies are reported to have spent nearly Rs.300 crores on seven blockbuster movies due to be released in the year³⁴. These large players include UTV Productions, Balaji Telefilms, Studio 18 and Eros International. It may be pointed out that Eros International that won the distribution rights for *Om Shanti Om* released the movie with 2000 prints³⁵. The change in the business practice that has been introduced with the rise of these new players has been the ability of these companies to work on specific marketing and other promotional activities. At the same time, it enables these companies to maximise profits by seeing avoiding the crowding of two big releases on the same day or a consecutive week. The net result has been

²⁷ "Films cash in on new media as revenue sources", *Business Standard*, 31 March 31, 2008, p.16.

²⁸ "Corporates get a bigger role in Bollywood", India Inc Section, *The Financial Express*, 10 April 2008, p. 1.

²⁹ Siddharth Roy Kapur, Director, UTV Motion Pictures quoted in "Corporates get a bigger role in Bollywood", India Inc Section, *The Financial Express*, 10 April 2008, p.1.

³⁰ "Corporates go to the movie", *The Hindu*, 11 September 2008, p.24.

³¹ "Corporates go to the movie", *The Hindu*, 11 September 2008, p.24.

³² "Bollywood Calling", The Smart Investor, *Business Standard*, 21 January 2008, p.2.

³³ "Beyond nostalgic NRIs", *The Hindu Businessline*, Life Section, 7 December 2007, p. 4.

³⁴ "Bollywood makes blockbuster profit selling film rights", *Business Standard*, 8 February 2008, p.1.

³⁵ "Saawariya Bed Linen for you", *Financial Express*, 14 October, 2007, p. 5

The interesting aspect about the coverage of the film business is the obsession with Bollywood. The cinema industry in India seems to be overly Bollywood centric. Yet Bollywood is only one part of the Indian film industry – probably the largest single unit in a larger whole. It accounts for only about 25-30 per cent of the industry. Apart from Mumbai there are three large film production centres – Chennai, Hyderabad, Bangalore and Kochi. Films in four of India's regional languages (Tamil, Telugu, Kannada and Malayalam) account for almost about 80 per cent of the Rs.4400 crore collections of the non-Bollywood collections in India³⁶. In 2006, the total earnings of the Indian movie market were estimated at Rs.8450 crores³⁷. This is not to claim that firms that dominate the Bollywood business are ignoring the non-Hindi film market.

The success of Rajni Kanth's *Sivaji: The Boss* seems to have increased interest in the southern cinema production and distribution market. The movie cost about Rs.80 crores and earned about Rs.180 crores. A number of companies that in the past were restricted to Bollywood have announced expansion plans into the southern market. Recently UTV produced a film with Telugu super star, Mahesh Babu, *Athidi*. Eros International acquired a 51 per cent stake in the Tamil company *Ayangaram* International. Though this deal, Eros was expected to gain access to the 600 films in *Ayangaram's* library as well as securing rights to 25 new films currently in their pipeline³⁸. Recently Anil Ambani owned Reliance Entertainment Limited has announced plans to enter the regional film production and distribution market. Like all big players, the group believes that the best way to enter the market is through acquisitions. It acquired an animation company – Anirights Infomedia – to produce leading regional language films. Anirights, subsidiary, Big Motion Picture will produce films in Marathi, Bengali, Punjabi and Bhojpuri³⁹. This regional film foray seems to have been hastened by the fact that nearly 95 per cent of the mobile movie downloads are in the regional language film market and not those from Bollywood⁴⁰.

This potential of the regional language market has been realised by the Hollywood studios, which now regularly release only the dubbed versions of the Hollywood movies. The dubbed version of Spiderman 3 was released with 588 prints in different Indian languages. Interestingly the movie was released only with about 162 prints in English, while Hindi accounted for about 261 prints. Telugu and Tamil accounted for 78 prints each while 6 prints were released in Bhojpuri⁴¹. Interestingly, in its opening week itself Spiderman 3 was estimated to have grossed Rs.33.4 crores all over India and had overshadowed, Yash Chopra's *Tara Rum Pum*⁴². It has been pointed out that in 2005, Hollywood studios in India released 55 films and grossed Rs.180 crores at the box office, in 2006, 74 foreign films grossed Rs.240 crores while in 2007 the box office collections were Rs.310 crores. Sony Pictures collections crossed Rs.100 crores in

³⁶ "The South is waiting", *Business Today*, 4 November 2007, p.148.

³⁷ "Hollywood in Bollywood", *Business Today*, 4 November 2007, p.142.

³⁸ "Eros acquires stake in Tamil film company", *Business Standard*, 13 July 2007, p.6.

³⁹ "ADAG plans camera to regional films", *The Economic Times*, 28 December 2007, p.5.

⁴⁰ "ADAG plans camera to regional films", *The Economic Times*, 28 December 2007, p.5.

⁴¹ "Spider-Man 3 enters with 588 prints", *The Economic Times*, 5 May 2007, p.4.

⁴² "Year of Hollywood?", *The Economic Times*, 28 May 2007, p.3.

India⁴³. About 40 percent of the box office revenues are from multiplexes⁴⁴. It is common for Hollywood films (most of them dubbed into regional Indian languages) are to release more than 100 prints. This large number of prints is thought to be one way to get the better of piracy.

Hollywood seems to have realised the potential of the Indian entertainment industry and has increased its presence in India. By its own admission, India is too big a market to ignore. Dan Glickman, Chairman and Chief Executive Officer, Motion Picture Association of America (MPAA) claimed that India accounted for about 50 per cent of the US\$7.8 billion world's theatrical admissions or about US\$4 billion⁴⁵ (excluding USA). The box office revenues in USA account for US\$9.6 billion⁴⁶. In recent times, they have ventured into film production apart from film distribution and music segments of the Indian entertainment industry. The share of Hollywood in the Indian entertainment pie is about 3-4 per cent⁴⁷. One way to increase this share is by introducing dubbed version and the more important way is to simply produce and distribute Indian movies. Sony Pictures has taken the first tentative steps in this direction and has co-produced *Saawariya* with Sanjay Leela Bhansali. In the initial weeks the film is estimated to have grossed US\$20 million compared to its production cost of US\$8 million⁴⁸. Among the major European and American production houses that plan to establish a presence in the Indian film industry include *Pathe*, Europe's largest film studio. The company is based in France. It hopes to undertake co-production of films with Indian production houses⁴⁹.

Most of the Hollywood studios have a presence in all segments of the entertainment business – movie distribution, television, music and even publishing. A number of Hollywood movies were marketed and distributed aggressively. *Spiderman 3* was released in about 4252 theatres across India and was estimated to have grossed about Rs.66 crores⁵⁰. *Sherk 3* released in about 4122 theatres, while *Pirates of the Caribbean: At the World's End* was released in about 4000 locations across India⁵¹.

The growing number of Hollywood movies being dubbed into Indian languages has led to the growth of a market that has hitherto received scant attention. The dubbing

⁴³ "The dream run goes on", *The Financial Express*, 17 February 2008, p.11.

⁴⁴ "The dream run goes on", *The Financial Express*, 17 February 2008, p.11.

⁴⁵ "Co-production deals mark a new era for Indian film industry", *The Financial Express*, 27 November 2007, p.8. However, the Pricewaterhousecoopers report, *Global Entertainment and Media Outlook 2004-2008* market in USA in 2003 was US\$34.3 billion and was expected to grow to US\$46.6 billion in 2008 (p.48). Therefore these figures could be for the size of the market for American films outside North America.

⁴⁶ http://www.economist.com/world/na/PrinterFriendly.cfm?story_id=10723360 (Website last visited 27 February 2008)

⁴⁷ "Hollywood in Bollywood", *Business Today*, 4 November 2007, p.142.

⁴⁸ "US studios develop taste for Bollywood", *Business Standard*, 4 January 2008, p.13.

⁴⁹ "Pathe pans camera to India", *The Economic Times*, 21 January 2008, p.4. Pathe invented the newsreel in 1908 and the company was established in 1896. It is one of the top distributors of films in UK and France. It is Europe's leading film exhibitor with about 700 screens spread over France, Netherlands and Switzerland.

⁵⁰ "The South is waiting", *Business Today*, 4 November 2007, p.148. Other estimates differ and figures cited previously indicate collections of only Rs.33.4 crores.

⁵¹ "Hollywood sales soar on sequel strategy", *Business Standard*, 25 May 2007, p.6.

market has been growing very quickly. The size of the market is estimated to reach Rs.50 crores in 2008. Three years ago the market was barely Rs.8-10 crores⁵². The growth in the number participants has led to erosion in the margins. It has been pointed out that there are about 150 people in New Delhi and Mumbai working in the trade. A dubbing artist made about Rs.20000 per hour in 2005 and this has come down to about Rs.10,000 today. The fees for 30 minutes of dubbing for a television serial involving 8-10 characters has come down by half from the earlier Rs.50000-60000⁵³.

An interesting recent trend has been the rush of the media and entertainment companies to raise money from private equity investors. The private equity route is preferred to the traditional routes of raising money, including initial public offerings. Various companies have firmed up plans to raise between US\$75 million to US\$150 million by divesting a part of the promoter stake. The companies that have raised money through this route include, among others, Dish TV, UTV Software & Communications, PVR, Pyramid Saimira Theatre and Balaji Telefilms⁵⁴. One of the reasons for this is the high valuations of the media companies and the speed with which the fund raising process can be completed. Hollywood companies are gradually buying into the Indian film production and distribution companies. Walt Disney was expected to buy a controlling in UTV Software Communications after it issued a public announcement to increase its stake in February 2008. Its holding in the company was expected to touch 51.6 percent after the offer from 14.9 percent⁵⁵. Disney agreed to pay Rs.805 crores for 9.35 million shares at Rs.860.79 per share⁵⁶. The mandatory offer to purchase more shares is expected to be complete by April 2008.

Film Distribution – Multiplex Phenomenon

A cursory glance at exhibition industry provides interesting insights into its functional dynamics and the problems plaguing it. It is estimated that there are about 13000 screens in India but only 9500 remain functional at any given point throughout the year⁵⁷. Films are distributed in India under a “theatre hire basis”. Under this system, a production or distribution house will pay the theatre owners twenty per cent of the theatres capacity. The revenues from ticket sales accrue entirely to the production/distribution house. In India, revenues from single screen theatres account for about sixty percent of the box office collections⁵⁸.

Multiplexes are a recent phenomenon in the business of film exhibition. The multiplex industry size is estimated at Rs.1500 crores⁵⁹.The concept started in India in

⁵² “Foreign content gets Hindi makeover”, *Business Standard*, 27 February 2008, p.14.

⁵³ “Foreign content gets Hindi makeover”, *Business Standard*, 27 February 2008, p.14.

⁵⁴ “Media firms on a funds rush to private equities”, *The Financial Express*, 2 January 2008, Section II, p.VIII.

⁵⁵ “Walt Disney may buy controlling stake in UTV”, *Business Standard*, 19 February 2008, p.4.

⁵⁶ “Walt Disney may buy controlling stake in UTV”, *Business Standard*, 19 February 2008, p.4.

⁵⁷ “Regional cinema should monetize fragmented and localised cultures”, Assocham Advertisement in *Businessline*, 21 December 2007, p.5.

⁵⁸ “Bollywood pins its hopes on Nov 9”, *Business Standard*, 4 October 2007, p.1.

⁵⁹ “Indiabulls, Reliance Retail plan major multiplex presence”, *The Financial Express*, 22 December 2007, p.1.

1997. These multiplexes are smaller than single screen theatres. The average seating capacity of a multiplex may around 150. Price Waterhouse Coopers (PwC) estimated that in 2007 there were 325 multiplexes in India and expected this number to triple in less than five years. Other estimates place the number of multiplexes at 400⁶⁰. The first Multiplex was established at Saket, South Delhi by owners of Priya Cinema (now PVR Limited). In 2005, there were approximately 250 multiplexes in India⁶¹. Gujarat and Maharashtra accounted for about 80 multiplexes in India. Mumbai accounts for about 21 of these⁶². It is estimated that there are about 35 branded multiplexes in the North. There is however a difference in the number of screens that exists in a multiplex. While the number of screens in a Mumbai multiplex is around 5, in the case of Delhi and UP it averages 3 per multiplex. The multiplex centred film distribution market is very large in the Mumbai region. Industry estimates claim that the number of multiplexes are expected to touch 10,000 by 2012 from the current 2350⁶³.

It has been pointed out that for every Rs.100 of business undertaken in Mumbai and the Western market (for film distribution), Delhi and the Northern market rake in about Rs.60⁶⁴. Interestingly in Bangalore about 20 per cent of the tickets are booked online. No other cities reach this level of online ticketing system. The average realisation per seat from the single screen theatres (non-multiplex segment) is around Rs.20⁶⁵.

Multiplexes share revenues with the distributors or production houses. The industry wide practice till date has been that the multiplexes give the production companies fifty percent in the first week, forty per cent in the second week and thirty per cent of the collections in the third week⁶⁶. The multiplex industry claims that their growth is adversely affected by the high rates of entertainment taxes. The tax regime differs from state to state and ranges from 15 percent to 50 percent⁶⁷.

Success of multiplexes in drawing people to cinema has been mixed. It has largely been a phenomenon that has struck the right cord with the urban based middle classes. The growth of the shopping malls as a shopping-cum-entertainment destination has increased the viability of multiplexes. It has been estimated that an average four-screen multiplex guarantees footfalls that range from 8,000 to 120,000 a month⁶⁸. As on March 31, 2006 Inox Leisure claimed to attract 75,000 footfalls every day⁶⁹. The tickets costs vary from Rs.70 on a week day to about Rs.200 or more on a weekend. The cost of ticket

⁶⁰ <http://www.indianews.com/business/20071125/82514.htm>.

⁶¹ *FICCI The Indian Entertainment and Media Industry: Unravelling the Potential*, Frames 2006, p.41.

⁶² "Northern Lights", *The Economic Times*, 8 September 2007, p.9.

⁶³ "Cinema Capital Venture Fund, Scheme I material.

⁶⁴ "Northern Lights", *The Economic Times*, 8 September 2007, p.9.

⁶⁵ "Regional cinema should monetize fragmented and localised cultures", *Assocham Advertisement in Businessline*, 21 December 2007, p.5.

⁶⁶ "Diwali blockbusters face multiplex blackout", *Business Standard*, 24 October 2007, p.1.

⁶⁷ "Multiplex industry body intensifies effort to subsume entertainment tax", *The Financial Express*, 28 June 2008, p.10.

⁶⁸ <http://www.thehindubusinessline.com/2005/08/09/stories/2005080901871900.htm>.

⁶⁹ *Business Today*, 21 October 2007, p.188.

is largely based on factors such as demand and supply. Industry circles indicate that a person is willing to spend only about Rs.200 in a multiplex⁷⁰.

The industry is excited about the opportunities for the multiplex growth in the tier II and tier III cities (smaller cities and towns). But the nature and profile of the multiplexes are different from those that exist in the metros. They tend to have less number of screens per multiplex and the price of tickets is usually Rs.70-80. PVR has planned to establish over 250 screens in tier II cities⁷¹. All over the country the multiplex industry seems to be basing its growth on the mall format. The logic of this format seems to be to take advantage of the upper middle classes' desire for shopping, entertainment and other leisure related aspects in ambience and 'clean' surroundings. The multiplex industry is quite concentrated in nature. It is dominated by about five companies which, between them own about 90 per cent of the screens in the multiplex sector.

The multiplex industry is presently dominated by PVR Limited, Inox Leisure Limited, Cinemax India, Frame, Adlabs, Shingar Cinemas and E-City Ventures (owned by Zee Group). The new entrants who have announced plans to enter the segment include the DLF group (under DT Cinemas brand), Indiabulls and Reliance Retail (Mukesh Ambani group). There have been rumours in the stock market that Reliance Entertainment is planning to launch a takeover bid for Inox Leisure.

The multiplex industry hopes to expand in the Southern part of India. The cumulative investments that are expected in the next two years in south India are expected to be about Rs.850 crores for around 380 multiplexes. These multiplexes are in various stages of development⁷². Industry participants have estimated that 125 south Indian towns have a potential for about 1000 multiplex screens. Pyramid Saimira plans to establish about 200,000 seats at an investment of about Rs.600 crores. The finishing cost per multiplex seat for the company is estimated to cost between Rs.30,000 to Rs.40,000⁷³. Shingar Cinemas plans to increase the number of multiplexes under its 'Fame' brand. It intends to invest Rs. 75 crores on six multiplexes in Vijayawada, Visakhapatnam, Chennai and Hyderabad. Their cost per seat is about Rs.50,000 to Rs.80,000. Cinemax intends to establish 13 multiplexes by 2010 at an estimated cost of Rs.100 crores⁷⁴. PVR plans to establish 60 screens in South India.

Adlabs recently announced plans to operate cinema halls across USA. It claimed to have entered into agreements to operate 200 screen cinema exhibition chains across 28 cities in USA⁷⁵. Adlabs and its parent, Reliance Entertainment Limited seems to be working on business logic that size and presence in all segments of the entertainment business matters most. It has announced its decision to enter the 'multi-sensory' cinema experience to audiences in India through a tie-up with Cinema Park Network, USA. This

⁷⁰ "We want to produce films with directors of highest caliber", *The Financial Express*, 11 December 2007, p.8.

⁷¹ "Multiplex revolution takes small cities by storm", *Business Standard*, 12 December 2007, p.5.

⁷² "Multiplex operators hope for a hit in south Indian cities", *The Economic Times*, 23 January 2008, p.4.

⁷³ "Multiplex operators hope for a hit in south Indian cities", *The Economic Times*, 23 January 2008, p.4.

⁷⁴ "Multiplex operators hope for a hit in south Indian cities", *The Economic Times*, 23 January 2008, p.4.

⁷⁵ "Adlabs plans to operate cinema halls across US", *The Financial Express*, 11 December 2007, p.1.

company had helped set up the Millennium Pavilion in Disney World, Orlando, USA and will upgrade some of the Adlabs Cinemas⁷⁶.

A likely new innovation in the movie exhibition business is a single screen cinema at a petrol station. It has been reported that Bharat Petroleum Corporation Limited (BPCL) has undertaken a pilot project at two locations in Gujarat for establishing a digital cinema single screen theatre at certain selected outlets along the national highway with a seating capacity of 150-200⁷⁷. These screens would be established in their *Ghar* outlets only. Currently BPCL has about 70 such *Ghar* outlets, where 40 per cent of the land is allocated for fuel related usage and the rest for non-fuel related commercial activity⁷⁸. By 2010, there will be around 300 such screens. This is expected to add to the non-fuel revenue stream of the company.

An increasingly important source of revenue for film producers has been merchandising. There has been an increasingly emphasis on in-movie advertising and merchandising of wares. In Hollywood between 15-35 per cent of a film's revenue comes from clothing and merchandising, in the case of Bollywood it is barely 2 per cent⁷⁹. *Saawariya* is stated to have signed a Rs.10 crore deal for in-movie advertising with the Future group, while *Om Shanti Om* tied up with Shopper's Stop for Rs.6-7 crores with brands like Sia Jewellery and Nokia⁸⁰. Though this trend started in 1994 with *Hum Aapke Hain Kaun*, this raising non-traditional revenue trend has caught on only in recent times. Other forms of merchandising are increasingly becoming an important source of revenue. Clothing is estimated to garner about Rs.150 crores in 2007, while the total merchandising industry is estimated at Rs.300 crores⁸¹.

An important trend in recent years has been the conscious attempt by Bollywood to de-risk its business model. An attempt is now being made to reach out across the value chain to bring filmmakers, distributors and exhibitors to cooperate more closely in order to make a film a box office success. This trend has been aided by the fact that the growing corporatisation of the film industry has meant that the distinction has been increasingly blurred. Stock market listing often increases the pressure to enlarge a company's revenue streams only add to the urge for this de-risking. This pressure to enlarge revenues forces a company to emphasise short-term growth at the cost of long-term growth. Technology convergence has only added to the urgency of this trend. The internet has aided the traditional film production. It has been pointed out that the film *Vivah* has been downloaded 6500 times at a cost of US\$10 per download⁸². Another trend has been to enter into marketing and promotional tie-ups with radio and television channels.

⁷⁶ "Adlabs' 'multi-sensory' cinema", *Business Line*, 15 December 2007, p.5.

⁷⁷ "BPCL to build cinema halls at fuel stations", *Businessline*, 21 September 2007, p.3.

⁷⁸ "Movies to flow with oil at BPCL pumps", *Business Standard*, 11 September 2007, p.4.

⁷⁹ "Film merchandising comes of age in India", *Business Standard*, 9 November 2007, p.4.

⁸⁰ "Now, the merchandise dream factory", *The Financial Express*, 27 November 2007, p.8.

⁸¹ "Film merchandising comes of age in India", *Business Standard*, 9 November 2007, p.4.

⁸² "Box office Blueprint", *Business Standard*, The Strategist, 19 February 2008, p.1.

