Confederation of Indian Industry

India Entertainment and Media Outlook 2012

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Contents

Foreword

Welcome to the India Entertainment and Media Outlook 2012. We bring you the key trends and developments across nine E&M industry segments in the country.

The new revised and crisp format promises to make your reading more focussed and insightful. Our new segment on internet access includes both wired and mobile internet connections and probes why internet access is a key enabler for the delivery of digital content as a significant growth driver for the E&M industry. This year the report also focuses on identifying game-changing initiatives which have the potential to take the industry to a new growth trajectory in the coming years.

India is among the top 15 countries in the E&M industry by size, and is projected to be the fastest growing among even them, over the next five years. While the Indian E&M sector is projected to grow at a rapid rate, the overall potential is significantly higher, given the existing under-penetration in advertising and consumer spends. Conceptualisation and implementation of game-changing initiatives, supported by robust infrastructure and policy frameworks, will be critical for achieving the vision of a '100 billion USD' industry.

CII and PwC are thankful to industry stakeholders for sharing their insights and viewpoints, which helped us put this report together. We also appreciate your feedback and request you to continue to tell us what can make the publication more useful to you.

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01 Industry game-changers

The Indian E&M industry, with revenues of about 805 billion INR (17.2 billion USD) in 2011, is set to grow robustly over the next few years on the back of steady macro-economic growth, rising spending power and positive demographic indicators. The industry revenues are expected to reach 1,764 billion INR (37.6 billion USD) by 2016, with a CAGR of about 17%[1] from 2012 to 2016.

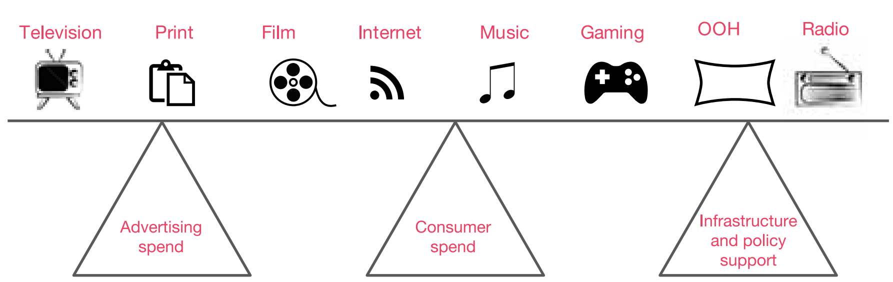
Currently, India is only the 14th largest E&M market in the world with industry revenues contributing about 1% of its GDP. On the other hand, China is already the third-largest market in the world and is likely to surpass Japan over the next decade to become the second-largest market worldwide, after the US.

Sector revenues in selected countries, 2011

S. no	Country	E&M market (billion USD), 2011	GDP (billion USD), 2011	Market as percentage of GDP	2011-2016 CAGR (E&M market)	E&M market (billion USD), 2016E
1	US	363	15,094	2.4%	6%	490
2	Japan	173	5,867	2.9%	3%	203
3	China	89	7,318	1.2%	14%	168
4	Germany	72	3,571	2.0%	3%	84
5	UK	69	2,432	2.8%	4%	83
6	France	61	2,773	2.2%	4%	75
7	Italy	37	2,195	1.7%	4%	46
8	Canada	35	1,736	2.0%	8%	51
9	Brazil	35	2,477	1.4%	11%	59
10	South Korea	34	1,116	3.1%	5%	43
11	Australia	31	1,372	2.3%	6%	42
12	Spain	22	1,491	1.5%	4%	27
13	Russia	20	1,858	1.1%	12%	35
14	India	17	1,848	0.9%	17%	38
15	Netherlands	17	836	2.0%	4%	21

However, industry stakeholders understand and acknowledge that India has the potential to achieve path-breaking growth over the next few years; possibly to reach a size of 100 billion USD. This will require the entire ecosystem to collaborate, conceptualise and execute game-changing initiatives to drive a multi-fold increase in industry revenues. These initiatives should be primarily focussed around the three key pillars of the sector – advertising spend, consumer spend, and infrastructure and policy support.

Key pillars for driving growth



Vision of a 100 billion USD entertainment and media industry

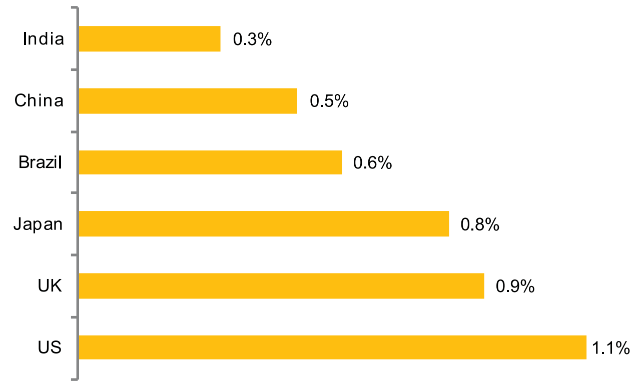
Attaining this target will not only benefit industry participants themselves but also create other spill-over benefits in terms of large-scale employment generation (skilled and un-skilled jobs from content production to distribution to customer service), significant contribution to the national exchequer and progress in achieving India's goal to be a knowledge-driven economy.

1 Internet access (wired and mobile) included as part of the E&M industry. Excluding internet access, the CAGR for the Indian E&M industry till 2016, is projected at 13%.

Potential game-changers: Advertising spend

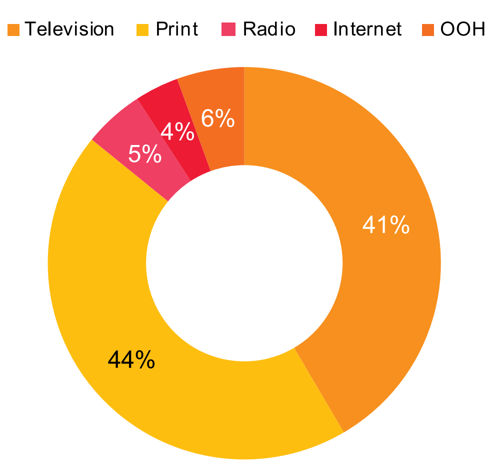
Advertising spend in the industry was estimated at 279 billion INR in 2011, contributing approximately 35% of total E&M revenues. However, advertising spend as a percentage of GDP is quite low when compared with other major economies, indicating a high potential for growth. For instance, these proportions are 1.1% and 0.9% in the US and UK respectively, vis-a-vis 0.3% in India. Even in China and Brazil, advertising spend as a percentage of GDP is higher than India, at 0.5% and 0.6%, respectively.

Global comparison: Advertising as % of GDP, 2011[2]



Television and print dominate the advertising segment in India, with over 80% share of revenue. These segments are expected to play a central role in driving the industry towards achieving the vision of '100 billion USD' in revenue.

Advertising revenue 2011: Segment contribution



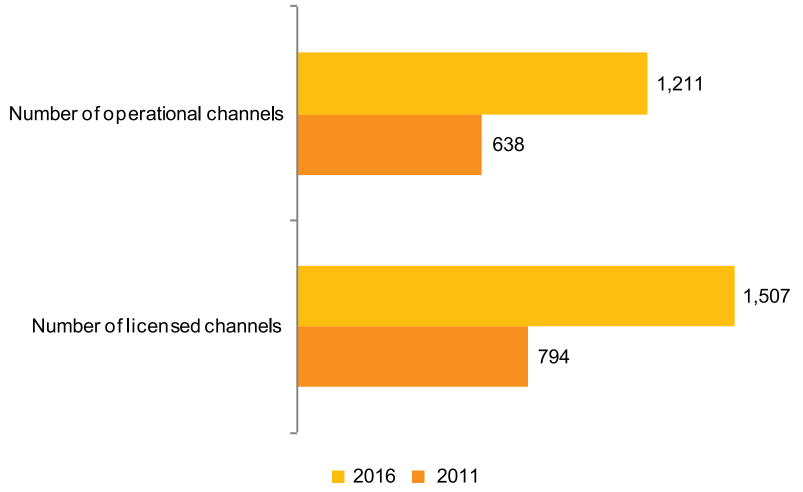
2 Calculated as total advertising revenue from E&M for each country, as a percentage of its GDP. The GDP figures are based on World Bank estimates.