Thus unlike in the business model that survived into the late 1990s, film producers now have larger number of revenue segments. In the past the three streams of revenue were dependent on domestic theatrical income, home video and music. In contrast now the sources of revenue include domestic theatres, overseas theatricals, home video (DVD, VCD, Overseas), music, mobile, satellite rights (domestic and overseas), IPTV, internet, retail and merchandising, branding, sponsorships as well other forms of in-movie advertisement.

Funding the Film Business

An analysis of the sources of funding for the film business never ceases to fascinate an outside observer. Till about a decade a large amount of fund for film production was raised from individual private financiers, some of whom were alleged to have been bankrolled by the criminal gangs. This was especially the case with the Hindi film industry, Bollywood. The rates of interest were often usurious commensurate with the risky nature of the business. This changed in the late 1990s after the government offered institutional finance for film production ventures. This enabled film producers to access institutional finance, especially from the Industrial Development Bank of India, one of the early institutional lenders for films. By 2006, it had sanctioned about Rs.460 crores as film finance at an interest rate of 11.5-12.5 per cent⁸³. Most of the large production houses had availed funding from IDBI.

While the corporatisation may have enabled business houses like Reliance to foray into the business, the rise of professional venture capital and private equity is a more recent trend (post 2007). The first SEBI approved entertainment venture capital fund has recently opened for subscription. The fund, launched by film producer Samir Gupta, claims that it would invest 70 percent of their funds in film production ventures and the remaining 30 percent in film entertainment related ventures. The fund, with a minimum subscription of Rs.10 lakhs claims that films have a low correlation to business cycles and other traditional asset class – a rather recession free business⁸⁴. The fund aims to mobilise Rs.500 crores and retains a green shoe option to retain another Rs.250 crores oversubscription, if any. Investors cannot withdraw their money before five years. It targets an internal rate of return of 35 percent (after expenses but before taxes). The logic of the fund seems to be a quote from a Citibank manager in 2006 where he claims that “across a slate of 20 or 30 films, just two or three hits will all but ensure a positive return for investors, based on over 30 years of historical performance data from the film industry”⁸⁵.

It has been pointed out that the trend towards corporatisation has aided the film production business. Earlier a producer would have to struggle to make one film a year but the increased corporatisation means that a film production company can make a number of big budget films. A good example would be the case of UTV and PVR. PVR has decided to raise Rs.200 crores from Private Equity players to make about four films,

⁸³ “IDBI to take plunge into film distribution”, *The Economic Times*, Section II, 14 September 2006, p.3.

⁸⁴ Cinema Capital Venture Fund Material, p.30.

⁸⁵ Cinema Capital Venture Fund Material, p.31.

each at a cost of Rs.10-12 crores⁸⁶. UTV raised about US\$80 million in 2007, while The India Film Company raised about 55 million pounds⁸⁷. The larger number of films made also means that even if there were to be only one success then the company would not lose money, a feature that was in stark contrast to the past where a producer would sink with one failure. This new model has been referred to as the ‘portfolio approach’⁸⁸. Indian companies are also drawing up ambitious plans to foray into Hollywood production. In June 2008, *The Wall Street Journal* claimed that Anil Ambani was planning to enter into an alliance with Steven Spielberg. This would enable Steven Spielberg to exit Dreamworks SKG, which he had sold to Viacom’s Paramount pictures in 2006. The long anticipated deal was reported to have been completed in late September 2008 by *The Wall Street Journal*. Under the deal, Reliance ADA Group will invest US\$500 million in the equity of new studio company that will be created and will provide another US\$700 as debt. The new venture will produce six films a year⁸⁹.

The rising cost of film production has meant that the production houses are gradually changing their business models. The rising rates charged by super stars along with growing other costs means that production houses are now more amenable to sharing profits with the stars instead of paying upfront huge amounts. Even larger production houses are now making this practice more common⁹⁰. Recent reports of UTV Rampage Motion Pictures having entered into a one movie deal with Akshay Kumar for Rs.71 crores is among these trends. The Rs.71 crore deal supposedly involved a percent of the share of profits⁹¹. It has been pointed out that Shah Rukh Khan charges about Rs.12 crores as remuneration plus about 30 percent of the profits, while Aamir Khan charges about Rs.25 crores, plus the rights for Mumbai territory plus a share of the profits, while Salman Khan charges about Rs.30 crores plus a share of the profits⁹².

Overseas Market for Indian Films

The overseas market has emerged as a major source of revenue. In 2006, Indian films earned revenues to tune of about US\$100 million from overseas releases. This is estimated to increase to about US\$1 billion by 2010⁹³. The contribution of revenues earned from overseas constitutes a major part of the revenues for the movies that have done well at the box-office. It varies from 27-49%. In the case of *Kabhi Alvida Naa Kehna* it constituted about 48 per cent, while it was 42 per cent *Kabhi Khushi Kabhi Gam*, 48 per cent for *Salaam-E Ishq* and 39 per cent for *Don 2*⁹⁴. The top four of the overseas box office grosser are those starring Shah Rukh Khan and interestingly 11 out of the top 25 films feature Shah Rukh Khan⁹⁵.

⁸⁶ “Box office Blueprint”, *Business Standard*, The Strategist, 19 February 2008, p.1.

⁸⁷ “Box office Blueprint”, *Business Standard*, The Strategist, 19 February 2008, p.1.

⁸⁸ “Box office Blueprint”, *Business Standard*, The Strategist, 19 February 2008, p.1.

⁸⁹ “Spielberg, India’s Reliance to Form Studio”, *The Wall Street Journal*, 20 September 2008

(<http://online.wsj.com/article/SB122184686199857559.html>) Website last visited 20 September 2008.

⁹⁰ “Production houses keen on sharing profits with top actors”, *The Financial Express*, Corporates and Markets Section, 13 June 2008, p.VIII.

⁹¹ “Has Akshay Kumar Received Rs 71 crore for one film?”, *The Times of India*, 17 September 2008, p.12.

⁹² “Has Akshay Kumar Received Rs 71 crore for one film?”, *The Times of India*, 17 September 2008, p.12.

⁹³ “Beyond nostalgic NRIs”, *The Hindu Businessline*, Life Section, 7 December 2007, p. 4.

⁹⁴ “Bollywood takes to hedging to cope with rising rupee”, *The Economic Times*, 17 November 2007, p. 4.

⁹⁵ “Bollywood takes to hedging to cope with rising rupee”, *The Economic Times*, 17 November 2007, p. 4.

Problem of Piracy

The problem of piracy has increased been cited as one of the major problems that the entertainment industry has to face. A recent study claimed that the Indian entertainment industry is deprived of approximately Rs.16,240 crores every year. This is almost 40 percent of its potential annual revenue⁹⁶. The US entertainment industry loses about US\$6 billion a year in movie revenues alone. The music industry is most affected with a loss of about 64 percent of its total potential revenues, while the movie industry loses about 31 percent of its total potential revenues⁹⁷.

Home Video Market

The home video market has grown substantially thanks to the rising number of VCD/DVD players and personal computers. There were an estimated 9000 DVD players in 1999, which grew to 20 million by 2006 and by 2010 they are expected to reach 70 million⁹⁸. The size of the legitimate (non-pirated) DVD market is difficult to estimate in India, in USA DVD sales earned the major studios US\$23.4 billion while the box office revenues were US\$9.6 billion⁹⁹. The organised home video market in India is estimated at about Rs.1050 crores (including sales and rentals)¹⁰⁰. The business is estimated to be only about ten percent of the theatrical business in India. The business is growing at an estimated 25 percent annually and over the next few years, it is estimated to reach about 25 percent of the theatrical business¹⁰¹.

Another segment of the entertainment exhibition business that is expected to grow quickly is the home video market. This market has already seen an increased competition among various players and the entry of large players has already catalysed the market. The latest entrant is the Anil Ambani owned Reliance Big Entertainment. Their initial plans are to establish twenty stores in three big cities – Hyderabad, Pune and Chandigarh. This foray will be under the brand name *Big Flicks*. The company think that it can garner about Rs.1000 crores of revenues in about three years time. The attraction of the home video market (including the net based market) is the growing number of broadband internet connections. Companies in the business also calculate that the nature of the movie market will undergo a change, similar to the changes in the US market. The present movie exhibition market is based on 75 per cent through theatrical release and only about 7-8 per cent through home video, while in the USA about 55 per cent of the market comprises of home video and only about 20 per cent through theatrical releases¹⁰².

⁹⁶ “Pirates are coming”, *The Times of India* Editorial, 28 March 2008, p.14. The study was stated to be the first Bollywood-Hollywood collaborative study conducted by US-India Business Council and the US Chamber’s Global Intellectual Property Centre.

⁹⁷ “Pirates are coming”, *The Times of India* Editorial, 28 March 2008, p.14.

⁹⁸ “Seventymm bullish on prospects”, *Businessline*, 20 January 2007, p.5.

⁹⁹ http://www.economist.com/world/na/PrinterFriendly.cfm?story_id=10723360 (Website last visited 27 February 2008).

¹⁰⁰ “BigFlix to scale up; plans downloads thru set-top”, *Businessline*, 11 September 2008, p.5.

¹⁰¹ “BigFlix to scale up; plans downloads thru set-top”, *Businessline*, 11 September 2008, p.5.

¹⁰² “ADAG bets big on home video market”, *The Financial Express*, 22 December 2007, p.9.

The NRI market (estimated at about 25 million) is considered another advantage for the home video segment¹⁰³.

Anil Ambani group is the largest organised player in the home video rental market. In August 2007, the company announced plans to open home video rental stores. Importantly, in order to tap the overseas Indian movie market, the company is planning to make downloads available through a set top box (apart from the present computer based downloads. The investment would be to the tune of about US\$100 million spread over five years. The group's home video rental business would be built around the portal www.bigflicks.com and was largely geared towards the NRI market. The portal was launched with about 200 titles in various languages including English, Hindi, Tamil, Telugu and Punjabi. . The cost of download per movie would vary from US\$2 to about US\$15. An interesting feature of this aspect is the claim that the company can control the number of copies that can be made from the movie downloaded. It claims to have entered a tie-up with Entriq, a company that provides content protection services through Digital Rights Management, which can track the number of copies made from movies downloaded from their site¹⁰⁴. The company plans develop a brick-and-mortar model around the brand *BigFlix* by establishing its stores in a number of Indian cities. By the end of 2008, the company plans to establish its presence in about 200 cities. The company claims that users download between 50,000 to 75,000 movies a month¹⁰⁵. The other major player in the online DVD rental market is Seventymm.

Television Market in India

It has been estimated that there are 402 channels operating in India. This is expected to cross 500 in the next one year¹⁰⁶. The television penetration in India believed to about fifty percent, in contrast to about ninety percent in major markets¹⁰⁷. The Television market is project to grow from its present Rs.19,100 crores to about Rs. 51,900 crores in 2010. It is expected to grow at a cumulative average annual rate of about 22 per cent in the next few years¹⁰⁸. Other estimates claim that the television industry is already worth Rs.22,600 crores and is estimated to touch Rs.60,000 crores by 2012-a compounded annual growth rate of 22 percent¹⁰⁹. The growth of private cable and satellite (C&S) television has altered the business dynamics of the sector. The revenues of the industry were about Rs.5700 crores in 1996-97. Though they declined to about Rs. 3990 crores in 1998-99, they jumped to about Rs. 5000 crores in 1999-2000. This large increase has largely been attributed to the jump in revenues from cricket (estimated at Rs. 1600 crores)¹¹⁰. On the other hand, Ernst and Young has estimated that the revenues from

¹⁰³ "Bollywood@internet.home", *Business India*, 23 September 2007, p.88.

¹⁰⁴ "Bollywood@internet.home", *Business India*, 23 September 2007, p.88.

¹⁰⁵ "BigFlix to scale up; plans downloads thru set-top", *Businessline*, 11 September 2008, p.5.

¹⁰⁶ "Regional cinema should monetize fragmented and localised cultures", Assocham Advertisement in *Businessline*, 21 December 2007, p.5.

¹⁰⁷ Peter Mukerjea, INX Media cited in "Is the country's TV market getting overcrowded?", *Business Standard*, 12 December 2007, p.10.

¹⁰⁸ "Film industry like to grow to Rs.40,000 crore by 2010", *The Financial Express*, 8 December 2007, p. 5.

¹⁰⁹ "Deriving digital delights", *The Financial Express*, 16 September 2008, p.8.

¹¹⁰ "Film industry like to grow to Rs.40,000 crore by 2010", *The Financial Express*, 8 December 2007, p. 5.

the Indian Television Industry are expected to grow from US\$4.2 billion to US\$11 billion in 2011¹¹¹.

It has been reported that 500 new channels would become operational by 2008-09¹¹². Industry observers point out that only those players with deep pockets will be able to survive the stampede that is bound to follow in the above situation. The cost of distribution of the channel to different homes is estimated to be close to Rs.50 crores per annum¹¹³ while in the past a budget of Rs.20-25 crores would more than suffice¹¹⁴. Industry sources estimate that the broadcast industry may be paying at least Rs.600 crores per year as carriage fees¹¹⁵. To this may be added the cost of production, content, promotion of the channel, and other costs. Tax component is higher than many other industries and stands at nearly 36.37 percent of their pre-tax profits, higher than the industry average of 20.60 percent¹¹⁶.

At an operational level the nature of growth of the television industry has been such that there is intense competition. This has led to the growth certain genres of television where only the largest companies will survive. The largest individual segment of the television market may be the general entertainment channels. The segment is estimated to be worth about Rs.2000 crores¹¹⁷. It has been pointed out that in the case of the Hindi general entertainment channels, the top three channels corner about 80 per cent of the advertising pie, while the remaining 80 per cent have to fight for the 20 per cent. The top channels in the Hindi general entertainment sector spend about Rs.400 crores on content, marketing and operations¹¹⁸.

A recent success story is NDTV Imagine, the general entertainment channel launched by the Delhi based NDTV group that was till then predominantly into television news business. Within a year of its launch, the channel quoted a TAM Report that claimed that its gross weekly ratings showed that it was sharing the third position with Sony and was ahead of Star One, Sab and 9X. It claimed to have improved its weekly reach from 41 percent to 43 percent. Its one year advertising revenues were stated at Rs. 60 crores and was expected to reach its revised target of Rs.300 crores¹¹⁹. Interestingly, it was pointed out that the channel paid about Rs.50 crores as carrier fees¹²⁰.

The television business has been impacted by a new expense that each channel has to pay. This is the carriage fee that independent cable operators and multi-system

¹¹¹ "Indian Content is 'Flavour of the day':E&Y", *The Financial Express*, 9 October 2007, p. 8.

¹¹² "Caught in a Tight Jam", *Outlook Business*, September 5, 2007, p. 54.

¹¹³ Rohit Gupta, President, Network Sales, Sony Entertainment cited in *Business Standard*, 12 December 2007, p.10.

¹¹⁴ "Caught in a tight Jam", *Outlook Business*, 5 September 2007,p.54.

¹¹⁵ Joy Chakraborty, President and Revenue Head, Zee Entertainment Enterprises, "Can't if Star was complacent, but Zee became smarter", *Business Standard*, 4 March 2008, p.12.

¹¹⁶ "Television channels are better taxpayers, says finmin", *The Financial Express*, 3 March 2008, p.6.

¹¹⁷ "TV channels bet big on youth", *Business Standard*, 12 December 2007, p.12.

¹¹⁸ Rohit Gupta, President, Network Sales, Sony Entertainment cited in *Business Standard*, 12 December 2007, p.10.

¹¹⁹ "NDTV scores big with entertainment channel", *Business Standard*, 19 February 2008, p.12.

¹²⁰ "NDTV scores big with entertainment channel", *Business Standard*, 19 February 2008, p.12.

operators (MSO) demand in order to distribute a channel into the homes of viewers. This carriage fees has been growing exponentially – largely because of the increasing number of channels and the limited bandwidth. There are an estimated 330 channels competing for transmission when the present bandwidth can accommodate only about 80 channels¹²¹. Each channel is stated to be paying Rs. 50-55 crores (an increase of nearly 50 percent over the previous year) to the carriers. It has been pointed out that the carriers are expected to collect Rs.1000 crores as carriage fee¹²². Even DTH players are stated insisting on carriage fees of Rs.3-5 crores per annum.

An interesting trend in the television industry has been the increased speed with which new releases are being screened on television. This is largely because of the increasing price at which television rights are being procured. The value of satellite rights has been increasing by 25-30 per cent. Traditionally the average rate at which satellite rights were stated to have been sold (for Bollywood movies) was around Rs.3-5 crores. Presently, this is stated to have increased to about Rs.8-10 crores¹²³. Traditionally, it took about six months by the time, films were screened on television, and this has now reduced to about three months. One of the stated reasons seems to be the bid to fight piracy. The more likely reason seems to be the competition for content among television channels and the increased price that television channels are paying for new titles¹²⁴. A new trend among these channels has been to increase programmes that connect to the youth (those in the age group 18-35). It is believed that the youth spend about 180-240 minutes per day on entertainment, movies and youth shows. Industry estimates claim that the advertising that can be attracted for programmes that draw in this age group is estimated to be Rs.250-300 crores in the first year¹²⁵.

Children's entertainment channels are increasingly being seen as a important genre. They have been able to attract substantial advertisement revenues. The competition in this segment too is intensifying. In 2006-07, this genre of entertainment attracted about Rs.1400 crores of advertisement revenues¹²⁶. It is apt to point that currently about 70 per cent of the broadcasting revenues are advertisement driven and the amount spent on advertisement is about Rs.2270 crores per year¹²⁷. Most the content on these channels is localized and priority is given to local languages in order to increase their reach. It has been pointed out by industry insiders that about 80 per cent of the content has been imported and dubbed into multiple Indian languages while the remaining twenty percent is sourced from Indian players.

News channels too are in increasing demand. Latest TAM Media Research statistics indicate that their viewership has almost doubled in the last three years. The Hindi news viewership was about 2.7 percent in 2004 and had increased to 4.2 percent in

¹²¹ "Broadcasters feel the pinch as carriage fee escalates", *Business Standard*, 17 March 2008, p.8.

¹²² "Broadcasters feel the pinch as carriage fee escalates", *Business Standard*, 17 March 2008, p.8.

¹²³ AT Kearney estimate cited in "Bollywood box office hits to hit small screen faster", *The Economic Times*, 11 December 2007, p.4.

¹²⁴ "Bollywood box office hits to hit small screen faster", *The Economic Times*, 11 December 2007, p.4.

¹²⁵ "TV channels bet big on youth", *Business Standard*, 12 December 2007, p.12.

¹²⁶ "Child's Play", *Business Standard*, 29 September 2007, p.12.

¹²⁷ "Regional cinema should monetize fragmented and localised cultures", *Assocham Advertisement in Businessline*, 21 December 2007, p.5.

2007. On the other hand regional news viewership increased from 1.5 percent in 2004 to 2.5 percent in 2007. The English news segment viewership increased from 0.4 percent to 0.9 percent in 2007, while the business news viewership declined from 0.1 percent in 2004 to 0.5 percent in 2007¹²⁸.

The regional television business has seen large investments in the last two years. This is expected to gather pace in the next two years. The most recent entrant has been the listed Global Broadcast News Limited (GBN). They have announced plans to establish a number of regional television channels as the market is largely underserved. One calculation of the English language players is that establishing a pan-India presence enables them to not only attract advertisers and broadcasters but also increase their advertising revenues. According to estimates by media buyers, regional TV channels earned Rs.4,500-5,000 crore in advertising revenues in 2007 against the total TV ad spend of around Rs.20,000-22,000 crore¹²⁹. Advertising revenues are the most important source of revenue for the television channels. Among the English news channels CNBC-TV18 is estimated to have earned approximately about Rs. 225 crores through advertisements, while NDTV earned about Rs. 135 crores, CNN-IBN earned Rs.93 crores, Times Now earned Rs. 48 crores¹³⁰.

Regional channels, especially regional new channels are seeing widespread interest. There are reports that Zee, Star, as well as others are planning to launch 24-hours new channels. It has been reported that the next one year may see another 15 regional channels (mostly news) being launched. The factors for this rush include the fact that Telugu is the largest spoken language after Hindi, a large Telugu Diaspora and importantly an advertisement market (print as well as television) that is estimated at nearly Rs.890 crores per annum – Rs.460 crores per annum being the share of television¹³¹. It is stated that there is a preference for news channels because they are cheaper to establish. It is reported that a General Entertainment Channel (GEC) in Telugu costs nearly Rs.100 crores due to the high cost of acquiring content. In contrast, a news channel needs only about Rs.25 crores. The business is more manpower intensive and requires little exclusive content. Interestingly, a number of Telugu channels have decided to establish a pan-India presence – ETV, the oldest and now TV9. The costs are in stark contrast to 2004 when a news channel (TV9) launched its channel it cost only Rs.10 crores¹³².

Category wise share of Advertisers in Television

Advertiser	2006	2007	Year on Year % Change
Celluar Phone Service	4%	6%	95%

¹²⁸ Cited in “National News”, *The Economic Times*, 5 February 2008, p.4.

¹²⁹ <http://www.livemint.com/2008/01/31000046/GBN-to-raise-Rs800-crore-laun.html>

¹³⁰ “Times Now scores high on timing”, *Business Standard*, 31 January 2008, p.14.

¹³¹ “The battle for eyeballs”, *The Times of India*, 12 August 2008, p.2.

¹³² “The battle for eyeballs”, *The Times of India*, 12 August 2008, p.2.

Cellular Phone	3%	3%	40%
Two Wheelers	3%	3%	17%
Toilet Soaps	4%	3%	-18%
Corporate/Brand Image	3%	3%	32%
Cars/Jeeps	3%	3%	10%
Shampoos	3%	3%	7%
Insurance-life	2%	2%	49%
Internet Service	1%	2%	127%
Soft Drink Aerated	3%	2%	-11%

Source: *This Year, Next Year – India Media Forecasts*, April 2008, p.13.

It has been pointed out that the penetration of digital platforms and interactive media, including mobile phones are driving growth in a number of segments of the media biz. This is particularly true of the online advertising space. The only segment of the media business that has not grown substantially is the out-of-home advertising¹³³.

An interesting statistic that has recently brought to light the large potential is the Mobile TV market in India. Mobile TV enables users to watch live telecast of TV content on their mobile phones. It has been pointed out that the market for mobile TV in India is expected to reach Rs. 1440 crores by 2008. Spice TV has announced major plans to expand its service by tying up with Indian Cricket League and BBC¹³⁴. A number of Telugu regional television channels offer their programmes on mobile for Rs.50 per month.

Cable Television Market in India

The cable TV market in India is quite large. Media Partners Asia has estimated that there are nearly 78 million cable connections. There are nearly 128 million households out of the total 225 million households that own a television¹³⁵. Another estimate by the Hong Kong based, Asia Pacific Pay TV and Broadband Markets claims that there were a total of 65 million cable and satellite homes in 2005 (cable 64 million, Direct To Home (DTH) pay TV 750,000) and 57 per cent penetration of TV homes¹³⁶. Other estimates place the Indian satellite market at 73 million¹³⁷. This is expected to grow to about 100 million homes by end of 2012¹³⁸. It is estimated that there are about 60,000 cable operators¹³⁹. The Cable and Satellite Broadcasting Association of Asia (CASBAA) claims that the cable TV market in India is the most distorted market in Asia. The revenue losses due to unauthorized accessing of satellite television is estimated at US \$985 million in 2007, an increase of about 44 per cent over 2006¹⁴⁰. The cable television

¹³³ “TV hogs limelight as media biz grows 18%”, *Business Standard*, 18 March 2008, p.6.

¹³⁴ “BBC ties up with Spice TV”, *The Financial Express*, Corporates & Markets, 13 March 2008, p.I.

¹³⁵ <http://www.media-partners-asia.com/mpanews160708.asp> (Website last visited: 19 September 2008).

¹³⁶ <http://www.thehindubusinessline.com/2006/03/16/stories/2006031601780500.htm>.

¹³⁷ “Pay TV revenue leakage touches \$1bn in India”, *The Financial Express*, 8 November 2007, Section II, p.II.

¹³⁸ “Counter-productive policies affecting Indian cable TV growth”, *Businessline*, 18 March 2008, p.5.

¹³⁹ “Cable operators’ ARPU declines 30 per cent”, *Business Standard*, 19 October 2007, p.14.

¹⁴⁰ “Pay TV revenue leakage touches \$1bn in India”, *The Financial Express*, 8 November 2007, Section II, p.II.

industry has been faced with declining Average Revenue Per User (ARPU). In 2005-06 it was estimated at between Rs.150-200 but by 2006-07, this had declined to between Rs. 130-160¹⁴¹. The average revenue per pay TV household is estimated at US\$55 in India. This is in contrast to that of US where it is US\$985, UK (US\$912), Thailand (US\$117) and Korea (US\$109). However, it is better than China (US\$29) and Vietnam (US\$24)¹⁴². Cable and Satellite Broadcasting Association of Asia (CASBAA) has pointed out the major hurdle to the growth of the cable business in India is the ‘draconian limits on both pricing and packaging for video services’ that affect the entire value chain in the industry¹⁴³.

DTH Market in India

Direct to Home (DTH) services were first mooted in 1996 but was delayed due to an outcry over issues like ‘cultural invasion’. The services were approved finally in 2000. The rapid growth of DTH has enabled a rapid growth in the digital distribution platform as well as the television industry. The DTH market is witnessing fast growth, like most of the other segments of the entertainment market. There are seven companies that are either in the business or have announced plans to enter the business. They are Doordarshan’s DD Direct, Zee Televisions Dish TV, Tata Sky, Sun Direct, Bharti Telemedia and Anil Ambani’s Reliance Blue Magic. The latest entrant is Videocon¹⁴⁴. Leasing the satellite transponder is one of the most important prerequisite for this business. It costs about Rs. 4-4.5 crores per year. Total expenditure in the first three years could range from Rs.48-54 crores for the first three years. This excludes expenditure on marketing, the major portion¹⁴⁵.

It has been estimated that Dish TV incurs a loss of about Rs.1700 to Rs.1800 on every subscriber that they add¹⁴⁶. DTH market is the fastest growing market among television subscription business. Doordarshan’s ‘DD Direct’ is market with about 7 million subscribers¹⁴⁷. By August 2007, Tata Sky had about 1.5 million subscribers mark (it is targeting 8 million subscribers by 2012), Dish TV (the DTH venture of Essel Group) has about 2.7 million subscribers¹⁴⁸ spread across 72 cities and more than 35,000 dealers¹⁴⁹. Dish TV too is targeting about 8 million subscribers by 2010-11¹⁵⁰. One estimate claims that Tata Sky and Dish TV (the two major DTH operators) add about 7000 subscribers every day¹⁵¹. The importance of the DTH business is that it has a high concentration in urban areas, though the companies are attempting to expand into the rural areas in order to take advantage of the poor quality of service provided by cable operators there. Nearly 68 percent of the DTH customers are in urban areas¹⁵².

¹⁴¹ “Cable operators’ ARPU declines 30 per cent”, *Business Standard*, 19 October 2007, p.14.

¹⁴² “Counter-productive policies affecting Indian cable TV growth”, *Businessline*, 18 March 2008, p.5.

¹⁴³ “Counter-productive policies affecting Indian cable TV growth”, *Businessline*, 18 March 2008, p.5.

¹⁴⁴ “Videocon gets set for DTH foray”, *Businessline*, 21 December 2007, p.11.

¹⁴⁵ “Videocon gets set for DTH foray”, *Businessline*, 21 December 2007, p.11.

¹⁴⁶ Anand Adhikari, “First Movers in the Second Tier”, *Business Today*, 9 September 2007, p. 127.

¹⁴⁷ “DTH companies click new ways to increase earnings”, *The Financial Express*, 27 January 2008, p.9.

¹⁴⁸ “New segments, products to drive Dish TV expansion”, *The Economic Times*, 2 January 2008, p.5.

¹⁴⁹ Anand Adhikari, “First Movers in the Second Tier”, *Business Today*, 9 September 2007, p. 127.

¹⁵⁰ “New Segment, products to drive Dish TV expansion”, *The Economic Times*, 2 January 2008, p.5.

¹⁵¹ “Cable operators’ ARPU declines 30 per cent”, *Business Standard*, 19 October 2007, p.14.

¹⁵² “Sky is the limit”, *Business India*, 27 January 2008, p.75.

Latest estimates have suggested that the DTH segment is seeing the addition of nearly 200,000 subscribers every month and the two dominant carriers in the business (Tata Sky and Dish TV) are expected to cross Rs.650 crores in revenues in 2007-08, a three fold increase over the previous year, while in the previous year the two major DTH operators earned Rs.188 crores on a subscriber base of 2.2 million¹⁵³. Their revenues are expected to cross Rs.1000 crores on a subscriber base of 8 million by 2008-09¹⁵⁴. Despite the rise in revenues, the companies are not expected to reach profitability because they offer a subsidy of 25-30 percent on set top boxes and other hardware sold. The industry laments that their growth and profitability are restricted by the high taxes that they are subject to. The taxes include 12.36 percent service tax as well as an additional licence tax of 10 percent of revenue along with a variable tax and entertainment tax. The entertainment tax on DTH in Maharashtra is the highest at around 20 percent¹⁵⁵.

Various investment banks too are optimistic about the growth of the DTH business. Equity research companies like SSKI forecast that DTH subscriber base will grow to 16.1 million by 2010, while Enam predicts that it will grow to 30.6 million by 2011 and Kotak Mahindra claims DTH opportunities will be valued at US\$5 billion (shared between five players) with 25 million connections by 2012. Dish TV (the company) predicts that the DTH would have reached a subscriber base of about 27 million¹⁵⁶. Media Partners Asia that there will be about 61 million customers DTH customers in Asia (half of them in India) by 2017. It expects India to grow from 2.5 percent DTH penetration of TV homes at the end of 2007 to nearly 17 percent at the end of 2017¹⁵⁷. It expects the DTH operators to capture 72 percent of the 25 million new subscribers in the next three years.

The DTH business is not profitable at the present junction as can be gauged from the reports about Dish TV incurring loss for every subscriber they add, the name of the game seems to be to gain a market share at any cost and generate revenues despite little profitability. In fact, the head of Dish TV reported that the company incurred loss to the tune of Rs.90 crore one quarter of 2007¹⁵⁸. The Average Revenue Per User (ARPU), a metric for profitability is around Rs.190-230, and has remained stagnant. Industry believes that this needs to be in the range of Rs.400-500 if the industry has to turn profitable. This would mean about five million to six million of present cable television subscribers to convert to DTH¹⁵⁹. The predictions for the DTH industry in future are, however, optimistic. One such prediction projects the Indian DTH market by 2012 at 18 million subscribers¹⁶⁰. The logic of the DTH industry seems to rise from the confidence in

¹⁵³ "DTH players eyeing Rs.650 cr revenue", *Business Standard*, 14 March 2008, p.6.

¹⁵⁴ "DTH players eyeing Rs.650 cr revenue", *Business Standard*, 14 March 2008, p.6.

¹⁵⁵ "Deriving digital delights", *The Financial Express*, 16 September 2008, p.8.

¹⁵⁶ "Sky is the limit", *Business India*, 27 January 2008, p.67.

¹⁵⁷ <http://www.media-partners-asia.com/mpanews070508.asp> (Website last visited 19 September 2008).

¹⁵⁸ "Specialty Television", *Business Standard*, 24 July 2007, p.12.

¹⁵⁹ "Specialty Television", *Business Standard*, 24 July 2007, p.12.

¹⁶⁰ *Business Standard*, 18 October 2007, p.12.

the estimates that 29 per cent of the pay television market will migrate to digital platforms by 2010 and over 50 per cent is expected to migrate by 2014¹⁶¹.

This seems to be typical market dominance first at any cost and profitability later. A large of this business attitude stems from the fact that the companies are more interested in the fancy valuations that they can claim (provided they have a large customer base) that in turn can push up stock prices. The fact that Dish TV share price quotes at Rs 90 giving it a market capitalization of about Rs 3800 crores¹⁶² despite its losses is itself an interesting case about the nature of these companies and their business model.

New products and offerings are expected to help this segment grow much faster than the traditional satellite cable television. One innovation has been to tie up with various other service providers, like airlines to expand their sales. Dish TV has a tie up with Kingfisher Airlines to offer television to their users. Another innovation is the use of digital video recorders in set top boxes. The use of DTH in cars is another innovation that is expected to become operational soon¹⁶³. These innovations are expected to further expand the market for DTH. In another attempt to increase their revenues, DTH companies have started demanding channels to pay a carriage fees that could be as high as Rs.4 crores in order to be available on their platform. This technique is being used by both the leading companies Tata Sky as well as Dish TV¹⁶⁴. This is largely aimed at increasing their revenues as they are forced to subsidise the hardware, spend large amounts on marketing and importantly because they are prohibited from increasing the subscription charges because of the pricing guidelines of the regulatory, Telecom Regulatory Authority of India (TRAI).

DTH Companies are also trying out new and innovative advertising strategies in order to increase their revenues and profits. The latest initiative is an attempt to experiment with interactive advertising as a revenue stream. This initiative enables advertisers to directly target customers and pay advertising charges based on the customer response. The products are advertised on Tata Sky and subscribers interested in buying a product can request information through a SMS to the company. The income from such requests is shared between the company selling the products and the DTH Company¹⁶⁵. Tata Sky is the first DTH company to offer such changes in the advertisement revenue model among the players. Such advertisements enable the advertisers to shift from a 'flat fee' model one that is based on 'cash per lead' model, a model that is supposed to be more efficient¹⁶⁶.

The entry of new players such as the Chennai based Sun Group and Anil Ambani led Reliance group's Big TV has only added to the competition in the DTH market.

¹⁶¹ "Regional cinema should monetize fragmented and localised cultures", *Assocham Advertisement in Businessline*, 21 December 2007, p.5.

¹⁶² Price quotation on Bombay Stock Exchange on 20th December 2007.

¹⁶³ "New Segment, products to drive Dish TV expansion", *The Economic Times*, 2 January 2008, p.5.

¹⁶⁴ "DTH companies click new ways to increase earnings", *The Financial Express*, 27 January 2008, p.9.

¹⁶⁵ "Sky is the limit", *Business India*, 27 January 2008, p.75.

¹⁶⁶ "Tata Sky changes ad-revenue model", *The Financial Express*, 22 March 08, p.5.

Videocon too has announced plans to enter the segment. Sun is a 80:20 venture between the Maran family and the Astro Group of Malaysia. Sun hopes to garner about 30 lakh subscribers by the end of the financial year and is planning to invest about Rs.150 crores over the next few months. The company claims that since its launch in December 2007, it has attracted nearly 14 lakh subscribers in the four southern states.¹⁶⁷

Big TV is targeting five million subscribers and seeks to capture 40 percent of the current DTH market in the next 12 months¹⁶⁸. Big TV on the other hand plans to reach about 10000 towns by end of this fiscal year. It is also planning to launch a number of services including IPTV, digital video services as well as a host of other interactive services. It plans to concentrate on tier II and tier III towns and cities¹⁶⁹. Severe competition among the players has led to a drastic fall in the subscription charges. The entry level monthly subscription starts at Rs.100, which is nearly the same as the subscription charge for cable television¹⁷⁰. Along with the DTH price war, a new battle seems to be brewing in the Digital Video Recorder (DVRs) segment. DTH companies plan to reduce the price of DVR by nearly half to between Rs.7000 to Rs.8000. This price cut has largely because of the imminent entry of the new players into the DTH market like Reliance Communications Big TV which planned to offer DVRs at Rs.5000 to Rs.7000 along with financing schemes¹⁷¹.

The strategy to acquire market share has been accompanied by attempting to establish their presence in as many towns as possible. Tata Sky and Dish TV have a presence in about 35,000 retail windows. Big TV claims that its services will be available in about one lakh outlets apart from the 2000 outlets owned by Reliance Communications¹⁷².

The rapid growth of the DTH market has brought with it the usual set of problems (that is common in most other businesses in India) – that of customer or after sales service. While subscribers (like customers of other services) have a greater choice, the after sales service is often very poor. The case of DTH is no different. There are a number of instances when angry subscribers of DTH have been forced to lament in the press – not that it has had any effect on the quality of service¹⁷³.

IPTV Market in India

The most recent entrant (if it may be classified as a part of the television business) is the IPTV market. IPTV stands for Internet Protocol Television and is largely a technological innovation and strictly speaking may not be part of the television market. Instead it is in the liminal zone of growing convergence between technology, media and

¹⁶⁷ “Sun direct to invest Rs.150 cr; forays into Gujarat”, *The Businessline*, 12 September 2008, p.21.

¹⁶⁸ “Big TV launch to intensify DTH battle”, *The Financial Express*, Corporates & Markets Section, 20 August 2008, p.VIII.

¹⁶⁹ “Big TV plans IPTV, video recording by year end”, *The Financial Express*, 20 August 2008, p.10.

¹⁷⁰ “DTH entry-level monthly subscription at Rs 100”, *Business Standard*, 15 September 2008, p.16.

¹⁷¹ “DVRs become the next battleground in DTH war”, *Business Standard*, 20 February 2008, p.1.

¹⁷² “Big TV launch to intensify DTH battle”, *The Financial Express*, Corporates & Markets Section, 20 August 2008, p.VIII.

¹⁷³ “Poor customer service irks DTH Users”, *The Hindu*, 15 September 2008, p.4.

telecommunications segments. IPTV uses internet to deliver content over a broadband network to a subscribers television set. It offers a range of non-traditional services that include in its scope, video and music on demand, video conferencing, and time shifted TV programmes among others. Global information technology market research firm, IDC claims that the size of the IPTV market is expected to be 49,000 subscribers by the end of 2007, which is expected to grow phenomenally to 966,000 subscribers by the end of 2011¹⁷⁴. One major hurdle in the development of IPTV is the high cost of the set-top box, which costs Rs.8000 at present. This is in contrast to the DTH set top box which is about Rs.2000.

The regulator environment is also conducive to the growth of IPTV. Telecom Regulatory Authority of India (TRAI) has issued draft guidelines where telecom service providers, cable television operators and internet service providers with a network of more than Rs.100 crores can offer this service without applying for any further licences.

Radio Market in India

The sector was opened to Private participation in 2005. The state owned All India Radio, covers 91 percent of areas in India and reaches about 99 percent of the population of country. It is estimated that there are about 180 million radio sets in India¹⁷⁵.

Private participation has however had the consequence of increasing the number of radio stations in India. The FM radio segment has two broad stages of development. The first phase was during the initial entry period of the private players when stations were issued through a fixed license model. This phase lasted till about 2006. After 2006 the government shifted the licensing pattern to a revenue sharing model. The radio channels pay the government four per cent of their revenues annually. In January 2007, there were only about 25 private FM radio stations (excluding the six operated by the government through the All-India Radio). By end of 2007, it is estimated that there will be about 200 radio stations¹⁷⁶ and by December 2008 this figure could rise to 267, if all the outstanding issued licenses are implemented. Another 700 radio stations may join the list a year after December 2008¹⁷⁷. It is pertinent to note that the government has issued licences to in FM radio operators in two phases. There are about 37 radio firms that claim to have invested about Rs.2500 crores for over 260 FM stations. Nearly 200 of these stations have become operational¹⁷⁸.

FICCI report claims that by 2010 there will be about 1000 private radio stations. The reach of the radio market (all the cities in India) has been estimated at 50.86 million¹⁷⁹. The Industry is growing at twenty per cent annually¹⁸⁰. FM radio penetration

¹⁷⁴ "Blurred Picture", *Business Today*, 16 December 2007, p.74.

¹⁷⁵ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 94.

¹⁷⁶ "FM radio operators demand multiple licences in same city", *Business Standard*, 22/23 December 2007,p.3.

¹⁷⁷ Feroz Ahmed, "Radio Ga Ga", *Businessworld*, 23 July 2007, p. 48.

¹⁷⁸ "FM radio expansion hits small-town hurdle", *Business Standard*, 28 January 2008, p.2.

¹⁷⁹ Statistics cited by *FICCI The Indian Entertainment and Media Industry: Unravelling the Potential, Frames 2006*, p. 8.

¹⁸⁰ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 93.

continues grow rather slowly in India. It has increased from 45 per cent in 2002 to 53 per cent in 2007¹⁸¹. This is expected to slow the current 28 per cent growth of the FM radio market. One of the reasons cited for this lack of growth is the inability of the radio stations to garner quality content and the lack of diversity of content. Most of these radio stations dish out Bollywood music or at most film music.

The issue of fresh licences in the industry is expected to lead to consolidation in the radio industry. The big three radio companies (Big 92.7 FM owned by Reliance group), Radio Mirchi (owned by ENIL), and South Asia FM (owned by Sun Group) are expected to capture about 55 per cent of the radio stations licensed out after the final phase of bidding. This is expected to lead to an increase in the advertisement rates by at least about 30 per cent¹⁸². The effective advertisement rate at present for the top three radio companies in the metros is between Rs.8,000-12,000 for a 10 seconds slot, while in the smaller towns it is Rs.2000-3000¹⁸³. Interestingly, the rules clearly state that no single radio station is allowed to own more than 15 per cent of the total allotted FM stations. Sun Group and Big FM own 45 stations each while Radio Mirchi owns 32 stations¹⁸⁴.

It costs about Rs. 4 Crores to establish a FM radio channel. In 2004, the industry earned revenues of Rs. 240 crores¹⁸⁵. This is estimated to increase to about Rs. 1200 crores by 2010. One estimate claims that the radio market will grow to Rs.900 crores by end of 2008¹⁸⁶. Despite the stated growth prospects of the radio industry, the road to profitability is hindered because of the low share of radio in advertising. The share of radio in advertising is estimated at 1.9 per cent (CII-KPMG Report) to three per cent (FICCI Frames 2006) of total amount spent in the advertising Industry. CII-KPMG Report claims that about eleven percent of the advertisers contribute about sixty percent of their revenues¹⁸⁷. This is in contrast to the global scenario where Radio's share of the advertising is about ten percent.