Advertising spend for television: Key game-changers

The television audience in the country has been on a high growth path, enabling advertisers to reach out to a larger segment of the Indian population. As a result, advertising budget allocation has slowly shifted its focus from other advertising mechanisms to this platform. However, there still exists a sizeable potential for further expanding television's reach and viewership, which can have a boosting impact on the advertising spend on this medium. Some of the key game-changers include the following:

- **Innovation in television sets reviving audience interests**
  The launch of high quality television sets has renewed viewer interest in the medium, especially given the improvements in size and picture quality, and the recent launch of high-definition content suited to the device. In the future, increasing affordability and popularity of high-end televisions, as well as further enhancements in device features, have the potential to drive higher viewership levels among audiences.
- **Launch of new channels enabling advertisers to reach niche viewer segments**
  Given the size of the target audience, and when compared with global averages, there exists a high potential to increase the number of television channels. Increasing growth in channels (projections shown below[3]) is expected to lead to a variety in programming, catering to varied viewer categories and thereby generating higher audience interest and viewership levels. This will be further facilitated by the focus on digital distribution mechanisms, enabling delivery of a larger number of channels to the target audience.

Projected growth in television channels in India



- **High potential for mobile television and advertising**
  The high demand for smartphones and tablets in India, and their increasing popularity provides a ready platform for the industry to drive growth in mobile television. This is expected to have a significant impact on the average viewing time, enabling the audience to view content even when they are away from their television sets. High usage of mobile television provides advertisers with a unique opportunity to continuously engage the viewer throughout the day, and deliver relevant and targeted messages.
- **Potential for online advertising for television**
  Increasing penetration of broadband in the country, coupled with the popularity of web-enabled television sets is expected to provide advertisers with an alternate, focussed mechanism to reach attractive viewer segments. Online television advertising is currently at a nascent state in the country, and broadcasters need to focus on delivering a wide range of content and providing catch-up services, to attract viewers to this medium. This also provides the industry with an opportunity to innovate and reach out to select viewer segments, whose interest in traditional television media has been rapidly declining.

3 Excludes channels with uplink-only licenses. Projections are based on international benchmarks related to parameters such as channels per 1 million people and pay TV subscribers, apart from recent trends in growth of licensed and operational channels in India. Sources include Ministry of Information and Broadcasting and PwC analysis.

Advertising spend for print: Key game-changers

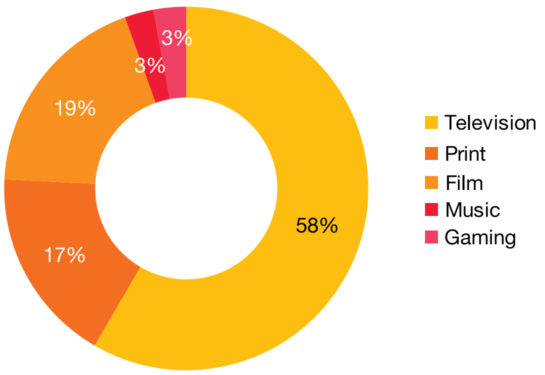
Print has been the preferred medium for a large portion of the country's advertiser community to reach out to customers. The overwhelming choice of news dailies and magazines, both local and national, and across multiple languages, provides a huge range of options for various advertisers to connect with their potential customers. Some of the key game-changers include the following:

- **Innovation in product quality and advertising techniques**
  Newspapers and magazines are read by a sizeable portion of the Indian population and provide a huge base for advertisers to reach out to their target segments. However, advertisers are also looking to differentiate and communicate their messages in a unique manner, in order to stand out and be noticed. Therefore, there is a need for organisations to focus on product innovation in print advertisements, through the creation of new mechanisms such as 3D advertising, high paper quality, etc.
- **Driving growth in digital advertising, across devices**
  There is a significant potential to drive growth in digital advertising in this sector, across multiple platforms whether online, web-based or mobile. Newspapers and magazines need to focus on creating awareness among their reader segments, to increase the popularity and drive traffic for their web portals, mobile apps, etc. Creating awareness amongst advertisers is also critical to increase their familiarity with the digital medium and its benefits, which will ultimately lead to increased spend on advertising.

Potential game-changers: Consumer spend

Consumer spend on entertainment and media[4] contributes a majority share in the total industry revenue, and has been increasing at a fast pace over the last few years. This growth has primarily been driven by rising disposable incomes and the propensity for households to spend on entertainment activities. The key consumer spend segments include television subscription, film and print media, which together contribute 94% of the overall consumer spend category.

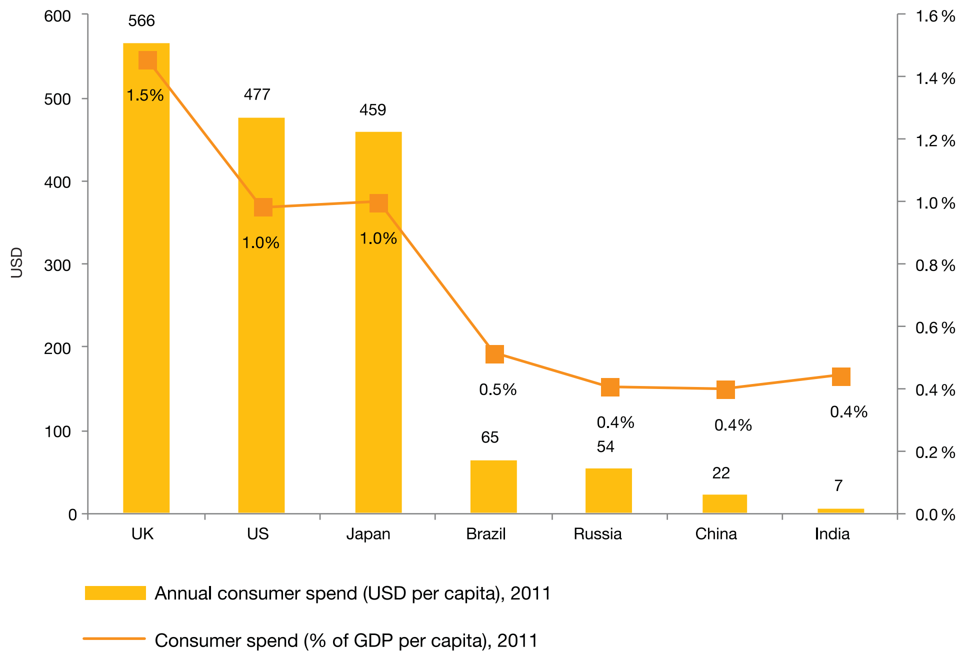
Consumer spend 2011: Segment contribution



The potential for growth in consumer spend on E&M in India still remains high, as indicated by the existing penetration levels vis-a-vis other countries. The average annual spend (per capita)[5] is estimated at a low 6.6 USD in 2011, as compared to 22 USD in China and 65 USD in Brazil. While the consumer spend as a percentage of income[6] is similar across emerging markets, including India; there exists a significant growth potential when compared to the share of wallet for E&M in mature economies such as the US and UK. Additionally, rising household incomes in India is expected to drive rapid growth in consumer spend on E&M.