At the present juncture, the radio industry loses money at an operational level. It is hoped that the future is better and that is one of the reasons for large amounts of investments in the sector. The case of Mumbai radio stations is symptomatic of their operational losses. The private FM channels in Mumbai, consisting of four players, cumulatively garner revenues to the tune of Rs. 25-30 crores annually, while their operating costs are about Rs.55-60 crores¹⁸⁸. CII-KPMG estimates that in order to reach profitability the industry must grow at 40 per cent against the current 20 per cent¹⁸⁹. The interesting part of the radio business (and with it the hopes of the radio industry) is that

¹⁸¹ FICCI Radio Forum Report cited in "FM radio operators demand multiple licences in same city", *Business Standard*, 22/23 December 2007, p.3.

¹⁸² "Top 3 FM firms gear up for big bites", *Business Standard*, 8 January 2008, p.12.

¹⁸³ "Top 3 FM firms gear up for big bites", *Business Standard*, 8 January 2008, p.12.

¹⁸⁴ "Top 3 FM firms gear up for big bites", *Business Standard*, 8 January 2008, p.12.

¹⁸⁵ A CII-KPMG report claims that the revenues are Rs.220 crores annually. *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 93.

¹⁸⁶ *This Year, Next year – India Media Forecast*, April 2008, p.15.

¹⁸⁷ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 98.

¹⁸⁸ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 93.

¹⁸⁹ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 93.

the cost of advertisement is only about 15 per cent of what it costs on Television but its effectiveness is stated to be only about 60 per cent that of television. Internationally radio is considered to be an industry that is largely dependent on localized advertising support¹⁹⁰.

A number of radio companies are listed on the stock exchanges. While Adlabs owns Big93.7 FM radio channel, the other radio companies includes Entertainment Network India Limited (owned by the Times Network, Bennett, Coleman and Company Limited, the operator of radio stations under the brand name, Radio Mirchi), Sun TV Networks Limited (the owner of the radio stations under the brand name, Red FM) and the Rupert Murdoch owned Radio City.

A new segment in the radio business is the rise of satellite radio over the past decade. The growth of this segment has been slow when compared to the FM and the conventional radio market. This is largely because the offerings are only through payment and not the free-to-air model as in other parts of the radio business. A subscriber will have to pay for a special radio set that costs more than Rupees Two thousand. The subscription fees varies from Rs.1000 for six months to about Rs.3250 for two years. The largest player in this segment is WorldSpace India, which claims to have acquired 177,000 subscribers¹⁹¹. It offers about forty radio stations, 10 of which are in regional languages.

Music Market

The music market in India is estimated at Rs.900 crore. Interestingly the piracy market is estimated to be worth Rs.500 crores in the above market¹⁹². However, another estimates by Pricewaterhouse Coopers and Indian Music Industry claims that the size of the music market is Rs.670 crores and is estimated to grow to Rs.777 crores in 2009¹⁹³. The official music industry sales have been stagnant at about Rs. 550 crores over the past two or three years, in 2000 the sales were about Rs. 1200 crores¹⁹⁴. Industry body, *The Associated Chambers of Commerce and Industry of India* (Assocham), declared that the sale of digital music crossed the sale of traditional music sales for the first time in 2006¹⁹⁵. The sales of music (legitimate units) is estimated at 150 million (15 crores) in 2007¹⁹⁶.

The rising number of MP3 players has been posing a major threat to the cassette industry. The number of MP3 players in India is estimated to increase from 3.65 lakh units to 5.5 lakh units in calendar year 2007¹⁹⁷. IDC has estimated that the market for

¹⁹⁰ *Indian Entertainment Industry Focus 2010: Dreams to Reality*, CII-KPMG Report, p. 97.

¹⁹¹ "WorldSpace will focus on tier-2, class B cities", *Business Standard*, 13 March 2008, p.12.

¹⁹² "Bad English? International Music Finds more takers", *Business Today*, 9 September 2007, p.53.

¹⁹³ "Innovation is key to monetising music", *The Financial Express*, 4 March 2008, p.8.

¹⁹⁴ "Dark Side of the Tune", *The Economic Times*, 27 October 2007, p. 11.

¹⁹⁵ "Regional cinema should monetize fragmented and localized cultures", Assocham Advertisement in *Businessline*, 21 December 2007, p.5.

¹⁹⁶ "Innovation is key to monetizing music", *The Financial Express*, 4 March 2008, p.8.

¹⁹⁷ "New MP3 Models to flood market", *The Economic Times*, 18 June 2007, p.4.

MP3 players globally at US\$58 billion by 2008¹⁹⁸. The definition of a hit in industry lexicon too has undergone a major change. Changes in the sphere of technology, especially the rise of the telecom industry has spurred sales in a different kind of music related segment. The sales of ringtones, singtones, caller tunes on mobiles has gone up to nearly Rs. 1200 crores, nearly twice the traditional music industry.

The music companies earn substantial revenues from licensing music to various television channels (including music channels) and radio stations apart from over-the-counter sale of music. The music companies charge up to Rs.150,000 to Rs.200,000 per hit song. This hit song can be aired three to five times during the period of the contract, which usually last between two to six months¹⁹⁹. There is usually a cap on the frequency of playing a hit in a week or a day. The cost of acquisition of the song varies for the music channels. It could vary from Rs.1000 to Rs.200,000 (for popular hits). It is estimated that the music channels generate revenues to the tune of Rs.80-100 crores per annum. The music television revenues are growing at 7-10 per cent per annum²⁰⁰. In order to overcome the high cost of music acquisition, music channels have taken up cross promotion of film in various languages. The music industry has also been hit due to the falling rates of music rights from the film industry. AT Kearney has pointed out that the music rights for a movie from top production house has declined from Rs.3-5 crore per movie in the late 1990s to less than the present Rupees One crore²⁰¹.

It is estimated by Soundbuzz.com that by 2009, the entire music industry in India will generate revenues to the tune of about US\$1 billion and the mobile related share will be about US\$900 million²⁰². An interesting aspect of the Indian music market is the fact that mobile contributes around 70-80 percent of digital revenues²⁰³. International music accounts for about 15 per cent of the Indian music industry (roughly about Rs.75 crores). The largest player in the music industry in India is Super Cassettes Industries Limited (the owner of the brand T-Series). It owns about 35,000 audio titles (supposedly about 70 per cent of the industry)²⁰⁴. The trend of falling recorded music sales accompanied by a growing popularity is symptomatic of a broader global trend that has emerged after the rise of new technologies.

In 2005, nearly 420 million single tracks were downloaded. Revenues earned through digital music in 2005 were US\$1.1 billion, nearly three times more than the value in 2004. The IFPI (the worldwide recording industry representative) estimated that in 2005 consumers purchased more than 60 million digital music players worth nearly US\$9 billion globally²⁰⁵. Globally sales of digital music have been growing at 85% and in 2006 and was estimated at US\$2.1 billion²⁰⁶. Single Track downloads were estimated at nearly

¹⁹⁸ Cited in "New MP3 Models to flood market", *The Economic Times*, 18 June 2007, p.4.

¹⁹⁹ "Channels hum a new tune to beat song blues", *Business Standard*, 24 January 2008, p.14.

²⁰⁰ "Channels hum a new tune to beat song blues", *Business Standard*, 24 January 2008, p.14.

²⁰¹ Cited in "Innovation is key to monetising music", *The Financial Express*, 4 March 2008, p.8.

²⁰² "Dark Side of the Tune", *The Economic Times*, 27 October 2007, p. 11.

²⁰³ "No Cohesive action in India against piracy so far", *Business Standard*, 28 March 2008, p.12.

²⁰⁴ "T-Series files suit against YouTube", *The Economic Times*, 11 December 2007, p.4.

²⁰⁵ *IFPI:06 Digital Music Report*, p.3.

²⁰⁶ "Turn on, Tune In", *Business Today*, 9 September 2007, p.78.

795 million in 2006 (the US accounted for nearly 582 million²⁰⁷), a growth of 89% from 2005, while the sales of portable music players were nearly 120 million units, an increase of 43% over the previous year²⁰⁸. They grew to US\$2.9 billion in 2007 and were thought to comprise about 15 percent of the music market²⁰⁹. The IFPI laments that the digital music industry's woes are compounded due to the piracy. In 2005, the body filed nearly 20000 legal suits in 17 countries against those sharing music illegally (without paying)²¹⁰, while in 2006 these suits had grown to nearly 30,000²¹¹. In 2007, the French president decreed that the Internet Service Provider would be held liable for illegal downloads.

Online Music and mobile music market had revenues of only about Rs. 17 lakhs in 2006. In Japan about 91% of the digital market is sold online, in India it is just 5% while in the case of USA it is 68%. The global mobile download industry is estimated at US\$29 billion annually²¹².

In India, ringtones and music are the two most important film related content that are widely downloaded. The information technology market research firm, IDC India thinks that the mobile entertainment generates revenues to the tune of about Rs.150 crores while the total value added services market stands at Rs.630 crores in India. It forms about 37% of the total non-SMS data revenues²¹³. Boston Analytics claims that the VAS revenue will account for about US\$348.8 million by 2009²¹⁴. Other estimates differ on the revenues earned through this source for the telecom operators. Some estimate place the value added services market at as little as 8-9 per cent of the revenues of mobile carriers²¹⁵. It has been pointed out that in 2006-07, about 600,000 to 800,000 ringtones were downloaded daily in India providing a revenue of Rs.180 crores till date (in 2007-08)²¹⁶. It has been pointed out that about 50 million phone subscribers downloaded ringtones. Mono and polyphonic ringtones currently sell in the proportion of 75:25. The fastest growing segment of the ringtone market is ring back tones with about 3.5 million users²¹⁷. Shah Rukh Khan and Katrina Kaif are 'the most downloaded movie stars to mobile'. The top five actors apart from Shah Rukh Khan include Salman Khan, Hrithik Roshan, Akshay Kumar and Sanjay Dutt. The top five actresses apart from Katrina Kaif include, Deepika Padukone, Priyanka Chopra, Lara Dutta and Aishwarya Rai²¹⁸.

The mobile music industry is estimated to reach about Rs.600 this fiscal²¹⁹. However, some other reports estimated the Indian mobile phone value added services market at Rs.986 crores in 2006 and are estimated to grow to Rs.2889 crores in

²⁰⁷ IFPI 07: *Digital Music Report*, p.5.

²⁰⁸ IFPI 07: *Digital Music Report*, p.3

²⁰⁹ IFPI *Digital Music Report 2008*, p.03. The IFPI represents the recording industry world wide.

²¹⁰ IFPI:06 *Digital Music Report*, p.3.

²¹¹ IFPI 07: *Digital Music Report*, p.3

²¹² "Entertainment at your fingertips", *The Financial Express*, 8 January 2008, p.8.

²¹³ "More play on your fingertips", *The Financial Express*, 9 December 2007, p.4.

²¹⁴ Cited in "Ringling in a new VAS wave", *The Economic Times*, 5 March 2008, p.5.

²¹⁵ "Entertainment at your fingertips", *The Financial Express*, 8 January 2008, p.8.

²¹⁶ "Entertainment at your fingertips", *The Financial Express*, 8 January 2008, p.8.

²¹⁷ "SRK is new *baadshah* of mobile screen", *Business Standard*, 13 March 2008, p.12.

²¹⁸ "SRK is new *baadshah* of mobile screen", *Business Standard*, 13 March 2008, p.12.

²¹⁹ "Entertainment at your fingertips", *The Financial Express*, 8 January 2008, p.8.

2009²²⁰. The Cellular Operators Association of India (COAI) estimates that service providers derive about 10 per cent of their revenues from value added services and content downloading²²¹. It estimated that value added services would generate 20 percent of the revenues for telecom operators in the next three years²²². Value added services has emerged as an important source of revenue for some companies. It contributed about 15 per cent to Reliance Communications' 2006-07 revenues and is expected to touch 20 per cent for the company in the current financial year (2007-08)²²³.

A report by Zinnov, a US based consultancy and research agency, claimed that there was huge potential for the growth of value added services (VAS). This growth was expected from mobile music and mobile gaming segments. This VAS market was estimated by the consultancy at US\$500 million in 2006 and was estimated to reach US \$10 billion in 2009²²⁴. It claimed that about 25 per cent of the mobile subscribers bought caller ring-back tones and ring tones. This segment of the value added services was growing at 25 per cent a month²²⁵. An important change in the trend that has occurred in the Value added service (VAS) market is the increased localisation. This has become more pronounced in the past few months as the increased number of mobile connections are being added from the smaller towns and the rural market. The regional VAS market is estimated at Rs.850 crores and is expected to double in the next two years²²⁶. The share of the regional content in the VAS market has increased to 50 percent of the content services of telecom providers²²⁷.

There have been new developments in the form of the entry of larger players into the music retailing. Videocon ground through its retail arm, NEXT, recently purchased the music retail chain Planet M (owned by Bennett, Coleman & Co) for Rs.200 crores. Planet M had about 146 stores (of which half were company owned) in 40 cities and earned revenues of Rs.150 crores in 2006-07²²⁸. Next plans to increase the number of stores to about 2000 in the next 18 months.

Internet Usage in India

The number of Internet users in India was estimated at about 46 million by the end of September 2007 up from about 32.2 million at the end of September 2006 (Internet in India (I Cube) Report 2007)²²⁹. It has been estimated at variously at 42 million²³⁰. The number of *internet connections* has been estimated at 8.1 million and an additional 140,000 internet cafes, which account for the largest proportion accessing the

²²⁰ Cited in *Business Today*, 16 December 2007, p.42.

²²¹ "Gaming download prices to come down soon", *Business Standard*, 20 June 2007, p.8.

²²² "Music, Games to drive VAS Growth", *The Economic Times*, 3 February 2007, p.5.

²²³ "India fastest-growing market for telecom companies", *Business Standard*, 8 January 2008, p.6.

²²⁴ "Music, Games to drive VAS Growth", *The Economic Times*, 3 February 2007, p.5.

²²⁵ "Music, Games to drive VAS Growth", *The Economic Times*, 3 February 2007, p.5.

²²⁶ "Local culture now drives the VAS market", *The Economic Times*, 5 February 2008, p.5.

²²⁷ "Local culture now drives the VAS market", *The Economic Times*, 5 February 2008, p.5.

²²⁸ "M for Music, N for Next", *Business Today*, 2 December 2007, p.50.

²²⁹ Cited in *Business Standard*, 5 December 2007, p.6.

²³⁰ <http://www.internetworldstats.com/asia/in.htm>

internet²³¹. However, there has been an increase in net access from offices and educational institutions. Recent statistics indicate that in 2007, about 36 percent of the users accessed the internet from cyber cafes compared to 39 percent in 2006, offices accounted for about 25 percent of those accessing the Internet, against 22 percent in 2006. The number of active internet users has increased from 21.1 million in 2006 to about 32 million in 2007²³². The top four metros account for about 50 percent of all the users against 64 percent in 2001 with nearly 40 percent of the users hailing from the affluent segments of Indian society²³³.

According to the Internet and Mobile Association of India (IAMAI), the consumer Internet market will reach Rs. 9,210 crores by 2007-08 from Rs.7080 crores in 2006-7²³⁴. The largest segment of this market would be users from the online travel Industry, which will account for about Rs.7000 crores up from Rs.5500 in 2006-07²³⁵. Industry estimates believe that this will increase to Rs.10000 crores by 2008²³⁶. According to Telecom Regulatory Authority of India, by the end of June 2007 there were 2.52 million broadband subscribers in India.

Gaming Market in India:

Gaming market in India is still in its nascent stage of development. NASSCOM has estimated that in 2006, it was about US\$48 million (about Rs.192 Crores) but was projected to grow rapidly in the next few years. The market is estimated to be about US \$424 million (about Rs. 1696 crores) by 2010, indicating a growth rate of about 50%. In 2005-06, the mobile gaming market was stated to generate revenues to the tune of about US\$15 million in India²³⁷, and this was estimated to grow to US\$336 million by 2009²³⁸. However, other reports claim that the revenues from mobile gaming in India were a mere US\$3 million²³⁹. Interestingly, gaming downloads provide the telecom services providers only about five per cent of the revenues that accrue through downloads in the value added segment²⁴⁰. NASSCOM claims that the gaming industry would grow in excess of 70%²⁴¹. It has been estimated that the console gaming market in India is around Rs.60 crores and is expected to increase to Rs.550 crores by 2010. Sony's Play Station dominates the Indian market with a total base of about 300,000 while 2007, it expected to sell between 50,000 to 60,000²⁴².

²³¹ *Online Gaming India – 2007: The Baseline Report*, eTechnology Group on behalf of “The Internet & Mobile Association of India”, March 2007, p.6.

²³² “Net Access”, *The Economic Times*, 29 January 2008, p.6.

²³³ *Online Gaming India – 2007: The Baseline Report*, eTechnology Group on behalf of “The Internet & Mobile Association of India”, March 2007, p.10.

²³⁴ http://iamai.in/consumer_e-commerce_market.php3

²³⁵ http://iamai.in/consumer_e-commerce_market.php3

²³⁶ “Advance Booking: Year-end break sees more Indian packing up travel bags”, *The Hindu Businessline*, 10 December 2007, p.1.

²³⁷ “Music, Games to drive VAS Growth”, *The Economic Times*, 3 February 2007, p.5.

²³⁸ “Music, Games to drive VAS Growth”, *The Economic Times*, 3 February 2007, p.5.

²³⁹ “Are you Game?”, *Business Standard*, 29 March 2007, p.3.

²⁴⁰ “Gaming download prices to come down soon”, *Business Standard*, 20 June 2007, p.8.

²⁴¹ “Gaming industry: HR Shortages likely”, *The Hindu*, 11 January 2007, p.4.

²⁴² *The Economic Times*

A new trend in the gaming industry has been to establish exclusive gaming centres on the lines of the US gaming arcades. Zapak (a division of Reliance Entertainment) has announced plans to open such centres in all the metros and over 250 centres in 35 major cities²⁴³. Reliance Entertainment claims that it has clocked over 1 lakh gaming hours within six months of installing seven gaming zones²⁴⁴. It plans to conduct a “Game Box National Championship in order to encourage online gaming²⁴⁵. Indiagames announced plans to sell their online games through a pre-paid card that would be sold across internet cafes across different parts of the country²⁴⁶.

An interesting trend in the gaming market is the fact that the scope of this industry has been growing over the past few years. Some in the gaming industry even go on to claim that ‘youngsters hate TV’²⁴⁷. Present the gaming sectors draws people largely in the age group 17-25²⁴⁸, in fact close to 90 per cent of the 1.6 million gamers in India are in the age 6-20 years²⁴⁹. One finds a large increase in the number of women gamers and the rise of segment that is usually referred to as ‘casual gamers’, especially in the online gaming segment of the market. These casual gamers are not regular visitors but those who usually access online games. *Zapak* claims that about 12 per cent of the people who play games on their website are women and they would like to increase this number of 25 per cent of the total visitors²⁵⁰. In the case of most of the mature gaming markets, the number of causal gamers comprise about forty per cent of the total number of people who play games, most of them above 40 years of age²⁵¹. There has been an attempt to create games drawn from some of the popular Bollywood movies or even cricket stars. FX Labs, a game development and outsourcing service provider agreed to make a video game after *Dhoom 2*, while *Hungama* had signed agreements to make games from various movie titles. While the economics of such games are open to question, the fact that a game needs an interesting story line and easily identifiable characters in order to create an early interest seem to be largely responsible. The challenge for the gaming companies would be to monetize the interest in video gaming. This becomes all the more important because is a highly price sensitive market.

There are a number of companies in the gaming space. They include Zapak (a division of Reliance Entertainment Limited, a subsidiary of Adlabs Limited, a stock exchange listed company) and 7seastechnologies Limited (onlinerealgames.com). Other companies include Games2win, etc. UTV is one of the new entrants into the gaming market. It bought two gaming companies, including Indiagames for Rs.128 crores in 2006²⁵². This was integrated with their existing four verticals – movies, television

²⁴³ “Zapak to offer more games & open more cafes this yr”, *The Economic Times*, 20 April 2007, p.5.

²⁴⁴ “RComm bets big on online gaming”, *The Financial Express*, 24 February 2008, p.1.

²⁴⁵ “RComm bets big on online gaming”, *The Financial Express*, 24 February 2008, p.1.

²⁴⁶ “Game set. Now the match”, *The Economic Times*, 17 June 2007, p.13.

²⁴⁷ “Today many Youngsters hate TV”, *The Financial Express*, Brandwagon Section, 30 October 2007, p.3.

²⁴⁸ “Gaming Industry bets big on tinsel town hits”, *The Financial Express*, 19 November 2007, p.1.

²⁴⁹ *The Economic Times*, 9 September 2007, p.4.

²⁵⁰ “Zapak to offer more games & open more cafes this yr”, *The Economic Times*, 20 April 2007, p.5.

²⁵¹ “Getting Women into gaming parlour”, *The Hindu Businessline*, 27 January 2007, p.4.

²⁵² <http://www.thehindubusinessline.com/2006/12/09/stories/2006120902180500.htm>

content, broadcasting and interactive (animation and gaming). UTV is apparently hoping that its access to content can be leveraged in the movie market.

Reliance Entertainment is one of the larger players in the gaming market. They have two subsidiary companies that are in the business of gaming. Zapak and Jump Start. Zapak has an India focus and an online presence which aims to develop a market for gaming in India. Jump Start has a more global focus. As content and theme have become an important component for games, Reliance entertainment is an attempt to expand the themes around which it can develop games. The company already has tie-ups with Virgin Comics and Fido as part of its global game plan²⁵³.

A recent deal that Reliance Entertainment signed with Manchester United, the football club in UK for a global three year exclusive game development deal is another case of how important uniquely identifiable themes (content) have become the cornerstone for success in the gaming market. The deal is valued at US\$100 million (though the company has refused to divulge the details about the exact size of the deal)²⁵⁴. The exclusive deal will enable Reliance Entertainment subsidiary (Jump Games) to design, develop, and distribute mobile games with Manchester United²⁵⁵ for their 100 million fans all round the globe. The company estimates that there are about 11.3 million Manchester United soccer club fans in India itself²⁵⁶. The first game, “Manchester United World It!” is slated to be launched in March 2008. A second game based on soccer is expected to be launched in April or May²⁵⁷. The cost of these games are expected to vary from market to market. The Indian market related games (under the fold India Jump Start) will have two pricing models. First, a pay-per-play and second a perpetual download model²⁵⁸. The pay-per-play will cost about Rs.5 per session. A session will last for half an hour to an hour. The second will cost between Rs.50 and Rs.99. While in Europe the game could cost between Euros 3-5.

Global Gaming Market

The global gaming market may be divided into console games, online and wireless games and the PC games. The global gaming market is estimated to be about US \$40 billion. In 2003 it was US\$22.3 billion and is estimated to touch US\$55.6 billion by 2008, growing at an estimated 20.1 compounded annual growth rate (CAGR). The USA and Canada are the largest market (in terms of size).

The largest players in the console games are Nintendo (manufacturer of Wii), Sony (manufacturer of Play Station consoles) and Microsoft (manufacturer of Xbox). Interestingly, Nintendo was established as company to manufacture playing cards and has

²⁵³ “Gaming deal with Man U takes us global”, *Business Standard*, 28 January 2008, p.4.

²⁵⁴ “Gaming deal with Man U takes us global”, *Business Standard*, 28 January 2008, p.4.

²⁵⁵ “ADAG firm signs \$100 million gaming deal with Man United”, *Business Standard*, 26/27 January 2008, p.1.

²⁵⁶ “Gaming deal with Man U takes us global”, *Business Standard*, 28 January 2008, p.4.

²⁵⁷ “ADAG firm signs \$100 million gaming deal with Man United”, *Business Standard*, 26/27 January 2008, p.1.

²⁵⁸ “ADAG firm signs \$100 million gaming deal with Man United”, *Business Standard*, 26/27 January 2008, p.1.

undergone many transformations. It recently surpassed Sony Corp in terms of market value.

Price Waterhouse Coopers has estimated that by 2008, the gaming sector will overtake the Music Industry. The 2007 report on Global Media and Entertainment has claimed that in the USA, gaming business will grow at a CAGR of about 6.7% between 2007 and 2011 and will grow to about US\$12.5 billion. It estimates that Asia-Pacific should remain the region with the highest overspending on gaming. It will reach US\$18.8 billion by 2011. The mobile gaming market in the USA is stated to generate revenues to the tune of about US\$200 million²⁵⁹. Gartner has observed that the worldwide revenues from mobile gaming in 2007 were US\$4.3 billion, a 49.9% increase from 2006²⁶⁰. Asia-Pacific was the largest mobile gaming market in the world where revenues generated exceeded US\$1.8 billion in 2007 and was expected to increase to US\$4.6 billion by 2011.

Animation Sector in India:

The animation segment is one of the fastest growing in India. Despite its high growth rates, the industry is very small when compared to the global animation industry. The global animation industry was estimated at US\$59 billion in 2006 with a compounded annual growth rate of 8 percent from 2006-10, with the development of animated content and related services accounting for 40-45 percent of the market²⁶¹. The Indian animation industry is estimated at US\$354 million in 2006, a 24 percent growth from 2005. The Indian animation industry is estimated to grow at a compounded annual growth rate of 25.2 percent from 2006-10 and is expected to reach US\$869 million by 2010²⁶². About 70 percent of the earnings of Indian studios are expected to be from outsourced work.

The entertainment segment accounts for a large proportion of the animation market in India. The revenues from this segment are expected to be US\$237 million in 2006 and are expected to grow to US\$550 million by 2010, a compounded annual growth rate of 23.4 percent²⁶³. The huge potential of the animation business has led to major production houses providing greater budgets for the segment as it enables them to not only undertake in-house development work but also to undertake outsourced work (thereby providing them with steady revenue) in a largely capital and manpower intensive industry. The animation segment has also benefited from a number of animated characters becoming the active fact of a number of brands. The major successes of such characters include those of 7Up, Pillsbury, Asian Paints (Ghattu), ICICI (Chintamani), Sunfeast (Sunny), Air India (Maharaja) and Bajaj Allianz among others. While the cost of creating a commercial advertisement with animated characters costs nearly Rs. 40-50 lakhs, nearly the same as a commercial with celebrities, the advantage is largely because of the creativity and flexibility²⁶⁴.

²⁵⁹ "Are you Game?", *Business Standard*, 29 March 2007, p.3.

²⁶⁰ "Mobile Gaming revenue to grow", *Business Standard*, 20 June 2007, p.7.

²⁶¹ *NASSCOM Animation and Gaming industry in India 2007*, p.13.

²⁶² *NASSCOM Animation and Gaming industry in India 2007*, p.35.

²⁶³ *NASSCOM Animation and Gaming industry in India 2007*, p.37.

²⁶⁴ "Animated characters becoming face of brands", *The Economic Times*, 26 November 2007, p.4.

Assocham has estimated that the revenues from the animation segment of entertainment are estimated to rise from Rs.220 crores to nearly Rs.440 crores²⁶⁵. Other estimates claim that the animation sector is expected to grow 40-50 percent every year²⁶⁶. Nasscom has estimated that the animation segment of the entertainment business has a potential to generate revenues in excess of US\$1 billion (or approximately Rs.4000 crores) and is expected to reach US\$869 million by 2010, with a compounded annual growth rate of 25% over 2006-2010²⁶⁷.

The relative success of the animated film, Hanuman, Bollywood has embraced animated versions of films. An estimated ten animated films are expected to be released in 2008²⁶⁸. The budget for animation films too has been increasing as more money is being poured into the animation sector. DQ Entertainment and Percept Picture Company have announced that they would invest about US\$25 million (about Rs.100 crores) in three animation pictures that will be released in 2009-10. Two of these films will be mythologicals and another one will be a Bollywood film²⁶⁹. The highest budget for an animation film till date has been Rs.40 crores invested in the animated of the Rajni Kanth's *Sivaji*, titled *Sultan*.

Amusement Parks in India

The amusement park business in India is relatively new, the first one (Appu Ghar) started in Delhi in 1984²⁷⁰. Since then the amusement part business has expanded in its scope to include water parks and other forms of family entertainment to market them as a more attractive destination. An amusement park needs different forms of entertainment as well as self contained infrastructure that include basic amenities, maintenance backups, workshops and services provisions for their smooth functioning. The success of an amusement park becomes possible only if it has easy and convenient access to all segments of the population, especially the middle classes. Availability of Large tracts of land is a fundamental requirement. In contemporary India, the success of an amusement park grows if it is able to control (or access) large tracts of land for future expansion. The business model of an amusement park depends on footfalls and the amount of money that visitors spend on each item of entertainment and the food courts.

The business of amusement parks is estimated to be growing at 20-30 percent per annum. The business is expected to have received investments to the tune of only about Rs.4000 crores. The profit margins are estimated at 10-15 percent²⁷¹. The business is seasonal in nature and dependent on economic activity. It is affected by factors such as monsoons, seasons, and academic schedule (the exam period is a lean season) apart from governmental policy such as taxes. The major amusement parks in India include

²⁶⁵ "Film industry like to grow to Rs.40,000 crore by 2010", *The Financial Express*, 8 December 2007, p. 5.

²⁶⁶ "Making 'Hanuman' a global superhero", *The Financial Express*, Corporates & Markets Section, 23 November 2007, p.I.

²⁶⁷ "Gaming industry: HR Shortages likely", *The Hindu*, 11 January 2007, p.4.

²⁶⁸ "Bollywood Toons Up!", *The Economic Times*, 22 November 2007, p.4.

²⁶⁹ "DQ Entertainment, Percept Picture to co-produce 3 animation films", *Business Standard*, 14 February 2008, p.7.

²⁷⁰ It has down to make way for the expansion of the Supreme Court of India in February 2008.

²⁷¹ "On a Rollercoaster Ride", *The Financial Express*, 2 March 2008, p.11.

Esselworld (Mumbai), Suraj Water Park (Thane, Mumbai), Nicco Park (Kolkata), Water Kingdom (Mumbai), MGM Dizzee World (Chennai), VGP (Chennai), Water World (Hyderabad), Ocean Park (Hyderabad), Veegaland (Kochi), Fun-n-food Village (Delhi), Kishkinta (Chennai), Wonderland (Jalandhar), Evershine Dream Park (Mumbai), Dolphin City and The Little Floks (Mahabalipuram) and Prime Time (Chennai) among others. A number of smaller parks exist in different towns and cities.

Retail Market in India

The last five years has seen an explosion in the retail market. The format has changed from the traditional mom-and-pop format to those that are far more organized and those that lay greater emphasis on planning, ambience as well as creating a 'shopping experience' that is vogue in other mature consumption oriented economies.

The retail sector is estimated to account for about ten percent of India's Gross Domestic Product. According to AT Kearney 2007 Global Retail Development Index, India, China and Russia provide the best opportunities for the growth of the retail market²⁷². Modern retail in India is just 2-3 percent of the retail trade and growing at 25 percent annually and this segment is expected to grow from US\$8 billion to US\$22 billion by 2010. The compounded annual growth rate of modern retail is expected to be 40 percent till 2010. Overall, India's retail trade (all segments) is expected to grow from US\$350 billion to US\$427 billion in 2010 to a further US\$635 billion by 2015²⁷³. The organised retail market is expected to account for 15-30 percent of the total retail market in the next one decade. In the organised retail trade readymade garments account for nearly 39 percent of the market, food and grocery account for 11 percent, consumer durables 9 percent, footwear 9 percent, furniture and furnishings 7 percent at present²⁷⁴.

There were just thirty malls (that were in the western format and organisation) in 2003 and increased to 230 by 2007 and 2012, it is estimated that India would have 14 times more space to organized ('modern') retailing as it had in 2002²⁷⁵. It has been pointed out that there are about 400 malls under various stages of construction, while an additional 100 are already under operational²⁷⁶. The penetration of organised retail outlets is 3-4 percent at the all India level, and is higher when in the major cities²⁷⁷. It has been pointed out that 'mall bubble' will burst by 2010 and about 50 percent of the malls would close down but retailers focussing on consumers would thrive²⁷⁸. Two category of retailers are expected to survive, they are those who have the ability to sustain losses for long-period because of their financial deep pockets and two, those who accumulate experience in the sector²⁷⁹.

²⁷² http://www.atkearney.com/shared_res/pdf/GRDI_2007.pdf

²⁷³ http://www.atkearney.com/shared_res/pdf/GRDI_2007.pdf

²⁷⁴ "Retail Tale", *The Economic Times*, 5 March 2008, p.4.

²⁷⁵ "Mall space on an upswing", Times Property Section, *Times of India*, 15 December 2007, p.1.

²⁷⁶ "India is a bigger challenge than China to build scale: Pant", *The Economic Times*, 2 January 2008, p.4.

²⁷⁷ "Big bazaars, small customers", *Business Standard*, 20 February 2008, p.10.

²⁷⁸ "Mall bubble may blast by 2010:expert", *The Financial Express*, 25 February 2008, p.9.

²⁷⁹ "Mall bubble may blast by 2010:expert", *The Financial Express*, 25 February 2008, p.9.

An interesting aspect that has often been missed out is the average age of the shoppers has seen a gradual decline. In 2006, the average age of a shopper was 20.4 years while in 2008 it was 18.9 years at the same time there has been an increase in the number of under 16 shoppers from about one percent in 2006 to about 9 percent in 2008²⁸⁰. It is imperative to note the spending of Indians on various necessities and discretionary items. McKinsey, the global consultancy firm, has observed that in 2005, Indian spent 42 percent of their income on food, beverages and tobacco, 6 percent on apparel, 15 percent on housing, utilities and household products, 8 percent on personal products and services, 17 percent on transportation, 2 percent on communication, 5 percent on education and recreation and 7 percent on healthcare²⁸¹.

The growth in franchising has enabled the growth of the retail business in India. It has been estimated that franchising has been growing at 30-35 percent in India. There are about 1500 franchises across the country with close to 60,000 products and services, employing around 400,000 people²⁸². Franchising is expected to touch 15 percent of the retail trade in India in by 2010. By that year it is expected to employ about three million people²⁸³. Other estimates are more optimistic about the growth of retail franchising. These estimates claim that retail franchising is expected to grow by 100 percent annually for the next five years, against its growth of 60 percent year on year growth in the last three years²⁸⁴.

A new trend that has accompanied the recent economic boom has been the increased share of organised retail market and with it the increased presence (and growth of the branded segment) in nearly all segments. A growing consumption oriented culture, accompanied by increased importance of new forms of media with aggressive marketing has only increased the lure of shopping. This 'buy-now-pay-later' culture has only aided all segments of the organised retailing industry. The branded apparel market has been one of the major beneficiaries of this changed culture of shopping and spending. It is estimated at Rs.8,000 crores that is growing at 20 percent annually with most of the foreign brands growing at more than 100 percent²⁸⁵.

The nature of items that are sold through retail outlets too has changed dramatically over the past few years. This innovation in the nature of formats and the content that is available in the malls is largely because of the desperation of the mall operators to make them more profitable. This has become imperative as the cost of rentals has increased phenomenally due to the economic boom. In recent times, there seems to be no particular limitation or restriction on the nature of items sold. Future Group has announced that it plans to sell apartments through its Big Bazaar retail outlets. The company thinks that there is a big business opportunity to vend apartments through

²⁸⁰ Cited in "Young Shopper", *The Economic Times*, 8 February 2008, p.4.

²⁸¹ *The 'Bird of Gold': The Rise of India's Consumer Market*, McKinsey Global Institute, San Francisco, May 2007, p.16.

²⁸² "Partners in Profit", *The Financial Express*, 17 February 2008, p.5.

²⁸³ "Partners in Profit", *The Financial Express*, 17 February 2008, p.5.

²⁸⁴ "Retail franchising expected to grow 100% in 5 yrs", *The Financial Express*, 25 February 2008, p.16.

²⁸⁵ "Tommy, Esprit on a High", *The Economic Times*, 17 January 2008, p.4.

the retail format²⁸⁶. The change retailing of luxury goods deserves special attention due to a number of reasons. The speed of its growth and the size of the market are the most important reasons why that segment of organised retailing deserves special attention. A new addition in the malls is the attempt to introduce clinics in malls. Future Group has decided to introduce this innovation. The clinics in their Big Bazaar and other malls will offer speciality medical consultation, perform small day care procedures, diagnostic facilities, skin therapy and pharmacy. They will occupy about 1000 square feet to about 1500 square feet²⁸⁷. A new trend that hopes to encourage shopping is to include hotels in malls²⁸⁸.

An important aspect of the organised retail business that is increasingly gaining attention is the increase in the number of visitors to these new retail formats but the inability of these companies to convert the footfalls into sales. Future group, that owns Pantaloons and Big Baazar has about 200 million visitors all over India²⁸⁹. Their desperation to become profitable has forced some to think of new types of products to be sold at their outlets. Future Group has been actively selling credit cards and even insurance products²⁹⁰. Sales of such innovative products has increased the revenues of the company but The gross profit margins have declined from 33 percent in 2005-06 to 31.7 percent in 2006-07. The net profit margins have declined from 6.4 percent to about 2.6 percent in the same period²⁹¹. While the penetration of organised retailing is low in India, the fact that the margins have actually declined does not augur well for the sector. In the more mature western markets, the sales are quite high from single stores that are opened in a locality for about two to three years after the opening of the stores and gradually settle down at 1-2 percent growth annually after the initial period.

The nature of the organised retail industry in India at the present juncture has convinced a number of foreign players that the country is not ready for big retail. A Swedish retailer, IKEA opines that the Indian market is flawed and that it is not even an 'emerging' market for the sector at the present juncture. It thinks that the conditions in India may be conducive around 2015-16²⁹². However, this opinion has not stopped any of the other major players from entering the Indian market even with the restrictions that are in place for the entry of big multinational retailers like Wal-Mart.

It would be interesting to observe the dynamics of the organised retail industry at the close of 2008. It has been pointed out that the supply of mall space will increase by approximately 17 million square feet in 2008 in Tier I cities alone²⁹³. Apart from this

²⁸⁶ "Future Group to sell apartments thru retail formats", *Businessline*, 18 January 2008, p.5.

²⁸⁷ "Future Group to have clinics in malls", *The Economic Times*, 19 January 2008, p.4.

²⁸⁸ "Shop till you to drop and then check in", *The Financial Express*, 24 February 2008, p.1.

²⁸⁹ "Insurers bet big on policy sales via supermarkets", *Business Standard*, Section II, 21 February 2008, p.3.

²⁹⁰ "Insurers bet big on policy sales via supermarkets", *Business Standard*, Section II, 21 February 2008, p.3.

²⁹¹ "Big bazaars, small customers", *Business Standard*, 20 February 2008, p.10.

²⁹² "Sweden's IKEA says India not ready for big retail yet", *Business Standard*, 21 February 2008, p.6.

²⁹³ "Growth in economy fuels demand for property", Times Property, *The Times of India*, 15 March 2008, p.1.

another 15 million square feet of commercial space will be rented out in 2008 as against an absorption capacity of 13 million square feet in 2007²⁹⁴.

Luxury Industry

The luxury market in India has seen one of the highest growth rates in the world. The number of billionaires has increased at the fastest pace in Asia. There are an estimated 250 global luxury brands that are on sale in India²⁹⁵. Perceptions about spending on luxury have changed dramatically in the last few years. Luxury consumption includes in its scope customised luxury holiday packages that cost more than Rs.18 lakhs a night, to acquiring private aircrafts (about 85 business jets were purchased in 2007) to procuring unique mobile numbers (at an estimated cost of more than Rs.15 lakhs each) to purchasing property abroad²⁹⁶. It has been pointed out that in the last one year about Rs. 450 crore worth of yachts have been purchased in the country²⁹⁷. One report estimates that the market potential of the 15-35 year bracket at US\$14 billion that grows at 20 percent annually²⁹⁸. The global luxury goods industry is estimated to be worth US\$157 billion. Interestingly, China produces about US\$100 billion worth of luxury goods that are then exported to various western markets²⁹⁹.

India's luxury retail market has been estimated at differently. One estimate places the Indian luxury retail market at 3,875, a jump from Rs.2500 crores two years ago³⁰⁰. KSA Technopak (a consultancy firm) opines that India has more consumers of luxury goods than the adult population of several countries³⁰¹. It has been estimated that there are about 1.6 million Indian households that spend an average of US\$9000 a year on luxury goods³⁰². In USA, the expenditure on luxury brands is about US\$29000 per annum³⁰³. This is expected to increase three fold by 2010³⁰⁴. Other estimates claim that the total market for luxury market is about ten million consumers, out of which a million are active consumers³⁰⁵. The luxury market is estimated at approximately US\$16 billion annually³⁰⁶. A large part of the luxury market revolves around the age group 15-45 years. One estimate claims that the luxury market potential of the age group 15-35 is about US\$14 billion³⁰⁷. An interesting aspect of the economic boom has been to reduce the average age of the luxury customer. About ten years ago the average age of the way

²⁹⁴ "Growth in economy fuels demand for property", Times Property, *The Times of India*, 15 March 2008, p.1

²⁹⁵ "The Wealth Effect Hits India", *India Today*, 14 January 2008, p.102

²⁹⁶ "The Wealth Effect Hits India", *India Today*, 14 January 2008, p.104.

²⁹⁷ "Yachting 'sails' high on demand from the rich and famous", *Buisnessline*, 9 February 2008, p.1.

²⁹⁸ "The Wealth Effect Hits India", *India Today*, 14 January 2008, p.105.

²⁹⁹ When the devils pranced about it in their Pradas and Guccis", *The Economic Times*, 29 August 2007, p. 11.

³⁰⁰ <http://www.livemint.com/Articles/2007/09/04222638/Fashion-fraternity-sees-luxury.html?atype=tp>

³⁰¹ Cited in "The lure of luxury", *Business India*, 9 September 2007, p.108.

³⁰² "The lure of luxury", *Business India*, 9 September 2007, p.111.

³⁰³ "International luxury brands bet big on India", *The Financial Express*, Corporates & Markets, 19 March 2008, p.VIII.

³⁰⁴ "The lure of luxury", *Business India*, 9 September 2007, p.108.

³⁰⁵ Saloni Nangia, Vice President, Technopak cited in "Luxury Brands: Great Indian opening", *Business India*, 30 December 2007, p.32.