4 Includes spend on television subscription, print circulation, box office admissions, home video, music and gaming.
5 Calculated as total consumer spend on E&M for each country, divided by its total population. The population figures are based on World Bank estimates.
6 Calculated as total consumer spend on E&M for each country, as a percentage of its GDP per capita (total GDP divided by total population). The GDP per capita and population figures are based on World Bank estimates.

Average consumer spend on E&M

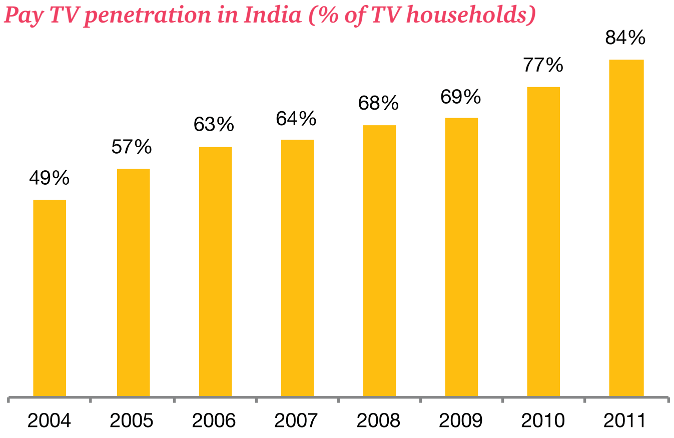


Consumer spend on television: Key game-changers

Television subscription is the largest amongst all E&M consumer spend categories in India. The variety and quality of content available is encouraging viewers to spend more on television subscription, and this trend is expected to continue further. Some of the key game-changers include the following:

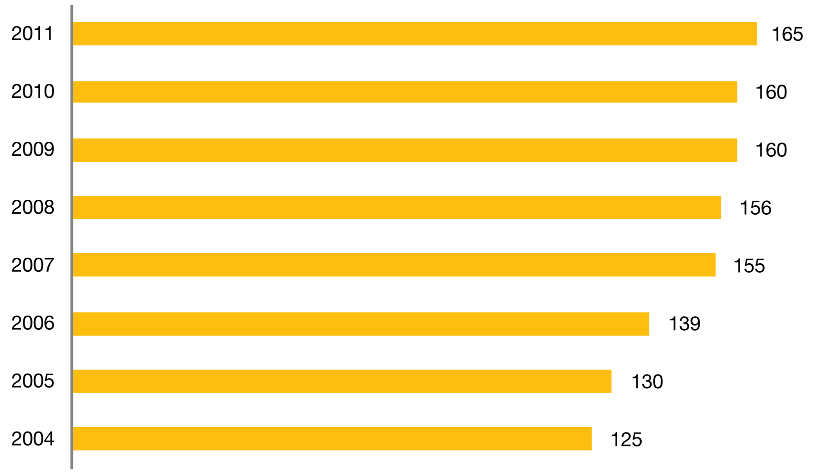
- **Increasing penetration of cable and satellite television**
  While the existing penetration of cable and satellite television is over 80% of television households, there exists a sizeable disparity between different states. For example, locations such as Mumbai, Delhi, and Bangalore have cable & satellite television reaching more than 90% of total television households, while others like Orissa and Assam have a relatively lower penetration, indicating potential for further growth. This, coupled with the rising popularity of multi-television households indicates that a penetration in excess of 100% can be potentially targeted; which if achieved, will provide a significant boost to the overall consumer spend in the country.

Pay TV penetration in India (% of TV households)



- **Increasing ARPU driven by spend on HD and niche channels**
  Rising digitisation levels and innovation in television sets have enabled the delivery of channels with HD and niche content. This has been popular with select viewer segments. Further, increase in digitisation and launch of new channels can potentially drive higher consumer spend on television subscription.

Pay TV ARPU in India (INR/month)



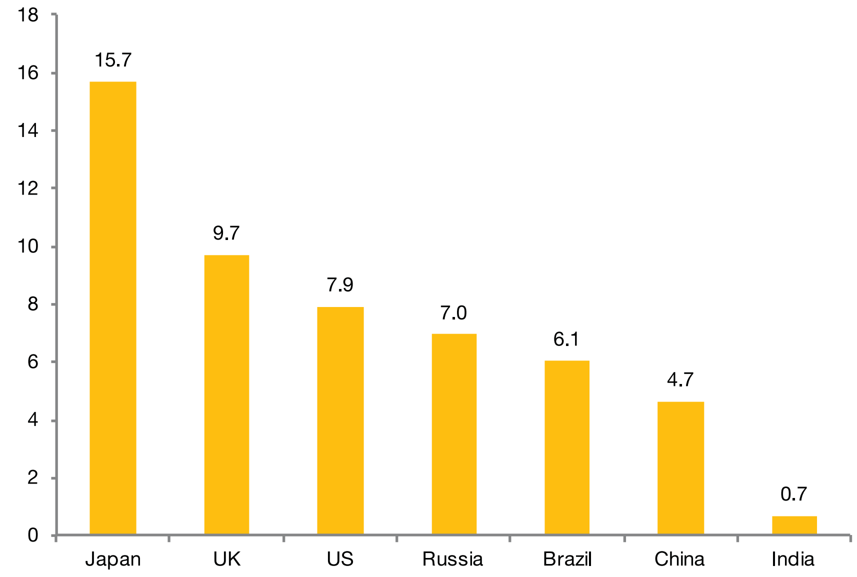
- **Driving spend on television from additional distribution mechanisms such as smartphones and tablets**
  Alternate distribution mechanisms, such as smartphones and tablets provide an opportunity to deliver content to the viewer on the move. This is expected to drive consumer spends on accessing television content on their mobile. In order to exploit this high growth opportunity, there is a need to deliver high quality content, with adequate infrastructure, affordable devices, effective business models and convenient payment mechanisms.

Consumer spend on film: Key game-changers

Box office revenue accounts for a significant proportion of film industry revenues, and is a key consumer spend category. While box office revenues are highly dependent on the quality of films released and vary widely from one year to the next, there exist certain growth opportunities which can be exploited for increasing consumer spend in this sector. Some of the key game-changers include the following:

- **Potential to drive growth in admissions**
  While the total number of admissions is on the rise, an Indian on an average watches only 1.7 films in a year, as compared to an average of over four films a year in the US. Driving growth in admissions will require focus on increasing the penetration of screens in the country. Digital cinema will be a key enabler, facilitating effective delivery of films to screens located throughout the country, even in relatively remote locations. Also, improving the popularity of the medium and encouraging viewers to visit the theatre more often (from the current average of 1.7 times a year), especially beyond weekends, will have a significant impact on screen utilisation and overall admissions.
- **Increase in average ticket prices by providing an enhanced customer experience**
  The average ticket prices in India are one of the lowest when compared with other countries. Driving growth in average ticket prices will require delivering higher value to the customer and providing a differentiated experience to the audience through various means, such as high quality audio-visual equipment, improved customer service, comfort seating, etc.

Average admissions price (USD)



- **Increasing spend on in-home film entertainment**
  In-home film entertainment, such as physical and electronic home video, and video-on-demand, have the potential to contribute significantly to the overall consumer spend on films. This is dependent on the strict enforcement of laws on eradication of piracy to prevent revenue leakage. However, industry participants will also have to develop and deliver unique service offerings to enhance the customer experience, thereby encouraging the audience to spend more.

Consumer spend on print: Key game-changers

Newspapers and magazines continue to be the most popular source of information and entertainment for a sizeable section of the country's population. Historically, the growth in spend has been driven by increasing circulation only, as the increase in the average price of a newspaper has been marginal over the last few years. Going forward, some of the key game-changers include the following:

- **Increasing readership and targeting of niche segments**
  The population in India is one of the largest globally, and is also growing at a rapid pace. Increasing literacy levels is expected to create a larger, growing reader base for newspapers and magazines to increase circulation. The magazine industry is focussing on niche and special-interest magazines, to attract targeted audience. This is helping them realise higher circulation revenue and gain the attention of advertisers catering to specific customer segments with aligned interest areas. Also, newspapers are trying to improve circulation by encouraging readers to buy multiple papers per day (e.g., through bundling of business papers and tabloids in addition to regular newspapers). Such initiatives are expected to increase penetration and will have a positive impact on the consumer spend in this sector.

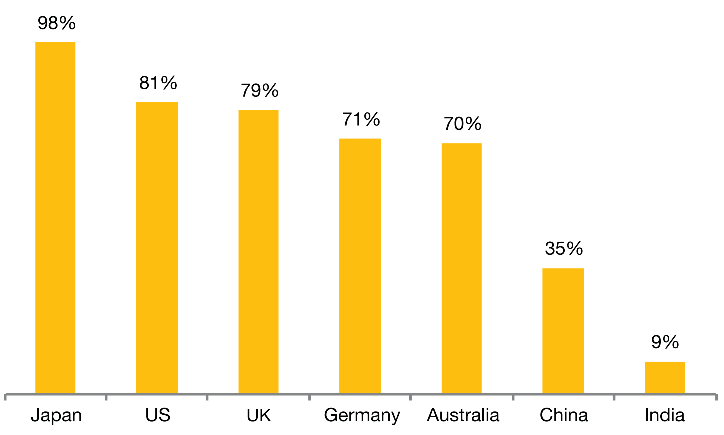
- **Enhancing circulation revenue through paid content**
  Delivering news on multiple platforms, such as tablets and smartphones, provides an opportunity for organisations to increase customer spend on news, driving up overall circulation revenues. In addition, quality and exclusiveness of content will also encourage the readers to pay for news, especially on online and mobile platforms (e.g., through subscription-based articles).

Potential game-changers: Infrastructure and policy support

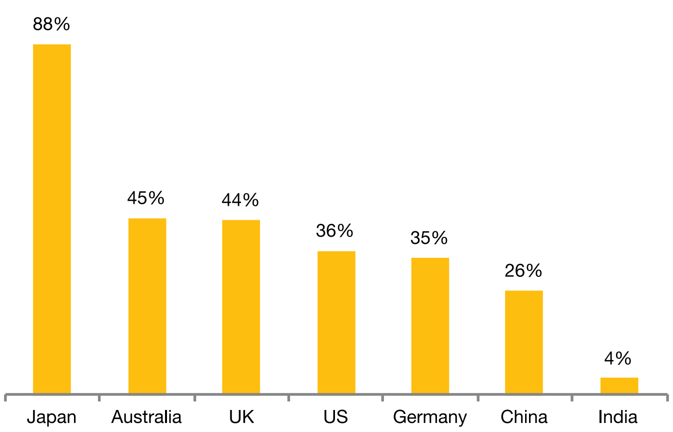
Achieving the vision of an industry worth 100 billion USD will require a consolidated and focussed approach towards developing and deploying relevant infrastructure, supported by a strong policy framework. Some of key game-changers include the following:

- **Driving high broadband penetration**
  India lags behind in terms of internet subscribers. To a large extent, this is due to inadequate wire-line infrastructure in the country. To boost internet access and advertising, it is important that broadband penetration and usage in the country increases manifold. Widespread broadband roll-out will also enable consumption of content anywhere and on any device. This will open up incremental revenue streams for content owners.

Household internet penetration, 2011



Mobile internet penetration, 2011



In view of the deficient copper PSTN network, it is important to provide incentives to operators using fixed-line technologies such as cable internet or broadband (there are ~80 million cable households) and wireless technologies such as 3G and BWA to boost uptake of broadband. In fact, mobile broadband is also expected to drive the usage of content services such as music, video and games.

- **Digitisation of media-delivery mechanisms**
  Digitisation of cable networks will help deliver high quality content to Indian viewers and also reduce the incidence of value leakage from the industry. Further, the number of channels delivered to consumers will increase manifold. This, coupled with the addressability enabled by digital cable networks, will significantly boost advertising revenues. Digitisation will also help drive the uptake of HD channels and value-added-services such as pay-per-view (e.g., movies), thereby encouraging higher consumer spend.

  Additionally, increasing penetration of digital cinema will also provide a boost to industry revenues, by enabling a high-quality viewing experience for the audience and vastly improving the effectiveness of the delivery mechanism. The growing usage of digital cinema will also help mitigate risks related to incidence of piracy, thereby reducing potential revenue leakages.

- **Improved audience measurement systems**
  To attract more advertisers and get existing advertisers to spend more on various media, it is important that audience measurement systems are made more robust and representative. This is especially required for TV channels, newspapers and magazines that are regional or niche in nature and therefore, may not register significant viewership numbers in the existing measurement systems. Even OOH needs improved, sophisticated measurement systems that will not only reinforce the faith of existing advertisers but also attract new advertisers to the medium.

  It is important for industry players to collaborate and invest in effective systems (or support third-party players investing in such systems) that will generate statistically significant and representative audience measurement numbers with a high degree of detail. This will enable advertisers to better assess the effectiveness of their media spend, ultimately driving growth in advertising budgets.

- **Regulatory and policy support**
  This is a critical driver for industry growth and significant initiatives have already been undertaken by the government in the last few years. This includes focus on mandatory digitisation for television and further liberalisation of the sector in terms of foreign investment limits. The planned phase III licensing for FM radio is also a key step towards driving growth in the E&M sector. However, it is important that regulatory clarity and transparency continues and suitable focus is placed in implementing the announced policies, such as meeting timelines for the digitisation process, to achieve the potential of a 100 billion USD sector.

02 *The E&M industry*
2011 - 2016

In 2011, the overall E&M industry was estimated at 805 billion INR, an increase of 17.5%[7] over the previous year. The television and print segments continue to be the largest contributors to the industry, accounting for 66% of the total revenue. Internet access also contributed a significant 14% (up from 11% in 2010), driven by the increasing adoption of mobile internet in the country. However, the contribution from the print and film segments have reduced marginally, as year-on-year growth rates have been lower than the industry average.