³⁰⁶ "The pursuit of luxury", *The Hindu*, Sunday Magazine, 3 June 2007, p.4.

³⁰⁷ "The pursuit of luxury", *The Hindu*, Sunday Magazine, 3 June 2007, p.4.

upwards of 45 years but now this has come down to about 37 years. This is largely because of the rise in disposable incomes and more importantly a shift in the decision making from elders to youngsters³⁰⁸.

Despite the fact that each consultancy and trade body has its own methodology of estimating the size of the luxury market, the growth of this luxury market since 1990 is pointed out by all of them. A cursory glance at the size of the market and its growth since 1990 is clearly astounding. Ernst & Young has estimated that the number of *Rich* during 1990-2000 comprised of about 3 million households, which increased to about 6 million by 2005-06. This segment has income that exceeds US\$4,700 per year and this segment consumes all the high value items like cars and other luxury goods. The next major segment is the *Consuming* segment that earns between US\$1,000 to 4700 per annum. Their numerical strength has increased from about 55 million households in 1990-2000 to about 75 million households in 2005-06. The third major consuming segment is the '*Climbers*' who earn from US\$500 to 1000 per annum. This segment is a large market for most of the consumer durables. Their numbers have increased from 66 million households in 1990-2000 to about 78 million households in 2005-06. '*Aspirants*' form the fourth consuming category and earn from US\$350 to 500. This segment has grown from 32 million households to about 33 million households. They predominantly own bicycles, radios and fans among other low value items. The last segment comprises of the '*Destitutes*' who earn less than US\$350 per annum. Their numbers have decreased from 24 million households to about 17 million households from 1990-2000 to 2005-06. The last segment has no consuming power³⁰⁹.

Luxury segment has increased from housing, international holidays, high end automobiles, entertainment electronics and other home lifestyle improvement products to categories including men's clothing, women's jewellery, women's accessories, watches, gourmet food and wines³¹⁰. The luxury consumer has been divided by KSA Technopak into four categories. They are (1) luxuriented, (2) new rich, (3) people getting there, and (4) mid-affluents³¹¹. Luxuriented are those whose source of wealth is largely traditional and inherited. This class is well versed about global fashion trends and is well-versed in the international global trends of the luxury market. The second category, the new rich, have spending power but are only just orienting themselves to the luxury market. The third category, 'people getting there' are acquiring power and spend mainly on high-end white goods, education of children and better housing and larger automobiles. The last segment, 'mid-affluents' are those who acquire orientation to luxury but are unlikely to purchase luxury goods beyond a certain limit.

Luxury Watch Segment

³⁰⁸ "More takers for luxury cars, as buyers get younger", *Business Standard*, 1 February 2008, p.4.

³⁰⁹ "Fossil to go solo in India, ties with Rajesh to stay", *The Economic Times*, 17 January 2008, p.4.

³¹⁰ "The lure of luxury", *Business India*, 9 September 2007, p.109.

³¹¹ Cited in "The lure of luxury", *Business India*, 9 September 2007, p.110.

The luxury watch segment consists of Rs.700 crore out of the total watch market consisting of about Rs.2500 crores³¹². Premium watches can cost anywhere between Rs. 2.5 lakhs to those that exceed more than Rs.18 lakhs. About 90 per cent of the sales of these luxury items are in Mumbai and New Delhi³¹³. Recently, the Swiss watch maker, Longines Watch Co, claimed that India was the fastest growing luxury watch market and was planning to establish retail outlets, each entailing an investment of US\$200,000 to US\$1 million³¹⁴. The major selling point of these luxury items is their exclusivity, with one company openly declaring that they do not want every youth wearing their watches. It even claimed that their watches almost everywhere have a waiting list³¹⁵. The luxury belt market is yet another segment in the larger luxury market. The price of a buckle can range from Rs.6,000 to Rs.3,82,000³¹⁶, while a pair of sun glasses can cost from Rs. 14,000 to about Rs.30,000³¹⁷. India's jewellery market has been estimated at Rs.100,000 crores³¹⁸.

Luxury Car Segment in India

The luxury car market too has been a major beneficiary because of the economic boom. This segment's growth has been aided by easy access to financing that has become possible. Industry claims that the luxury segment (defined as those cars worth Rs.25 lakhs or more has a market size of about 6000-7000 units per annum. This segment is dominated by Mercedes Benz and BMW. Cadillac has announced plans to enter this segment³¹⁹. The luxury car market has seen stupendous growth of 97.4 percent during November 2007, while the overall growth in the passenger car market has been 13.7 percent³²⁰. However, it should be noted that the two market are strictly non-comparable. The fact that only about 75 luxury cars were sold in November 2007, clearly shows the small size of the luxury car market. However, it has been pointed out that families with a capacity to pay monthly equated monthly instalments above Rs.30,000 are showing increased in purchasing luxury cars³²¹. India is considered to be a 'long-term' market while China is considered to be a 'short-term' market which is volatile³²².

Wedding Market in India

The Indian wedding market is probably one that is increasingly drawing attention of the organized retail players. It is estimated at Rs.100,000 crores and is growing at 25 per cent annually³²³. Other estimates place the wedding market at Rs.125,000 crores³²⁴.

³¹² "Swatch Group's Hamilton watches eye Bollywood", *Business Standard*, 17 October 2007, p.6.

³¹³ "There is a waiting list for our watches globally", *The Financial Express*, 21 October 2007, p.6.

³¹⁴ "Longines to expand footprint in retail space", *Business Line*, 14 December 2007, p.5.

³¹⁵ "There is a waiting list for our watches globally", *The Financial Express*, 21 October 2007, p.6.

³¹⁶ "What a waist", *The Economic Times*, 6 May 2007, p.11.

³¹⁷ "Shades of Summer", *The Economic Times*, 25 March 2007, p.11.

³¹⁸ "Forthcoming festive season adds glitter to jewellery retail", *The Financial Express*, Section II, 27 September 2007, p.VIII.

³¹⁹ "GM eyes Indian market to launch luxury car Cadillac", *The Financial Express*, Corporates & Markets Section, p.I.

³²⁰ "Luxury carmakers bring elan to FDI stash", *The Financial Express*, Section II, 4 January 2008, p.I.

³²¹ "More takers for luxury cars, as buyers get younger", *Business Standard*, 1 February 2008, p.4.

³²² "India long-term market, China short-term: BMW", *Business Standard*, 1 February 2008, p.16.

³²³ "Desi marriage bells are chiming abroad", *The Financial Express*, 13 December 2007, p. 1.

³²⁴ "Wedding exhibitions: Zoom Time", *Business India*, 2 December 2007, p.39.

The luxury segment of this market is apparently very large as can be seen from some of the items that are sold to the premium sections. It has been reported that in 2007, 15,000 couples visited New Zealand for their honeymoons and this was expected to rise by 10 per cent in 2008³²⁵. The premium segment of the Indian wedding market is stated to be growing at more than 25 per cent per annum, while the mid segment of the market is growing at 15-20 percent. The benchmark for a luxury wedding is rupees one crore, where actors and actresses from Bollywood give a live performance³²⁶. The costs could increase substantially with the appearance of either belly dancers or the likes of Shah Rukh Khan.

There are reports that Star TV plans to start a 24 hour Hindi channel that would be exclusively geared to the wedding market. The programming would include reality shows, instructional and even documentary in nature. The company plans to market the channel as a segment in the lifestyle wedding channel. It would attempt to create content around shopping for a wedding, planning engagements and weddings, grooming, couture, makeovers – slimming for women and six packs abs for men – among others³²⁷.

Luxury good consumers in India are a marked departure from the consumer of luxury goods in other countries. The conventional view of luxury goods consumers is that they often arise from the class of the rich and famous. In India, the sale of luxury goods has been helped by the availability of easy financing options, thereby indicating that their sales are largely driven by aspirational consumption and consumed by the upper middle classes rather than only the rich.

The industry laments that the single most important factor for the luxury market not growing further is the ‘lack of a luxury retail environment’³²⁸, which at present operate out of either five star hotels or exclusive stores. In its present format, luxury retailing lacks streets that cater exclusively to luxury goods like Orchard Street Shopping district (New York City), Rodeo Drive (Beverly Hills, California), High Street Kensington (London). However, this is slowly changing with malls now coming up to cater to these clients. The two-premium malls coming up include *Emporio* in Delhi (owned by DLF) and the *Galleria* in Mumbai. A luxury environment is one that is classified as the right brand mix, ambience, service and security levels that sets them apart from other malls³²⁹. The other major obstacle to the growth of the luxury market is the high level of taxes, which can exceed fifty percent. While most of the luxury brands are available in India, Indian companies that have entered the luxury market include, the UB Group, which has entered this segments with its ‘UB City Collection’³³⁰. UB Group plans to enter the luxury retail segment by launching its first mega store in Bangalore, called ‘UB City’. This will be a collection of individual high-end luxury stores housing some of the world’s best known brands. This format is expected to differentiate itself

³²⁵ “Desi marriage bells are chiming abroad”, *The Financial Express*, 13 December 2007, p. 1.

³²⁶ “International luxury brands grab a slice of Indian wedding mart”, *The Economic Times*, 1 December 2007, p.4.

³²⁷ “Star TV mulls wedding channel”, *Business Standard*, 24 September 2008, p.11.

³²⁸ “The lure of luxury”, *Business India*, 9 September 2007, p.110.

³²⁹ “Luxury Brands: Great Indian opening”, *Business India*, 30 December 2007, p.33.

³³⁰ “Luxury Brands: Great Indian opening”, *Business India*, 30 December 2007, p.32.

from other competitors who are essentially in malls while at the same time providing an opportunity to shop at India's first ever luxury destination³³¹. The products that will be retailed include fashion wear, accessories, footwear, jewellery, watches, writing instruments and eyewear³³².

The economic boom and the attendant pressure on real estate prices and rentals seems to be favouring the luxury retailers, especially in the larger metros. There has been a very large increase in the rental market. Rentals have increased by 25-45 per cent in a number of localities in the metros. The rentals now are about Rs.550 to Rs.1000 per square feet, depending on the locality of the malls³³³. This has forced a number of the smaller retailers to move out from the expensive malls into less expensive localities. This has led to a process wherein the larger (especially the luxury players) have moved into these more expensive malls in the premium areas.

The economic boom has also given a fillip to the luxury corporate jet market in India. Presently, there are an estimated 150 corporate jets in India and this is expected to rise to 450 by 2010³³⁴. In 2006, 70 companies were given permission by the government to buy 100 corporate jets. The cost of a private jet can vary from Rs.25 crores and can even go upto Rs.300 crores³³⁵.

Gambling Market in India

Gambling is probably one of the most successful industries in the country and widely prevalent in the country. It is one industry that has successfully withstood all attempts to regulate it (or even stamp it out). Its popularity has turned out to be inelastic in terms of economics. It is also an industry that almost instantly raises diametrically opposite views. In fact, it is so widely prevalent (and in different forms, most of which are proscribed) that it has become impossible to implement the laws.

The organized gambling market in India is estimated at Rs.25,000 crores while the unorganized³³⁶ gambling market is considered to be equal if not larger in size³³⁷. In USA the lottery market is estimated to have generated sales to the tune of about US\$ 56 billion in 2006³³⁸. Globally, lottery turnover is estimated at US\$190 billion³³⁹. In USA the revenues from casinos was US\$32.42 billion in 2006³⁴⁰. Till date most of the players in the Indian organized segment are Indian companies. The largest is the owner of the brand 'Playwin' owned by the Essel Group. Till date there are no casino's in India and most of

³³¹ "UB Group set to enter luxury retail segment", *The Financial Express*, Corporates & Markets, 6 February 2008, p.VIII.

³³² "UB Group set to enter luxury retail segment", *The Financial Express*, Corporates & Markets, 6 February 2008, p.VIII.

³³³ "Shopping Maul", *The Economic Times*, 28 December 2007, p.5.

³³⁴ "Big toys for rich boys", *The Economic Times*, 29 March 2007, p.13.

³³⁵ "The Jet Setters", *India Today*, 29 January 2007, p.79.

³³⁶ State recognition is the only classification that has been used to term one form as 'organised' and the other as 'unorganised'.

³³⁷ "Playwin puts its money on Goa casino", *The Economic Times*, 1 December 2007, p.4.

³³⁸ <http://www.nytimes.com/2007/11/18/business/18queen.html?>

³³⁹ "Chandra's risky gamble", *Business Standard*, Weekend Edition, 22/23 September 2007, p.I.

³⁴⁰ *2007 AGA Survey of Casino Entertainment*, p.2.

those who gamble go either to Nepal, Thailand or Macau (which is considered ‘Las Vegas of the East’). In 2006-07, Playwin earned revenues of Rs.2,400 crores³⁴¹ (interestingly more than the Zee Group’s media business) is valued at Rs.3,400 crores³⁴². It has decided to establish a casino off the coast of Goa. The casino will be on an abandoned ship that the Essel Group bought for Rs.15 crore³⁴³. The group is spending is believed to be spending US\$12-15 on refurbishing the ship so that after its completion it will be a 20,000 square feet casino on a ship that will be anchored just outside the Indian territorial waters off the coast of Goa. In this way, they would not come within the purview of the Indian rules and regulations, including taxes³⁴⁴. In 2009, a number of international casinos, including the largest, *The Venetian*, based in Macau are expected to establish their presence in India.

The biggest segment of the organized market is the heavily regulated lottery market. Estimates of the size of the industry vary. Some estimates place the size of the lottery market in India at Rs.75,000 crores (organised and unorganised)³⁴⁵. Other estimates place the organised lottery business at about Rs.15,000 crores per annum. This includes the paper and online segments. Industry participants claim that the industry has the potential to grow to about Rs.50000 crores. It is interesting to note that the lottery business is legal only in about 11 states of India³⁴⁶. The lottery business is largely a volume business, where about 85 per cent of the revenues are distributed as prize money, 1 per cent is the share of the State government, 4 percent is collected as betting tax leaving a margin of 10 per cent. In 2006-07, Playwin earned a profit of about Rs.10 crores on a turnover of Rs.2,400 crores³⁴⁷. This is in contrast to the lottery business in USA, where the margins are as about 40 percent³⁴⁸. The competitor or Playwin is Sugal&Damani, which has a turnover of about Rs.5000 crores and has set up about 20,000 betting terminals against Playwin’s 12,000. This company has been in the lottery business for 40 years and runs lotteries under the Rajshree brand³⁴⁹. A number of other well known business group’s tried their hand at the business and have either exited or have only a marginal presence. These include Essar Group, Videocon Group and Shapoorji Pallonji.

The organized players claim that their business has been brought to disrepute by the illegal gambling market, which essentially operates like a racket, often influenced by criminal elements. Traditionally, in India people could (and probably still can) bet on nearly any thing. There are a number of instances where the colonial authorities tried to crack down on betting on rain gambling in places like Calcutta³⁵⁰. In recent times, the

³⁴¹ “Chandra’s risky gamble”, *Business Standard*, Weekend Edition, 22/23 September 2007, p.I.

³⁴² “Playwin puts its money on Goa casino”, *The Economic Times*, 1 December 2007, p.4.

³⁴³ “Chandra’s risky gamble”, *Business Standard*, Weekend Edition, 22/23 September 2007, p.I.

³⁴⁴ “Playwin puts its money on Goa casino”, *The Economic Times*, 1 December 2007, p.4.

³⁴⁵ “Lottery Co gets Rs2K cr service tax claim”, *The Economic Times*, 18 January 2008, p.20.

³⁴⁶ “Are you feeling lucky today”, *The Financial Express*, Brand Wagon Section, 18 March 2008, p. 1.

³⁴⁷ “Chandra’s risky gamble”, *Business Standard*, Weekend Edition, 22/23 September 2007, p.I.

³⁴⁸ “Are you feeling lucky today”, *The Financial Express*, Brand Wagon Section, 18 March 2008, p. 1.

³⁴⁹ “Chandra’s risky gamble”, *Business Standard*, Weekend Edition, 22/23 September 2007, p.I.

³⁵⁰ This form of gambling was prohibited by the Anti-gambling Act of 1886. This led to prolonged litigation about that form of gambling.

most popular form of gambling are either traditional card games of different types, political betting, and betting on sports. Interestingly, in the case of sports, people can place the bets not only on cricket (which is the most popular form of betting) but also on tennis, hockey and as one person pointed out ‘any sport that they can watch on TV’³⁵¹. Bets are placed not just in the major cities (Megacities) but also in small towns of various states like Andhra Pradesh. The cricket match fixing scandal brought the gambling/betting market into limelight.

Betting on the political fortunes is especially popular during the election season. It has been reported that bets worth Rs.4000 crores were placed on the 2008 Gujarat elections³⁵². Playing cards, is more widespread and there are a number of instances where important members of the political class as well as businessmen have been caught in gambling dens. Some instances cited below are more instructive as to how widespread this market is³⁵³. A Vijayawada City Congress leader was arrested by the police when he was caught gambling in his house along with some real estate businessmen³⁵⁴.

A common form of gambling that the police try to crack down on is betting during cockfights in rural areas, especially during major festivals. This crackdown, at times brings with it comic bye-products. The police cracked down on cockfights in rural areas in the vicinity of Kakinada city during the festival of *Sankranthi* in January 2007³⁵⁵. However, most often the raids lead to seizure of cash and arrest of participants³⁵⁶, if not the organizers.

Advertising Market

The advertising market in India is among the fastest growing in the world. The industry has been estimated at Rs.16,000 crores per annum³⁵⁷ while other estimates place the industry size at nearly Rs.22000 crores³⁵⁸. The break up of the advertisement market is interesting. Currently nearly 91 per cent of the media budgets are spent on television and print, another 5 per cent is spent on outdoor advertisement and the balance 4 per cent is shared between internet, cinema and radio segments³⁵⁹. PwC has estimated that advertisement spending (calculated as a percentage of GDP) is one of the lowest in the world. While India spends about 0.34 per cent of GDP on advertisement, it is around 0.98

³⁵¹ The source is not being identified on request.

³⁵² “At odds: Majority of bookies say nay to Modi”, *The Economic Times*, 11 December 2007, p.1.

³⁵³ A small time Telugu film producer, Kishore Rathi and his brother were arrested in Hyderabad in 2007. The police raided his house after they were tipped off that bets had been placed to the tune of Rupees Four lakhs for the India-Pakistan cricket match at Gwalior. “Betting racket busted; film producer arrested”, *Time of India*, Hyderabad Edition, 17 November 2007, p.3.

³⁵⁴ *Eenadu*, Vijayawada City edition, 11 November 2007, p.5.

³⁵⁵ While most of the participants escaped, the police ‘seized’ 220 cocks and ‘arrested’ them and when the police tried to feed them the cock ‘refused’ to eat the food offered by the police, *Andhra Jyothi*, 19 January 2007, p.3.

³⁵⁶ *Andhra Jyothi*, 3 May 2007, p.2.

³⁵⁷ <http://www.livemint.com/2008/02/18001402/Onestop-shops-prop-ad-industr.html> (website last visited 19 February 2008).

³⁵⁸ “IPL may give a Rs 600 cr boost to advertising”, *Business Standard*, 20 February 2008, p.4.

³⁵⁹ “Regional cinema should monetize fragmented and localised cultures”, Assocham Advertisement, *Businessline*, 21 December 2007, p.5.

per cent in other developed and developing countries. The potential is considered to be huge even if India were to reach the global average³⁶⁰.

GroupM (a division of WPP, the global agency), points out the media advertisement market is expected to grow at average of 20% over the next one year.

Growth of Advertisement Market in India (In Rs.Cr. Percentage of Growth in Brackets).

Media Type	2004	2005	2006	2007	2008 (estimated)
Newspapers	5,554	6,651	7,856	9,290	10,962
Magazines	502	552	629	705	789
TV	4,528	5,185	6,051	7,110	8,354
Cinema	-	45	56	75	98
Radio	240	300	399	590	885
Internet	75	120	204	390	624
Outdoor	875	995	1,165	1,398	1,698
Retail Media	-	-	150	225	350
Total	11,774	13,848	16,510	19,782	23,760

Source: *This Year, Next Year – India Media Forecasts*, April 2008, p.4.

The mobile advertising (m-ads) market in India is one of the fastest growing markets in the advertising sector. It includes in its scope campaigns like banners and contextual advertising on mobile Internet or WAP, using video games to advertise a product, polling and contests among others. In December 2007, it was estimated at Rs.50 crores and expected to rise to about Rs.200 crores in 2008³⁶¹. India accounts for barely one per cent of the global mobile advertisement market which is expected to reach US\$11 billion by 2009. The growing number of GPRS enabled handsets is expected to aid the growth of this market. Currently it is estimated that there are 15 million GPRS enabled handsets in India³⁶².

In contrast the Internet online advertising market in 2007 was stated to be Rs.450 crores in 2007 and is expected to touch Rs.2,250 crores by 2009. Some estimates claim that it is growing at more than 100 percent³⁶³. Other estimates claim that the advertising spend on the Internet is set to increase from about US\$40 million in 2006 to about US \$575 million in 2011, while the total advertising spend would increase from US\$3,548 million in 2006 to US\$8,121 million in 2011³⁶⁴. By then the online advertisement market estimated to account for 6.8 per cent of the entire advertising market³⁶⁵. The advertisement market in the television segment is worth about Rs.7,000 crores³⁶⁶ (a little less than US\$2 billion). The size of the Indian online advertising market is tiny when

³⁶⁰ <http://www.pwc.com/extweb/ncpressrelease.nsf/docid/9CD6AB6D0EA10A91CA257181003C2E7E>.

See also *The Indian Entertainment and Media Industry: Unravelling the Potential*, FICCI-Pricewaterhousecoopers Frames 2006, p.8.

³⁶¹ "M-ads are coming of Age", *Business Today*, 16 December 2007, p.30.

³⁶² "M-ads are coming of Age", *Business Today*, 16 December 2007, p.30.

³⁶³ <http://www.livemint.com/2008/01/31115458/Web-Exclusive--8216Online.html>

³⁶⁴ "Is search hurting Rediff", *Business Today*, 2 December 2007, p.56.

³⁶⁵ "Digital Deals", *Business Today*, 16 December 2007, p.55.

³⁶⁶ "Big spenders drop ads on TV channels", *Business Standard*, 16 October 2007, p.1.

compared to the US market size. The US online advertising market is estimated at around US\$22 billion³⁶⁷. The online advertising is expected to reach US\$80 billion in three years³⁶⁸.

The advertising market has seen a number of new trends that are trying to take advantage of the economic boom and increased consumption. BPCL and Future Group have announced that they would establish 65-inch TV screens in BPCL outlets, which will be managed by Future Group, which will provide the content, advertisements as well as manage the network. BPCL will be given a percentage of the revenues³⁶⁹.

A new trend in the advertisement market has been the start of video game advertisements. A number of brands have been advertising in video games and online gaming portals that have large scale participation. While the size of this advertisement market is difficult to estimate in India, in the USA it is stated to be one of the fastest segments of the advertisement market. In USA, this segment is growing at a rate of 23 percent annually and is expected to touch US\$2 billion by 2011³⁷⁰.

Cricket has been one of the major attractions for advertisers, especially those advertising over the medium of television. Cricket is expected to corner about 15-20 percent of the total advertising that occurs across television against the 7 percent share in 2007 (when India performed disastrously in the one day world cup). This growth has largely been due to the rise of the Twenty20 format, especially through the Indian Premier League (IPL). The international version of IPL matches to be held in December 2008 are expected to attract about 10 percent spend of the total advertising money to be spent. This is expected to increase in 2009 as there are nearly 175 days of cricket scheduled³⁷¹.

Out of Home Advertising Market

The out of home (OOH) advertisement market has drawn the attention of major industry players with Reliance ADAG foraying into the segment, through its Big Street. Estimates of the size and growth of the segment vary. It is estimated in the region of Rs. 1400 crore to Rs.1900 crores with an annual growth rate of 25-30 percent³⁷². GroupM claims that the OOH market will touch Rs.1700 crores in 2008³⁷³. The major factors contributing to the growth of this segment include intense competition between various players in the telecom, media, entertainment, retail, real estate and financial services amongst others. The increased importance given by various companies to build their businesses and brands has led to the increased emphasis on this segment, which was largely dominated by localised unorganised players. As municipal corporations find it be

³⁶⁷ <http://www.livemint.com/2008/01/31115458/Web-Exclusive--8216Online.html>

³⁶⁸ <http://www.marketwatch.com/news/story/microsoft-bids-45-bln-buy/story.aspx?guid=%7B035B5DA4%2D6DDD%2D44A9%2D95D6%2DEFF58F6EB04%7D>

³⁶⁹ "BPCL, Future Group tie up to provide TV screens at Petrol Stations", *Business Standard*, 8 February 2008, p.4.

³⁷⁰ "Games brands play", *Business Standard*, 19 February 2008, p.12.

³⁷¹ "Cricket pads up for big hit on ad pitch", *Business Standard*, 15 September 2008, p. 4.

³⁷² "OOH La La", *The Strategist, Business Standard*, 9 September 2008, p.1.

³⁷³ *This Year, Next Year – India Media Forecasts*, April 2008, p.16.

an important source of revenues. Interestingly, GroupM claims that the OOH market is skewed towards the top 5 metros. However, a number of cities including small towns are attempting to use this avenue to raise revenue. The smaller towns are willing to grant contracts ranging from 5 to 15 years in order to enable the investors to recover their investments.

The segment has seen the entry of large players, including foreign players. The two major players include Reliance ADAG's Big Street and Times Out of Home outdoor media company that is foraying into the business through its listed Entertainment Network India Limited. Times OOH won the rights to the Mumbai and Delhi airports for a sum of Rs. 300 crores. The foreign players include Stroeer, ETA Star Holdings and JC Decaux. The foreign players are increasingly bidding for space along the major highways. The business dynamics of the segment need to be followed closely as OOH is essentially a business where the lifecycle is nearly 120 days (when the advertiser pays the OOH) while the OOH has to pay the corporations large amounts of money in advance.

Art Market in India

The Economic boom in India has had a positive effect on the art market in India, which has gained importance and visibility in the past five years. The Art business in India is estimated to be growing at 35 percent annually³⁷⁴. The global art business I estimated to be growing at 25 percent annually³⁷⁵. Though there are no accurate figures about the size of the art market, the art auction market in India is estimated at Rs.500 crores³⁷⁶ while the total market may be worth about US\$250 million (or about Rs.1000 crores)³⁷⁷. Other estimates point out that the Indian art market is a miniscule one percent of the global market. The global art market is estimated at US\$50 billion, while the Indian art market is estimated at US\$400-500 million³⁷⁸. The business hopes to grow to about 6 percent of the total world market in the next few years. The fact that the estimates vary to such a large extent indicate the disorganised nature of the business. The art business has been attempting to increase its market by attempting to go beyond auction of paintings. A number of auction houses believe that the business can grow only when niche areas are developed. An area of emphasis in future is stated to Indian film memorabilia³⁷⁹.

The two main companies credited with creating and expanding this market are Osian and Saffronart. The number of Indian artists who command a price of Rs. One Crore per painting (approximately US\$250,000) is expected to increase to 25 in the next 2-3 years³⁸⁰. This is not claim that there was no interest in art in India. The interest in the art market in India has become more 'mainstream'. The Indian Fine Art Fund (probably the first of its kind for India) that invested exclusively in Indian art was established about

³⁷⁴ <http://www.thehindubusinessline.com/2006/06/02/stories/2006060204361400.htm> [last visited 12 February 2008]

³⁷⁵ "Muse Fund", *The Financial Express*, Fe Investor Section, 24 February 2008, p.15.

³⁷⁶ "The fall and rise of the art mart", *Business Standard Weekend*, 26/27 January 2008, p.V.

³⁷⁷ http://ibef.org/download/Art_Attack.pdf (Last Visited 12 February 2008).

³⁷⁸ "It's an auction-packed season", *The Financial Express*, 24 February 2008, p.11.

³⁷⁹ "It's an auction packed season", *The Financial Express*, 24 February 2008, p.11.

³⁸⁰ "Indian artists cross Rs.1 crore barrier", *The Economic Times*, 19 February 2007, p.10.

five years ago by The Fine Art Fund Group, UK. The fund claims that till date about 20 to 30 families have shown strong interest in investing in the fund³⁸¹. The fund claims that it would like to maintain exclusivity and would not like to deal with the retail segment³⁸². There has been an increased interest in art as it has been seen as an ‘alternative asset class’ and a portfolio diversification for the extremely wealthy. Increasingly art has become an asset class that has drawn the interest of not merely the very rich but also the high networth investors.

An art investor (or fund) earns income from two main streams. Buying and selling art for a profit and two by loaning their art pieces to museums and exhibitions for a fee. In western countries a number of pension funds too have invested in art funds. It is commonly accepted that the investor in art differs from those in other assets. It has been pointed out that people investing in Indian art could be anyone from a wealthy NRI to a hedge fund manager from New York or a private banking client of major European banks³⁸³. Most of the demand in the art market centres on contemporary and modern Indian art. These art categories are considered to be ‘undervalued’ compared to other areas of the art market³⁸⁴. Another reason for the increased interest in Indian could be because it is considered to be cheap when compared to western or even Chinese art³⁸⁵.

In India there are a number of people who offer to manage such funds. The minimum investment is Rs.25 lakhs and this could easily exceed to a couple of crores. Substantial amount of money has been raised to invest in art in India. Edelweiss Capital raised two funds Yatra I (size of Rs.12 Crore in 2005) and Yatra II (size of Rs.22 in 2006). Osian launched an art fund in 2006 and collected more than Rs.100 crores wherein the minimum investment was Rs.10 lakhs³⁸⁶. Kotak Mahindra raised Rs.25 crores in its art fund India Art Fund. Religare (the financial broking arm owned by Ranbaxy) raised Rs.20 crores. ICICI too raised US\$25 million from investors in the Middle East. Copal Art is in the process of raising Rs. 150 crores³⁸⁷ it plans to raise a further Rs.1000 crores a year after that³⁸⁸. Apart from funds managing art, there are a number of wealth management companies that provide advisory services to high networth investors interested in investing in art. The art funds have a lock-in period of three years for investments, meaning that investment cannot be withdrawn for a period of three years.

³⁸¹ “We will buy Indian art worldwide”, *Business Standard*, 31 January 2008, p.14.

³⁸² “We will buy Indian art worldwide”, *Business Standard*, 31 January 2008, p.14.

³⁸³ Philip Hoffman, founder of The Fine Art Fund in “Chinese art is priced higher than Indian”, *The Time of India*, 6 February 2008, p.16.

³⁸⁴ Philip Hoffman, founder of The Fine Art Fund in “Chinese art is priced higher than Indian”, *The Time of India*, 6 February 2008, p.16.

³⁸⁵ Rajiv Chaudri, an NRI and a founder of Digital Century Capital, a technology hedge fund based in New York who has been an active buyer of Indian art in International auctions. “Indian artists donot have to starve anymore”, *Business Line*, 18 March 2007, p.12.

³⁸⁶ <http://www.thehindubusinessline.com/2006/06/02/stories/2006060204361400.htm> (last visited 12 February 2008). The fund is stated to have returned about 27 percent after tax to its 656 unit holders (http://ibef.org/download/Art_Attack.pdf)

³⁸⁷ “Art gets smart for wealth advisors”, *The Economic Times*, 4 February 2008, p.20.

³⁸⁸ “Muse Fund”, *The Financial Express*, Fe Investor Section, 24 February 2008, p.15.

There are a number of companies that are in the art business, none of them listed on the stock exchanges. The largest player in the art business is Osian, promoted by Connoisseurs of Art Private Limited, based in Mumbai. Though details about its capital base are not known, it was valued at Rs.590 crores in May 2006, when it privately placed equity at Rs.1400 per share³⁸⁹. Its net profit for 2006-07 was Rs.18 crores while it expected to reach Rs.40 crores for 2007-08³⁹⁰. The buyers were a prominent investment banker and a buyer identified only as a 'member of a leading manufacturing company'³⁹¹. Among the corporate groups that have entered the art market include, Emami Limited, which has entered the field through the Emami Art Foundation, with a minimum corpus of Rs.30 crores³⁹². Another leading online art auctioneer, Saffronart, notched sales of Rs. 19 crores in 2007³⁹³.

The Art Mall in Delhi is yet another art auction-cum-exhibition player in the art business, established with an investment of about Rs.50 crores. They plan to promote young and unknown artists. The Art Mall will enable artists to hire the exhibition area, and will charge about 40 percent of the revenues for leasing its space. A large portion of their business arises from the fact that they plan to sell paintings to retail investors and in case an investor wants to sell the painting they are willing to buy it back at an added 10 percent additional valuation.

An interesting question one has to deal with when investing in art is the price discovery and valuation methodologies that exist in the business. The recent market turmoil has led to an attempt to market art as a new asset class that is less affected by a volatile stock market, for the patient investors³⁹⁴. This is in complete contrast to the general trend where art essentially thrives during times of economic affluence. The economist William Baumol once called forecasting art prices 'as floating crap game'³⁹⁵. It is for that reason that art owners claim that they prefer to forecast trends rather than prices. It would be more appropriate to claim that investing in the art market is more a bet on economic cycles and economic prosperity. The reasons for this are largely because of problems related to the lack of mechanisms price discovery, the lack of an equilibrium price that can draw in buyers and sellers, the largely subjective nature of valuing art, high transaction cost, the lack of a competitive market comprising of buyers and sellers and the opacity of the art market³⁹⁶. The lack of continuous data of transactions is yet another problem cited³⁹⁷. One important factor that is often not factored into the dynamics of investing in art is the transaction cost, which is very high and which could at times reach twenty percent. According to one estimate, a mere 0.5 per cent of new paintings are

³⁸⁹ "Osian's raises Rs.55 crores", *The Economic Times*, 15 January 2007, p.5.

³⁹⁰ "Osian's raises Rs.55 crores", *The Economic Times*, 15 January 2007, p.5.

³⁹¹ "Osian's raises Rs.55 crores", *The Economic Times*, 15 January 2007, p.5.

³⁹² "Emami forays into world of art", *The Economic Times*, 13 January 2007, p.16.

³⁹³ "Sold:Saffronart auction clocks Rs.19 cr in sales", *The Economic Times*, 19 March 2007, p.8.

³⁹⁴ "Art gets smart for wealth advisors", *The Economic Times*, 4 February 2008, p.20.

³⁹⁵ Baumol, William J (1986), "Unnatural Value: Or Art Investment as Floating Crap Game", *The American Economic Review*, 76(2), May 1986, pp.10-14.

³⁹⁶ Baumol, William J (1986), "Unnatural Value: Or Art Investment as Floating Crap Game", *The American Economic Review*, 76(2), May 1986, pp. 10-11.

³⁹⁷ Baumol, William J (1986), "Unnatural Value: Or Art Investment as Floating Crap Game", *The American Economic Review*, 76(2), May 1986, p.12.

worth anything at auction thirty years later³⁹⁸. An art company insider sounds more philosophic about the risk factors. He claims that ‘art is nothing but the knowledge of aesthetics and its history, if this is not totally absorbed, understood and acted upon, nothing is possible’³⁹⁹.

The art market is completely unregulated in India. However this is all set to change as the Securities and Exchange Board of India (SEBI), the securities regulator has recently stated that art funds are ‘collective investment schemes’ as defined under Section 11AA(2) of the SEBI Act, 1992. It has further demanded that these art funds either obtain a certificate of registration or they will have to face criminal action⁴⁰⁰. Some estimates place the amounts collected by art funds at about Rs.1000 crores⁴⁰¹.

Sports Market in India

Indian sports industry and market is considered to be quite small and is thought to be in a very nascent stage of development. The business of sport is expected to grow rapidly in 2008. The successes and valuation of various British and European football clubs seems to be driving this craze among the business houses. Arsenal was valued at about One billion pounds or about US\$2 billion⁴⁰². Investors snapped up British football clubs. Manchester United (the listed UK club) was valued at more than 800 million pounds or about US\$1.25 billion in early 2007⁴⁰³. The valuation of sports clubs, especially soccer clubs has more than doubled in 2007. In Europe the clubs earn money through sale of television broadcast rights⁴⁰⁴, sale of tickets, sale of memorabilia and sponsorships among others. Global broadcasters will pay the Premier League, the world's richest, a record 2.3 billion pounds (\$4.5 billion) over three seasons to screen games, 70 percent more than under the previous agreements⁴⁰⁵.

Sports advertising and marketing accounts for about 80-85 per cent of the Rs. 1200 crore sports advertising in India. Soccer is the second most popular sport after Cricket. The average rates for soccer are about Rs.5000 per 10 seconds⁴⁰⁶. A 10 second advertisement spot in a typical international series costs Rs.2.5-3.5 lakh⁴⁰⁷. In the case of the India-Pakistan T20 World Cup, advertisers had to pay about Rs.10 lakh per 10 seconds due to the huge popularity of the tournament. The BCCI was stated to have

³⁹⁸ http://www.newyorker.com/archive/2005/10/17/051017ta_talk_surowiecki (Last Visited: 31 January 2008).

³⁹⁹ Neville Tuli of Osians Connoisseurs of Art in *The Financial Express*, Fe Investor Section, 24 February 2008, p.15.

⁴⁰⁰ “Sebi brings art funds under its canvas”, *Business Standard*, 14 February 2008, p.1.

⁴⁰¹ “Sebi brings art funds under its canvas”, *Business Standard*, 14 February 2008, p.1.

⁴⁰² http://blogs.guardian.co.uk/sport/2007/09/18/the_rise_of_the_billionpound_f.html

⁴⁰³ <http://www.ft.com/cms/s/b491db92-1391-11dc-9866-000b5df10621.html> (Last Visited 13 February 2008).

⁴⁰⁴ The revenues earned by English Premiership by sale of its television broadcasting rights was 625 million pounds (\$1.2 billion). http://www.bloomberg.com/apps/news?pid=20601102&sid=aSHn_G2NHJUc&refer=uk (Last Visited 14 February 2008).

⁴⁰⁵ <http://www.bloomberg.com/apps/news?pid=20601102&sid=aNyHIBkfuZ1g&refer=uk> (last Visited 14 February 2008).

⁴⁰⁶ “Football is Grabbing Eyeballs and Ad Revenue”, *Business Today*, 9 September 2007, p.30.

⁴⁰⁷ *Business Today*, 9 September 2007, p.58.

earned about US\$300 million from the tournament, television channel ESPN earned Rs. 120 crore from that one tournament⁴⁰⁸. The fact that Cricket draws huge money can be seen by the advertising rates that one spell of success brings to a young cricketer. The recent success of Ishant Sharma in the third test between India and Australia in January 2008 enabled him to command advertising price of Rs.35-40 lakhs⁴⁰⁹.

Sports television viewership has been growing over the past few years. Some of the events in India find large scale viewership. The ICC world Twenty20 Championship final match between India and Pakistan was watched by an estimated to have had an audience of about 20 million worldwide. This large viewership placed the event at the tenth most watched sporting event in 2007⁴¹⁰.

The commoditisation of sport in India became all the more important with the recent auctioning of eight cricket teams by the India Premier League. Growing business interest can be gauged from the response to the establishment of the Indian Cricket League by the Zee group and the response of the Board of Control for Cricket in India (BCCI), which responded by establishing the Indian Premier League (IPL). Among the business houses that bid for cricket teams under the IPL auspices include Reliance Industries, Anil Ambani Group, GMR group, DLF and even Shah Rukh Khan owned Red Chillies (which entered into the fray with IPL Chairman, Lalit Modi⁴¹¹). ICL was stated to have placed the base price for the auction by demanding about US\$50 million for each of the eight teams that it plans to sell⁴¹². These rights to these teams are tradable. The lowest winning bid for a team was US\$67 million for the Jaipur team⁴¹³.

The auctions conducted on 24 January 2008 saw the Board of Control for Cricket in India raise nearly Rs.7000 crores⁴¹⁴ against the targeted Rs. 2400 crores. The winning bids were from RIL for the Mumbai team for Rs.448 crores (US\$111.9 million), UB Group for Bangalore team for Rs.446 crores (US\$111.6 million), Deccan Chronicle for the Hyderabad for Rs.428 crores (US\$107 million), India Cements, Chennai team for Rs.364 crores (US\$91 million), GMR Holding for the Delhi team for Rs.336 crores (US\$84 million), Preity Zinta, Ness Wadia, Mohit Burman and Karan Paul for Mohali team for Rs.304 crores (US\$76 million), Shah Rukh Khan, Juhi Chawla and Jay Mehta for the Kolkata team for Rs.300 crores (US\$75.09 million) and Emerging Media and Lachlan Murdoch for the Jaipur team for a consideration of Rs. 268 crores (US\$67 million)⁴¹⁵. The prize money for the championship will be US\$3 million, much larger

⁴⁰⁸ "Cricket Comes Roaring Back", *Business Today*, 21 October 2007, p.18.

⁴⁰⁹ "Just and over and Ishant becomes a big shot", *The Economic Times*, 23 January 2008, p.4.

⁴¹⁰ "Twenty20 Final among most watched TV sports in 2007", *Businessline*, 18 January 2008, p.5.

⁴¹¹ "SRK pads up for 5 IPL teams", *The Economic Times*, 23 January 2008, p.4.

⁴¹² "Big Game", *Business World*, 14 January 2008, p.58.

⁴¹³ "The Indian Premier League: Who Bagged What", *Business Standard*, 25 January 2008, p.1.

⁴¹⁴ This includes US\$724 million from franchise bids and the income from US\$1.75 billion from media rights. "IPL to be top cricket money spinner", *The Economic Times*, 25 January 2008, p.2.

⁴¹⁵ Figures compiled from "The Indian Premier League: Who Bagged What", *Business Standard*, 25 January 2008, p.1, "Mukesh, Mallya, SRK now IPL team owners", *The Financial Express*, 25 January 2008, p.1, "The Games Big boys play", Hyderabad Times Supplement, *The Times of India*, 27 January 2008, p.1.

than the US\$1 million prize money earned by the 2007 World Cup Winners⁴¹⁶. The sponsorship of the exclusive rights to the title of Indian Premier League earned the BCCI another Rs.200 crores for the next five years (annually Rs.40 crores)⁴¹⁷. The winning bid was placed by DLF Limited, the infrastructure and real estate company.