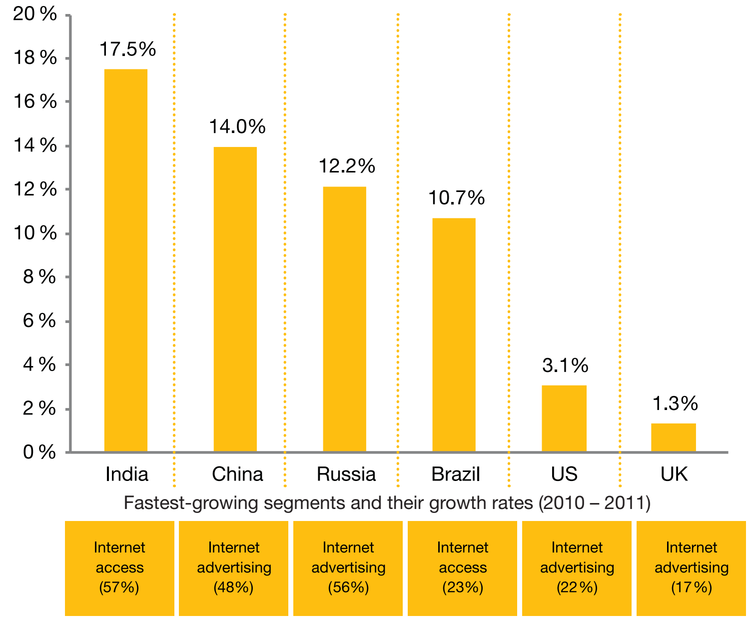
Segment revenue contribution

Segment	*Revenue-2010 (billion INR)*	*Revenue- 2011 (billion INR)*	*Y-o-y growth (%)*	*Contribution to the industry (%)*
Television	294	340	15.7%	42%
Print	178	190	7.2%	24%
Internet access	74	116	57.2%	14%
Film	88	96	9.4%	12%
OOH	14	16	10.7%	1.9%
Radio	13	14	10.8%	1.7%
Music	10	12	25.0%	1.5%
Gaming	8	11	32.6%	1.4%
Internet advertising	8	10	30.9%	1.3%
Total	685	805	17.5%	

In India, the internet access and gaming segments have been the fastest growing, with annual growth rates of 57% and 33%, respectively. The gaming segment, though a small contributor to the overall industry, has been growing due to the rising popularity of mobile and online and social media gaming. Television, being the largest segment, has been the highest contributor (in terms of revenue addition) to the industry, with an annual growth rate of 16%.

Globally, the Indian E&M industry is one of the fastest growing, followed by countries such as China, Russia and Brazil. The growth profile of these countries, depicts a clear trend. For mature markets, revenue from internet advertising is rapidly increasing, exploiting the already high penetration and usage of internet infrastructure. However, revenue from internet access has been the fastest growing in India and Brazil, due to the relative under-penetration of the medium. Once the popularity of digital media reaches a critical mass in these countries, it is expected that digital advertising will contribute significantly to the overall industry growth, in line with mature markets today.

Industry growth in 2010-11: A global comparison



7 Internet access (wired and mobile) included as part of the E&M industry. Excluding internet access, the year-on-year growth for the Indian E&M industry, between 2010 and 2011, is estimated at 12.7%.

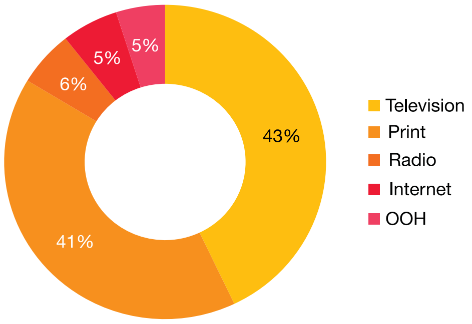
Going forward, the industry is expected to grow at a CAGR of 17%[8] between 2012 and 2016, to reach a size of 1,764 billion INR. Internet access, advertising and gaming are projected to be the fastest growing avenues, each growing at a CAGR higher than 20%.

Projected growth 2012 - 2016

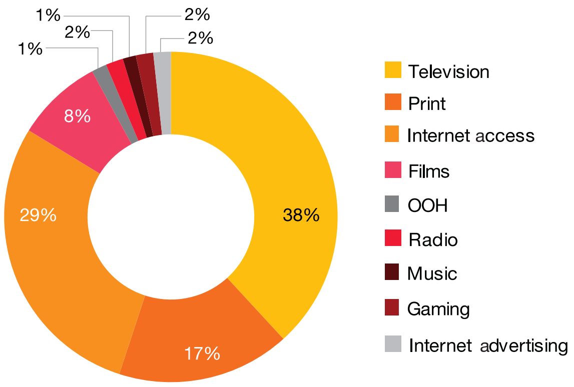
INR billion	2011	2012	2013	2014	2015	2016	CAGR
Television	340	398	458	533	601	674	14.7%
Print	190	210	228	249	272	296	9.2%
Internet access	116	177	255	339	426	507	34.3%
Film	96	104	115	125	136	148	9.1%
OOH	16	17	19	21	24	26	10.9%
Radio	14	16	19	22	26	30	16.7%
Music	12	14	16	19	22	22	13.4%
Gaming	11	14	17	21	25	30	21.9%
Internet advertising	10	13	16	20	25	30	24.2%
Total	805	962	1144	1349	1556	1764	17.0%

The revenue from advertising is expected to grow at a CAGR of 13.4% to reach 525 billion INR in 2016, from 279 billion INR in 2011. Television and print are expected to remain the primary contributors, accounting for 84% of the total advertising revenue in 2016.

Advertising revenue 2016: Projected segment contribution



E&M industry 2016: Projected segment contribution



8 Internet access (wired and mobile) included as part of the E&M industry. Excluding internet access, the CAGR for the Indian E&M industry till 2016, is projected at 13%.

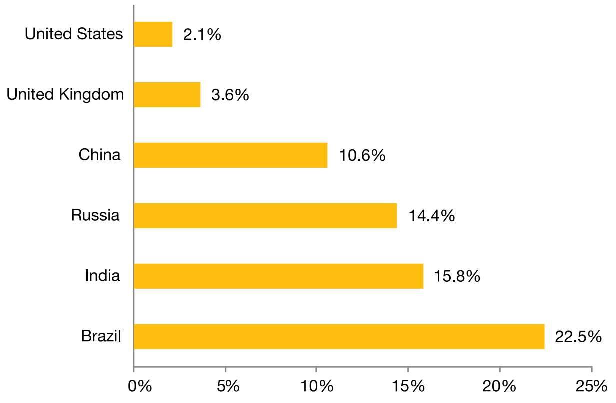
At an overall level, driven by increasing subscription revenues and advertising, the television segment is expected to retain its position as the largest E&M segment in the country, with an estimated CAGR of 15% till 2016. The robust growth projected in internet access till 2016 (given the current under-penetration) will enable it to overtake the print sector by 2013, in terms of industry revenues, and become the second-largest segment in the Indian E&M industry. However, unlike many mature markets, the print segment is expected to grow at a healthy CAGR of 9%, over the next five years, and reach a market share of 17% in 2016. The importance of the E&M industry in the global arena is expected to rise further, with India being the fastest growing in the top 15 E&M countries. However, the potential for growth in this sector is significantly higher, and will require the industry to focus on collaboration and innovation to achieve this vision, by driving improvements in advertising and consumer spend, infrastructure and policies.

03 *Television* *2011 - 2016*

The Indian television industry in 2011 was estimated at 340 billion INR, with a year-on-year increase of 15.8% from 2010 to 2011, driven equally by growth in both advertising as well as subscription revenue. Advertising revenues in television have increased by 14.3% to 116 billion INR, driven by the launch of new channels and growth in inventory. However, growth in subscription revenue has surpassed that of advertising, with a growth rate 16.5% to reach 224 billion INR, led by a sharp rise in DTH subscribers.

Globally, among countries with significant entertainment and media presence, India is surpassed only by Brazil in terms of growth with Russia coming in at a close third. However, the composition of the growth trajectory in these two nations is significantly different to that in India, with subscription revenues being the primary driver. This is due to relative under-penetration of subscription television in these countries leading to high growth in subscription revenues between 2010 and 2011. In India, the growth composition is more balanced with both advertising and subscription revenue increasing at a similar rate, between 2010 and 2011.