The large bids were attributed by industry circles as investments that are akin to investments that one makes in real estate. The opinion of one industry insider sums up the calculations behind this craze: “I look at it as a real estate investment. It seems a saleable commodity going by the enthusiasm of BCCI. And with the ICC backing it up so seriously, this new format will be a hit for the already cricket crazy audience of our country”⁴¹⁸. Interestingly it is widely believed that the successful bidders of the franchises will have to sustain losses of Rs.60 to 70 crores each year for at least three to four years⁴¹⁹. The profitability will accrue only after that and since the tenure of the franchise is 10 years, they can expect profits after that only. There are two major sources of revenue for the franchisees – the central and the local. The central sources of revenues will be shared with the BCCI and include the media rights and sponsorship⁴²⁰. The franchises are expected to keep 100 per cent of the local sources which include: gate revenues, franchisee title sponsorship, franchisee shirt sponsorship, local sponsorship, licensing programme, uniform merchandising, hospitality and premium seating, match-day promotions, and franchise media platforms⁴²¹. It has been estimated that in the initial years, the franchises will be heavily dependent on the revenues that they receive from BCCI (central sources of revenue). The franchises will get 80 percent of the revenues for the first five years and 60 percent for the next five years. The revenues will be split between the eight teams⁴²². But the fact that huge amounts of money have to be spent on venues as well as security and other logistics are bound to increase the cost.

The greatest beneficiary of the whole bidding process is bound to be a very large growth in the sport infrastructure controlled by corporations or a corporatisation of the sports infrastructure market. Apart from sports infrastructure different new and innovative revenue streams are bound to be opened in the quest for profitability in the aftermath of huge investments. IPL has since announced that it plans to auction players on live television with the successful bidders like Mukesh Ambani, Shah Rukh Khan, Vijay Mallya, Preity Zinta and other participating in it⁴²³. SET Max, the television channel owned by Sony Entertainment Limited is expected to telecast the auction live. SET Max was expected to increase its advertisement rates by about 50 per cent for a ten second slot during the telecast⁴²⁴.

⁴¹⁶ “Million Dollar Baby”, *The Times of India*, Hyderabad Times Section, 10 February 2008, p.1.

⁴¹⁷ “DLF bags IPL title sponsorship rights for 5 years”, *The Financial Express*, Corporate & Markets Section, P.I.

⁴¹⁸ Shailendra Singh, Percept Managing Director quoted in “The Games Big boys play”, Hyderabad Times Supplement, *The Times of India*, 27 January 2008, p.1.

⁴¹⁹ “The Games Big boys play”, Hyderabad Times Supplement, *The Times of India*, 27 January 2008, p.1.

⁴²⁰ “Shares of Spoils”, *Business Today*, 24 February 2008, p.118.

⁴²¹ “Everyone’s climbing aboard the IPL bandwagon”, *The Financial Express*, 23 February 2008, p.1.

⁴²² “Shares of Spoils”, *Business Today*, 24 February 2008, p.118.

⁴²³ “IPL to auction players live on TV”, *The Financial Express*, 26 January 2008, p.1.

⁴²⁴ “IPL to auction players live on TV”, *The Financial Express*, 26 January 2008, p.1.

Industry estimates that each team will spend substantial amounts on bidding for the players in the Twenty20 league. Each team owner was expected to spend a minimum of US\$3.3 million bidding for the players. The top three players, Sachin Tendulkar, Sourav Ganguly, Rahul Dravid and Yuvraj Singh were expected to command a price of Rs.2 crores to Rs.3 crores for just one session of 59 match days⁴²⁵. The least amount that some of the well known players are expected to command is about Rs.4 million. Overseas players are expected to cost Rs.10 million to Rs.15 million⁴²⁶. Apart from this expenditure IPL (along with the teams) may spend about Rs.600 crores on advertising in the first season⁴²⁷. Each team is expected to spend about Rs.20-25 crores on marketing and promotion⁴²⁸.

However the bidding for stars in the auction that was held on 20 February 2008 has only underscored the ludicrous mania that surrounds the sport. The players for each of the eight teams cost more than US\$40 million (more than Rs.160 crores). The money spent on bidding for various teams include about US\$4.835 million for the Bangalore team, Hyderabad US\$5.885 million, Chennai US\$5.925 million, Mumbai US\$4.971 million, Jaipur US\$2.925 million, Kolkata US\$5.947, Mohali US\$4.758 million and Delhi US\$5.658 million⁴²⁹. The highest bid for a player was for Mahindra Singh Dhoni at US\$1.5 million (or about Rs.6 crores). It was estimated that at the cost of bidding meant that the 19 year old Ishant Sharma would earn Rs.100,000 per delivery.

This large scale expenditure on the teams clearly shows that the corporate hospitality in the arena of sports is increasingly gaining centrality as a way business is conducted. Special privileges that spring from control of premier clubs and players in a country that is cricket crazy would obviously provide a lot of leverage to the business groups who control most of these clubs.

It has been pointed out that if the BCCI were a corporate entity, it would have been among the top 170 companies in India in terms of revenues in 2007⁴³⁰. In contrast, its revenues were only about Rs.430 crores in 2005-06. The growth in revenues was largely due to the broadcast rights for the 20:20 tournament and by licensing franchises for the IPL teams, which account for R.6996 crores of revenues that it garnered⁴³¹. An interesting aspect of the franchise bids that has not been given much importance is the fact that some of the winning bids were from some of the office bearers of the BCCI. India Cements is owned by N.Srinivasan, who is incumbent treasurer of BCCI, while it was reported in the press that Shah Rukh Khan's Red Chillies had gone into the bid with the Vice President of the BCCI, Lalit Modi.

⁴²⁵ "Indian Premier League cricketers to net high scoring fees", *Business Standard*, 31 January 2008, p.1.

⁴²⁶ "Indian Premier League cricketers to net high scoring fees", *Business Standard*, 31 January 2008, p.1.

⁴²⁷ "IPL may give a Rs 600 cr boost to advertising", *Business Standard*, 20 February 2008, p.4.

⁴²⁸ "BCCI Inc' among India's top 200 firms", *Business Standard*, 30 January 2008, p.1.

⁴²⁹ "Auction-packed thriller", *The Times of India*, 21 February 2008, p.21.

⁴³⁰ "BCCI Inc' among India's top 200 firms", *Business Standard*, 30 January 2008, p.1.

⁴³¹ "BCCI Inc' among India's top 200 firms", *Business Standard*, 30 January 2008, p.1.

It is interesting to note that in India, other sports too have seen an increased interest among business houses. Business groups have also started sponsoring football events, players and clubs. This corporate interest has led to a large increase in the salaries of football players. A number of players earn in the range of Rs.20-30 lakhs per years against the paltry Rs.10,000 a month a couple of years ago⁴³².

Horse Racing

Horse racing is yet another sporting event that has grown substantially over the last one decade. The participation that it draws is far greater than football. It has been pointed out that the betting that surrounds horse racing in Mumbai and Bangalore are to the tune of Rs.150 crores and Rs. 600 crores respectively per season. The industry has consistently demand that the government reduce taxes, which vary from 5 percent in Karnataka to about 30 percent in other states. The major challenges that affect the sport (horse racing in India) include the poor conditions for the horses used in the racing and the involvement of bookies. Like in many other sectors there is a high level of tax evasion, especially due to the involvement of bookies. It is estimated that only 10 per cent of the total revenue is ultimately accounted for with the government⁴³³.

The convergence of the entertainment sector along with the film business has been a very recent trend. The intense competition has meant that a number of companies have found the necessity to not only reformulate their business format to remain competitive and profitable. The leisure-cum-entertainment, 'Sports Bar Express Zones' in India is one recent innovative trend. The first such zone is to be established by the retail major, Galaxy Entertainment Corporation Limited (part of the Future Group). These zone will include sports as well as other forms of entertainment include films. This will enable families to spend their leisure time on different sports such as bowling, online and console games, pool and dart boards among others⁴³⁴. It is hoped that these entertainment centres will increase the number of footfalls and subsequently greater spending by families.

While the sports market in India has largely been dominated by Cricket, a number of Indian entrepreneurs are attempting to expand into the sports market beyond the boundaries of India. Anil Ambani is one such entrepreneur attempting to purchase sports clubs in Europe. Recent reports in UK claim that he has expressed interest in buying the English Premier League football club, Everton. The report claimed that the present owner, Mike Ashley had offered to sell his stake for a 260 million pounds⁴³⁵.

Entertainment Companies in India

There are two major entertainment groups in India. Reliance Media and Entertainment Private Limited and the Zee Group. This is not to claim that the entertainment business in India is dominated by these two groups. The entertainment

⁴³² "Football fast catching fancy of India Inc", *The Economic Times*, 19 January 2008, p.4.

⁴³³ "Its more than just horse racing", *Business Standard*, 11 February 2008, p.14.

⁴³⁴ "Now, new 'hang out zones' as part of family entertainment", *The Financial Express*, Corporates & Markets Section, 19 February 2008, p.1.

⁴³⁵ "Anil Ambani eyeing premier league team Everton: Report", *The Economic Times*, 15 September 2008, p.4.

business is much too big and too diverse and fragmented to function as oligopolies. Reliance Media & Entertainment Private Limited is one of the largest organized players in the entertainment sector, across different platforms. It is a part of the Anil Dhirubhai Ambani group (ADAG). The company claims that its 'core focus is to build significant presence for Reliance in the Entertainment eco-system: across content and distribution platforms' (Company Website)⁴³⁶. Anil Ambani group strategy rests on the exhibition and distribution of cinema being a part of Adlabs while movie production, music, home video, studios and animation under the Reliance Big Entertainment. Reliance Entertainment is not a listed entity, but parts of the entertainment business are listed by virtue of their being subsidiaries of Adlabs Limited. The company has been valued at US \$3 billion (approximately Rs.12,000 crores) when financier and investor bought a 3 percent equity stake for US\$100 million⁴³⁷.

The key content initiative are across Movies, Music, Sports, Gaming, Internet & mobile portals, leading to direct opportunities in delivery across the emerging digital distribution platforms: digital cinema, IPTV, DTH and Mobile TV. In August 2007, the company announced plans to open home video rental stores. The investment would be to the tune of about US\$100 million spread over five years. The business would be centered around the portal www.bigflicks.com and was largely geared towards the NRI market. The portal was expected to start with about 200 titles in various languages including English, Hindi, Tamil, Telugu and Punjabi. The number of titles were expected to grow to about 1000 over the a three month period and to reach about 2000 titles within twelve months of its launch. The cost of download per movie would vary from US\$2 to about US\$15. The Company announced plans to invest about US\$100 million dollars, spread over three years from 2006, in online gaming portals. Though Adlabs Films Limited (which it acquired in 2005, it has expanded into film processing, production, exhibition & digital cinema and radio (big92.7 fm).

Zee Group is the other large organized player in the market. It includes the companies that function as subsidiaries of either Essel or Zee banner. There are a number of media companies that are listed on the Indian stock exchanges. These listed companies function under different formats (or parts of the entertainment business).

UTV Software Communications Limited has emerged as an aggressive player in the entertainment business. Initially a television software content producer, the past two years have seen the company emerge into an integrated entertainment company with a footprint in television production, film production, film distribution, broadcasting, animation and gaming. As already pointed out, recently Walt Disney Company acquired a major stake in the company. The money that it receives through preferential allotment to Walt Disney will enable it to launch five television channels across genres like business news, movies, youth and general entertainment. The company claims that it would like to produce 24-30 movies over the next three years at an estimated cost of Rs.

⁴³⁶ <http://www.relianceadagroup.com/adportal/ADA/aboutus/companies.html>

⁴³⁷ "Soros bites into Reliance Entertainment", *Business Standard*, 8 February 2008, p.4.

750 crores. The company expects its operating margin to increase from 18.5 percent in financial year 2007 to about 20 percent in financial year 2009⁴³⁸.

The following table provides a snapshot of some of the media companies listed on the stock exchanges in India.

Name of Company	Total Sales	Net Profit	Market Cap* (in Crores)	Market Cap 18 th March 08 (in Crores)
Adlabs Films	381.14	81.45	3984	2645
Balaji Telefilms	326.07	84.79	1400	1279
GV Films	44.26	12.73	242	180
Inox Lesiure	212.07	30.20	767	573
Mukta Arts	99.05	17.86	307	228
Pyramid Saimira	570.09	66.80	959	850
PVR	230.46	20.56	644	437
Radaan Films	34.46	1.22	41	29
Saregama	126.23	10.67	264	184
Shree Ashtavinayak	78.5	15.40	356	349
UTV Software	340.06	62.63	1881	1904
Zee Entertainment	1692.8	361.72	10354	10261

Figures are in Rs.Crores unless stated otherwise. Sales and Profit statistics combined from www.bseindia.com. Sales for the trailing 12 months ended December 2007.

⁴³⁸ "Cash and Tango", *Business Standard*, The Smart Investor, 25 February 2008, p.5.

* Market Capitalisation as on 27 February 2008 (Source: *The Economic Times*)

An Overview of the Emerging Trends in the Culture Industry

At the outset it is imperative to point out that the growth of the culture industry in India has been due to a confluence of factors. Most of the factors cited in the above pages include, the boom in the economy and the attendant affluence, the growing culture of consumption and shopping and the increased entry of organised corporate players who are able to mobilise greater resources (mostly capital) among others. One factor that has often been missed out is that the boom in the economy has also been aided by the substantial capital inflows from émigrés. Inward remittances totalled around US\$11 billion in 2001-02, while it was US\$27.2 billion in 2006-07 and is expected to grow to US\$30 billion in 2008-09. It has been pointed out that 1 out of every 10 dollars remitted is into India⁴³⁹. About 44 percent of the remittances are from North America, while it is 24 percent from the Gulf while European countries contribute about 13 percent⁴⁴⁰. Apart from this flow of money from non-resident Indians, the flow of capital from major western studios has played an important role in the growth of Indian entertainment companies.

An interesting trend that seems to have gain credence in the distribution and production part of the film industry has been to de-risk their business profile by purchasing rights to a number of films. Through this it is hoped that the companies can withstand losses if a few films do not succeed at the box office. The fact that cinema production has now found alternative sources of revenue rather than merely box office ticket sales with the rise of promotions and in the form of in-movie advertising has been a boon to producers and production houses. The growing corporatisation has provided an easy access to institutional finance. The growing stock market centric nature of the movie industry along with the entry of Hollywood studios provides an impact insight into the future of the culture industry in India. A stock market listing would also mean that there will be a larger emphasis on mergers and acquisitions in the industry in the foreseeable future. However, a dependence on the stock market has many pitfalls. The recent meltdown in the stock market has meant a cancellation or postponement of fund raising plans till market conditions improve. The rise of corporatisation and the interest shown by various foreign studios in the Indian entertainment industry has also led to a rise in the remuneration of the stars. Even regional stars are stated to be commanding extremely high remuneration fees.

The growing convergence of different forms of entertainment due to the growth of technology is only gradually being felt. The growing convergence of technology with the culture would pose and raise new issues and questions in India. While piracy would be one undoubtedly be one important issue that the industry would have to grapple with, the other important issue would be the navigation of content that would become qualitatively different with technology. Exclusivity and distribution of media assets would not continue to remain as they were in the past few decades. The importance of technology grows simply because it enables producers of content to distribute their content beyond the traditional networks that were predominant in the past.

⁴³⁹ “India cashes in on GenNext émigrés”, *The Financial Express*, 8 February 2008, p.1.

⁴⁴⁰ “India cashes in on GenNext émigrés”, *The Financial Express*, 8 February 2008, p.1.

Greater global integration has also increased the attempts by Indian companies to expand their global footprint. Media companies are no different. It is imperative to note that it is merely Indian content that is expanding its presence globally. Indian companies are increasingly on the look out to acquire companies in different segments of the culture industry. These acquisitions go beyond the sphere of content and distribution. Anil Dhirubhai Ambani Group (ADAG) recently announced the acquisition of the digital images business of the US-based DTS. The acquisition of DTS Digital Images, popularly referred to as Lowry Digital Images by Reliance Big Entertainment enables the company to gain access to Hollywood studios for their content and post-production services. It will enable the Reliance Big Entertainment, the flagship entertainment company, to provide picture quality improvement services for movies, television and video content⁴⁴¹.

But the fact remains that despite the rise of television, DVD format as well as internet, cinema in movie theatres will not disappear because a large number of people would still like to enjoy the out-of-home-entertainment with family and friends. The rise and growth of television in India may well be the most important trend in the next two decades. The rise of television may also mean that there will be premium for good ideas. The experimentation with new forms of programming in television is bound to be accentuated. The increased number of shows that solicit user participation is but one important new trend that is bound to grow in the future. The Indianisation and success of various television shows like *Kaun Banega Corepati* (a modified version of *Who Wants to be a Millionaire*) and *Indian Idol* (a modified version of *American Idol*) is but one new trend.

While the industry has till date seen the influence of story telling on the script, the need to produce successful films has also meant that films will attempt to draw in suggestions from the public as to what type story line the film should take. An instructive case is that of the Hollywood film *Snakes on the Plane*. The film was originally slated to be a horror film, but viral marketing on the internet led to studio using its customers to change the storyline. While this trend has been largely unknown but the occasional changes in the climax, the trend is bound to become more widely used in the future.

The economic boom (if it continues for a longer period of time) will invariably lead to the ability of Asian (including Indians) larger consumers than they have been in the past. This has the ability to tilt the balance of in favour of Asia. Till date Hollywood studios setting up shop and producing movies in India has already been noted in this report, a new trend that has not yet started is the high probability of Asian companies jointly producing films for their markets. The fact that there are a number of cultural similarities at a broader level (as compared to the west), this trend is bound to be accentuated in the near future. The fact that in the recent times, the entertainment industry has drawn investors from different geographies only makes this not only probable but also highly likely. It is pertinent to note that the flow of capital only eases other process of change.

⁴⁴¹ “ADAG acquires US digital company”, *Business Standard*, 10 April 2008, p.4.

An important trend that has often been missed is that the speed of change is bound to hasten the nature, dynamics, as well the business practices in the entertainment businesses in India. Globalisation and rapid technological changes have only hastened the need to adapt and therefore change as per the changing environment. Thus any observer of the industry should be prepared to see phenomenal qualitative and quantitative changes in the entertainment business. The growing global presence of the Indian culture industry has largely been due to the un-satiated demand of the Indian diaspora for Indian entertainment industry.

However, there have been attempts by Indian companies to access content as well as expand the scope of their activities in countries where there is no large presence of the Indian diaspora. Pyramid Saimira Theatre Limited has recently signed an agreement with the Ministry of Culture, Government of the Peoples Republic of China aimed at promoting cooperation between India and China. The company will foray into China's culture industry. Under the agreement the company can operate theatres, distribute films and engage in other entertainment, arts and cultural activities in China⁴⁴².

Greater competition is also bound to increase attempts by companies to undertake innovative plans in order to market their products. Moser Baer, the company that introduced low priced VCDs and DVDs into the market, has now come up with a innovative method to market VCDs and DVDs. Borrowing a leaf out of vegetable and ice-cream vendors, it plans to sell VCDs and DVDs on cycle carts. It has undertaken a test marketing drive using 100 carts in Kolkata and plans to extend this drive to other major cities in the due course⁴⁴³. The company plans to enlarge the number of carts to 2500 in the next one year. Each cart costs Rs.20000-25,000 and can carry about 35 titles with five CDs of each title. The company sells about 15 CDs per cart per day and would break-even if it is able to sell about 20 CDs per cart per day⁴⁴⁴. The long-term results of the attempt to make VCDs and DVDs an item of mass consumption by making them available at different points in a person's everyday life will become available only in the next few years.

The culture industry (all segments), especially the cinema segment faces a number of challenges created by this economic boom that has increased purchasing power of its largest consumers, and the attendant growth rates. The easy availability of capital and the rise of the electronic media have helped its cause. But maintaining these high growth rates would be the single biggest challenges. The importance of this has only increased with each passing day that has seen a phenomenal increase in the salary of stars while leaving the industry gasping for new stories that would attract audiences. This has only increased the need for the industry to find not only new concepts but also evolve new business models proactively. The industry also needs to keep in mind that the rise of games and sports (especially IPL and ICL) are bound to challenge the hold of the cinema and television as the predominant leisure and family entertainment forms. Another challenge to maintaining the present 16-20 per cent compounded annual growth rate is

⁴⁴² "Pyramid in pact with China music board", *Business Standard*, 20 March 2008, p.6.

⁴⁴³ "Vegetables, ice-creams and now DVDs on carts", *Business Standard*, 9 March 2008, p.12.

⁴⁴⁴ "Vegetables, ice-creams and now DVDs on carts", *Business Standard*, 9 March 2008, p.12.

the global economic slowdown that is bound to tamper the enthusiasm of the non-resident Indian market, which is largely dependent on the Indian Diaspora – a segment that earns its livelihood from the service sector, a sector that is bound to feel the effect of an economic slowdown.

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