Global comparision of television growth rates: 2010 - 2011 (percentage)



Key trends

- **Sharp growth in DTH subscriber base, driven by demand from 'cable-dry' areas, as well as through innovation in content and product offerings**
  The DTH subscriber base in India has seen a sharp rise, reaching approximately 44 million subscribers by the end of 2011, with a growth rate of 38% year-on-year. The launch of HD channels have been a key growth driver for DTH players, and the increasing sales of high-end television sets are expected to drive further penetration and uptake of HD and 3D services. This is also expected to positively impact the ARPU and aid in the growth of value-added services such as video recording, interactive STBs and PPV. The penetration of HD subscribers in India remains significantly low as compared to global averages, indicating a substantial growth potential. In addition, DTH is also being looked at as the preferred medium for pay TV services in cable-dry areas because of the improved reach of satellite networks compared with the limited reach of cable.

- **Widespread presence of cable and satellite television with considerable growth potential–especially in certain states**
  There are over 113 million cable subscribers in the country, with an overall penetration of over 80% of total television households. However, there still exists significant scope for expanding the reach of cable television in India, possible primarily due to the wide disparity in penetration levels across states. For example, locations such as Mumbai, Delhi, and Bangalore have cable & satellite television reaching more than 90% of total television households, while others like Orissa and Assam have a relatively lower penetration, indicating potential for further growth.

- **Limited potential for substantially increase in low ARPU in the short term, considering the overall macro-economic environment**
  Global comparisons indicate low average revenue per user in India, vis-a-vis other mature markets. For example, countries such as the US and the UK have ARPUs in excess of 45 USD per month, as compared to 3.50 USD per month in India. However, when ARPU as a percentage of per capita income is considered, the picture significantly changes. The ARPU to PCI ratio is approximately 2.8% for India, but only ranges between 1.4 to 1.5% for the US and the UK. As a result, the immediate potential for growth in ARPUs may be limited. However, the expected growth in the economy in the medium term, and its positive impact on the PCI will drive the opportunity for increasing the average consumer spend, especially through the provision of value-added services.

- **Increasing popularity of mobile TV platforms yet demand mostly driven by sports content**
  The presence of mobile television has been steadily increasing, with the launch of new services, applications and content. However, the popularity of this medium has been mostly limited to sports and news genres, where consumers value receiving the latest content, when on the move.

  Multiple mobile television platforms currently available for subscribers include Zenga, Ditto, Apalya and Mundu. Revenue models vary, with some platforms providing free content while focusing only on advertising revenue, while others depend on subscription revenues only. However, this distribution medium is at a nascent stage. Exploiting the vast potential in this country will require increasing adoption of smart devices with high-quality data connectivity, and for organisations to experiment with alternate business models delivering relevant content at the right price, to the viewer.

- **Hindi GECs most watched resulting in increased competitive activity**
  Over the years, the Hindi GECs have been leading with a major chunk of viewership. The Hindi GECs saw a sharp rise in viewership between 2009 and 2010. However, this could not be replicated in 2011, with a marginal drop in viewership over the past year. This is primarily due to audience fragmentation particularly in the metro cities. In spite of this drop, Hindi GECs remain the most watched genre on Indian television.

  The year 2011 saw intense competition within the Tier 1 GEC space (including Star, Zee, Colors and Sony) with each channel using their flagship properties to push them to the top. While Sony temporarily reached the second position on the back of *Kaun Banega Crorepati 5,* Colors got back to that position eventually. While Star Plus has been leading throughout, there was a slight fall in viewership last year.

  The intense competition also led to channels shutting down, re-branding and re-launching. In 2012, Turner Broadcasting System shut down its Hindi GEC Imagine TV after it failed to boost its popularity with viewers. Even though it had successful shows like *Swayamvar* and *Bandini*, the channel wasn't able to achieve the consistent ratings needed to sustain the business.

  On the other hand, Star rebranded its urban youth-focused channel Star One to Life OK with a new programming line-up with a more mass orientation. The re-launch lead to a sharp spike in GRPs for Life OK in its first week of launch. Subsequently, it has successfully managed to retain similar GRP levels in 2012, on the back of its mythological show *Devon Ke Dev Mahadev* and other popular shows such as *Saubhagyavati Bhava* and *Amrit Manthan.*

  SAB TV has successfully created a niche for itself with a differentiated positioning as a comedy-focussed family channel. Its light-hearted family comedy shows have helped it cross the 150 GRP mark in some instances, inching its way closer to the top four GECs. Its popular show *Taarak Mehta Ka Oolta Chashma* has made the channel a forerunner in Gujarat.

- **Hindi GECs building weekend programming to drive growth in viewership**
  Gone are the days when weekends on a GEC meant reruns of successful weekly shows and movies. Channels have realised the importance of providing fresh new content over the weekend and are concentrating on building it for weekend prime-time slots.

Sony Entertainment already has a strong weekend line-up with *Indian Idol 6, CID, Crime Patrol, Adaalat* and *Comedy Circus.* Colors introduced its flagship reality show *Fear Factor: Khatron Ke Khiladi* with a weekend prime-time telecast and improved its weekend content with *Jhalak Dikhlaja* and *Zindagi Ki Haqeeqat Se Amna Samna.* Zee TV has managed to create a loyal viewer base on the weekends with *Dance India Dance: Little Masters* and *Fear Files.* Star Plus launched *Wife Bina Life, Love You Zindagi* and *Pyaar Mein Twist* in the weekend slots and is further strengthening its weekend programming line-up with two new series *Arjun* and *Teri Meri Love Stories.*

The Sunday morning time band has been recreated with *Satyamev Jayate* and a similar trend is being followed by other GECs. Zee TV has introduced *Ramayan* on Sunday mornings with the intent of bringing the entire family together to watch TV.

- **'Simulcasting' leading to higher viewership**
  Simulcasting, a new trend in the GEC genre is helping channels increase their audience base. *Satyamev Jayate* has been one of the biggest trendsetters in 2012. It has not only re-invented the morning weekend slot but has also led to a number of simulcasting deals. Star India lent out the intellectual property rights of the show to Doordarshan and ETV Telugu resulting in a nine-channel simulcast of the show. *Coke Studio* on MTV and *Ramayan* on Zee TV soon followed by using Doordarshan as the platform. Sahara One's *Sur-Kshetra,* a talent reality show where Indian and Pakistani singers compete, has partnered with Colors. This trend could lead to even more strategic tie-ups in future, helping smaller channels reach out to a higher audience base and larger players providing differentiated and new content to their audience at a lower cost.
- **Cricket still main fodder but other sports gaining popularity**
  Indian sports TV broadcasting is dominated by cricket, contributing to ~85 to 90% of the total TV sports advertising revenues. The year 2011 was a phenomenal year for sports broadcasters, with advertising revenue expected to be up by more than 50% compared to the previous year. The contribution of the sports genre to advertising also increased in 2011, now accounting for over 20% of the total advertising spends in the sector. The two marquee events viz. the Cricket World Cup and the IPL have contributed significantly to the growth in advertising.

  However, other sports are also gaining prominence, especially the football tournaments in the urban metros. The semifinal match between Spain and Portugal in the Euro 2012 is believed to have delivered a high rating across the six metros, especially in the age category above 15 years. Other sports such as tennis, motorsports, and badminton have started making their presence felt because of improved performances by Indian players in the international arena coupled with increased investments. The Indian Grand Prix 2011 was also very popular in India, with the highest ratings for any Formula One race in the country. However, other sports still have a long way to go in India, in order to match the ratings and popularity cricket commands.
- **Regional channels gaining strength in HSM**
  Regional channels, traditionally focussed in the south, have seen a surge in viewership in Hindi-speaking markets. The share of HSM in regional channels has increased by over one percentage point between 2010 and 2011. Much of the growth has come from markets such as Maharashtra and West Bengal, which are slowly getting inclined towards regional channels. Star Jalsha and Zee Marathi lead the Bengali regional market and the Marathi market respectively. The combined weekly GRPs of the top three Bengali channels, ETV Bangla, Star Jalsha and Zee Bangla, have increased by 20%, over the last year and a half. Similarly, the weekly GRPs of the top three Marathi channels, ETV Marathi, Star Pravah and Zee Marathi, have also shown an increase of over 30% over a similar period. Increasing viewership is having a positive impact on the regional advertising market in these locations, resulting in the Marathi and Bengali markets being among the fastest growing in terms of advertising spend.
- **National players gaining presence in regional markets through inorganic means**
  The trend of national players going regional continued even in 2011. Activity was witnessed in the regional language markets, where national broadcasters started shifting their focus on developing and strengthening their presence either through acquisitions or new launches. The recent transactions in the regional markets by TV18 and Sony reinforce this fact. TV18 acquired a bouquet of channels of the ETV Group, for 2,100 crore INR, with

stakes in each channel ranging from 24.5 to 100%. On the other hand, Sony acquired 30% stake in the south-based MAA TV. MAA has a bouquet of four channels and is the second-largest in Andhra Pradesh. Star and Zee have already made significant inroads into the regional markets, especially in Telugu, Tamil, Malayalam, Marathi, Punjabi and Bengali languages.

- **For niche channels, innovation and experimentation key to attract advertisers**
  Most of the niche channels are targeted towards the youth, which is perceived to be always on the move and fickle in its media consumption. Channels have gone beyond the television space and are focusing on digital and on-ground activities to better connect with their target group. MTV launched Crunch on YouTube with a live 24-hour stream, and Channel [V] partnered with India for Nokia India Fest 2011 and ventured into organised cafe and bar space with [V] Spot cafes.

  For high-reach channels such as the Hindi GECs, the buying decisions for advertisers are based purely on the ratings that the channels command. On the other hand, for the niche channels, other factors such as the image of the channel or the programme, and programming play an important role. These days, advertisers are looking for innovation through which they will be able to avoid the clutter and effectively communicate messages during media campaigns. The typical examples on television are AFPs, sponsorships and in-programme product placements. Advertisers also expect the channel's support in their off-air activities.

  The continued success of these niche channels will depend on how well they are able to differentiate themselves from each other and bring in innovation to appeal to both the target audience as well as the advertisers alike.

Key regulatory trends

Revised foreign investment norms for broadcasting carriage segments

- On 20 September 2012, the government notified the increase in foreign investment caps for most of the broadcasting carriage segments, to a uniform 74%. Earlier, the foreign investment caps between competing platforms in the carriage segment were different, ranging from 20% FDI limit under DTH services to 74% under IPTV and HITS platform. In the light of converging technologies, a need was therefore felt to streamline the applicable foreign investment caps in this space as well as in the telecom sector, and also to bring about consistency and promote a level playing field between competing technologies.
- Foreign investment up to 49% will now be permitted under the automatic route. However, foreign investment beyond 49% (and up to 74%) will continue to require prior government approval. This will help ease process timelines involved for overseas fund-raising through divestment of a minority interest in favour of the foreign investor.

Carriage services	*Earlier limit*	*Revised limit*
DTH	49% (FDI <20%)	74%
Teleport (uplinking hub)	49%	74%
MSOs operating at the national, state or district level and taking up digitisation with addressability	49%	74%
Mobile TV	No policy	74%
HITS	74%	74%
IPTV	74%	74%
Other MSOs	49%	49%
Local cable operators	49%	49%

Mandatory digitisation of cable TV services was notified in November 2011.

- It will be implemented in the following four phases:

Phase	*Cities*	*Original deadline*
Phase 1	All metro cities (Delhi, Mumbai, Chennai, Kolkata)	30 June 2012
Phase 2	Tier 1 cities (having population more than 1 million)	31 March 2013
Phase 3	Tier 2 cities (urban areas under municipalities and municipal corporations)	30 September 2014
Phase 4	Rest of India	31 December 2014

Since the TRAI orders on the regulations on tariff and interconnection and the consumer complaint redressal system by MSOs have not yet been substantially implemented, this has resulted in delaying the installation of set-top boxes. On account of this and representations received from stakeholders, the MIB has extended the deadline of 30 June 2012 for Phase-I to 31 October 2012.

The uplinking and downlinking guidelines have been revised effective December 2011.

Some of the key changes introduced include the following:

- Transfer of permissions and licences within the same group are now permitted as part of group reorganisation strategy and on the fulfilment of certain conditions. Prior approval of the MIB is required for this.
- Revised net worth norms and roll-out obligations.

Segment	*Existing limit*	*Revised limit*
Uplinking of non- news and downlinking	First channel: 15 million INR Additional channels: 10 million INR	First channel: 50 million INR Additional channels: 25 million INR
Uplinking of news and current affairs	First channel: 30 million INR Additional channels: 20 million INR	First channel: 200 million INR Additional channels: 50 million INR
Teleport services	One-channel capacity: 10 million INR Six-channel capacity: 15 million INR Ten-channel capacity: 25 million INR Fifteen-channel capacity: 30 million INR	First teleport: 30 million INR Additional teleport: 10 million INR

Segment	*Time frame*	*Conditions*
I. Uplinking of non-news and downlinking	One year from permission	PBG of 10 million INR for each channel
II. Uplinking of news and current affairs	One year from permission	PBG of 20 million INR for each channel
III. Teleport services	One year from permission	PBG of 2.5 million INR for each teleport
IV. Downlinking	Same as 1	No PBG

- At least one of the persons occupying a top management position in the applicant company should have a minimum of three years of experience in a relevant media company.
- TRAI has released the recommendations on prescribing minimum channel spacing, within a licence service area, in the FM radio sector in India. As part of the paper, TRAI recommends that frequencies for FM radio channels within a licenced service area should be released with a minimum spacing of 400 KHz.
- TRAI has issued tariff order and interconnection regulations for digital addressable cable TV systems on 30 April, 2012 with a view to ensure that consumers have the flexibility to choose their bouquet of channels and to budget their subscriptions accordingly. All channels will therefore be offered on an a la carte basis to subscribers. A 'basic service tier' consisting of minimum 100 free-to-air channels has been prescribed with a maximum subscriber fee of 100 INR per month. The tariff order also covers the mechanism for revenue-sharing between MSOs and cable operators as well as the carriage fees charged by MSOs from broadcasters.

India's place in the world: Comparison with global trends

The television sector in mature markets is at a differentiated stage of evolution. While digital platforms are a key growth driver, they also bring with them increased competition, with new players entering the fray. Some of the emerging trends include the following:

- **'Catch-up' and over-the-top services leading to increase in online and mobile viewing of television, as well as driving growth in digital advertising**
  The composition of television viewership is slowly changing, with younger people preferring to watch television online and on mobile devices, than on TV sets. Broadcasters are also streaming their shows on online platforms, as a 'catch-up' service, essentially shifting the DVR function to a VOD option for viewers. However VOD viewing does not allow fast-forwarding of commercials. 'TV everywhere' makes shows accessible through mobile devices, and increasing penetration of mobiles and smartphones are expected to drive viewership. Alternate delivery platforms such as gaming consoles and blu-ray players are also being explored. These changing viewership patterns are driving focus on digital advertising, expected to be among the fastest-growing advertising streams in the near future.

  India perspective: *Digital advertising for television content is at a relatively nascent stage in India, with delivery mechanisms not being as evolved as those seen in mature markets. It is expected that, in the near future, while advertisers will spend an increasing portion of their budget on digital advertising, especially to reach out to a niche audience, traditional advertising media will continue to provide maximum reach to advertisers.*

- **Increased saturation and competition from over-the-top services limiting growth in subscription households**
  The television subscription market has reached significant penetration levels in markets such as the US. As a result, revenue contribution from new subscriber additions is slowing down. The rising popularity of over-the-top services has created new competition for the industry. Hulu and Netflix allow users to stream content over the internet at a much lower cost. Other players are also planning to expand their service offerings by providing content over other platforms, such as gaming consoles, blu-ray players and internet-connected televisions.

  However, in many households, over-the-top services co-exist with television subscriptions. This trend is expected to continue, with each platform delivering unique content to the viewer.

  India perspective: *Unlike mature markets, television subscription in India still has a high potential for growth through subscriber additions, given the relative under-penetration of pay television in many states, as well as the proposed digitisation plan. Additionally, over-the-top services are still at an initial stage in the Indian market and are not expected to effectively compete with television subscriptions in the near future.*

- **Increasing social media usage providing a boost to broadcast advertising**
  The growing use of the internet, especially social media, has had a positive impact on television, given that TV is often discussed on such platforms. Viewers are online while watching television and discuss shows currently being aired. This behaviour enables 'appointment viewing' as peer interaction requires participants to be concurrently watching the same content. Therefore, social media and internet usage is actually helping sustain regular viewing on television leading to a positive impact on broadcast advertising.

  India perspective: *In line with global trends, the use of social media in India is increasing exponentially, especially within specific viewer segments and age groups. However, broadcasters are at the initial stages of adoption, and are yet to effectively utilise this medium to increase the popularity of their content. This is expected to change soon, with players focusing on deploying significant resources to exploit the potential of social media in the country.*

Going forward

The television sector in India is expected to grow at a CAGR of 14.7% over the next five years, to reach 674 billion INR in 2016. The growth trajectory, similar to previous years, will be equally driven by advertising and subscription revenue, both growing at a CAGR between 14 and 15%. Subscription revenue will contribute a share of over 66% of the total industry size in 2016.

Some of the expected trends in this sector include the following:

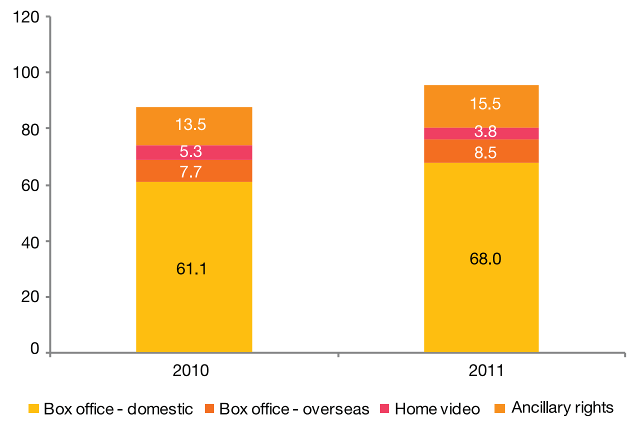
- **India to be among the fastest-growing television markets over the next five years**
  The television sector in India is expected to be among the fastest growing with a CAGR of 14.7% (2012 – 2016), faster than other markets such as Russia, Brazil, China and Argentina. India is also projected to surpass Mexico in terms of industry size. Digitisation will play a key role in driving future growth in the Indian market, helping plug subscription revenue leakage, as well as enable high-quality delivery of content to the consumer. Advertising revenues are also expected to grow substantially, in line with overall GDP growth and increasing viewership. Subscription revenue is expected to reach 449 billion INR in 2016, and advertising revenue to reach 225 billion INR in the same period.
- **DTH services best positioned to grow during the initial phases of digitisation**
  The initial phases of digitisation may provide a unique platform for DTH service providers to further increase their market penetration. Digitisation is expected to provide consumers with an equally priced choice between DTH and cable delivery platforms. Currently, DTH service providers have the advantage over cable providers, with a strong marketing focus, robust customer relationship and billing mechanisms to better serve the viewer. As a result, it is possible that existing cable customers may switch over to DTH platforms, during the initial stages of digitisation. Therefore, cable service providers will be required to invest in improving their internal operations, especially around billing processes and systems, to effectively compete with DTH players and improve customer retention.
- **Content innovation and multi-platform delivery the way forward**
  Digitisation will provide an opportunity for multiple channels to enter the market, adding to the overall content clutter. But this will also enable players to experiment with new business models relying primarily on subscription revenue, as compared to the traditional dependency on advertising. Thus, broadcasters can focus on establishing niche market positions, driven by the type and quality of content delivered, to differentiate themselves from competition.

  In the medium term, increasing online and mobile connectivity and usage will also drive multiplatform delivery of content. Tablets are the preferred alternative platform for many users in mature countries, and soaring tablet sales in India indicate a potential for industry players to drive mobile content viewership and digital advertising.

04 Film
2011 - 2016

After two consecutive years of de-growth when the industry faced some of its most challenging and difficult times, 2011 brought back audiences to the cinema screens and cheers to the film industry. Despite the economy rebounding only slightly, increasing digitisation, growth in multiplexes, films with differentiated content and revival of the TV syndication market led to the growth of the Indian film industry.

Film industry 2010 vs. 2011 (billion INR)



While 2011 saw only five films (*Wanted, Ready, Ra One, Singham and Don 2*) breach the 100 crore INR mark at the box office, the first eight months of 2012 have already seen a similar number of films surpass this new industry benchmark for blockbusters. This is even before some of the other films by big stars such as Salman Khan's *Dabangg 2,* Aamir Khan's *Talaash,* Shahrukh Khan's *Jab Tak Hai Jaan* and Ajay Devgn's *Son of Sardaar,* are planned for release in the last quarter of the year.

However, even though India is the largest market in terms of the number of films produced and the number of admissions, it is only the eighth largest when it comes to box office collections. This indicates the industry's continued inability to monetise its films better, even though the film industry is coming of age with increased acceptance in overseas markets.

Key trends

- **Content driven films giving big budget films a run for their money**
  The last year and a half has witnessed strong performance by films that have relied on strong and differentiated content. As against a few years ago, when the success of a film critically hinged on its star-cast, recent times bear witness to the fact that Indian audiences have matured and are appreciating films driven by strong content and not necessarily star power. These include *The Dirty Picture, Kahaani, Paan Singh Tomar* and *Vicky Donor,* films that were able to rewrite rules and do good business at the box office.

- **Regional cinema producing some of their biggest hits, attracting Bollywood production houses**
  While Indian cinema is synonymous with Bollywood, the regional film industry has continued to grow strong. In fact, large production houses that were largely producing mainstream Hindi film are now realising the huge potential that regional films offer. While UTV, Reliance, Eros and Yash Raj Films have all entered the Tamil film industry, the second biggest film market in India after Bollywood, Balaji Films produced and released its first Marathi film to packed houses. As per our research, about half of the films in UTV's line-up for 2012 are in regional languages, while Eros Entertainment has a line-up of about 60 regional films in the next few years.

Trade reports indicate that several regional films released during the last 1 – 2 years, have been highly successful. These include the following:

- *Jatt and Juliet,* released in 2012, has gone on to become the largest-grossing Punjabi film of all time.
- *Eega,* a Telugu sci-fi thriller created history by recording the highest per screen average collections at the US box office over the weekend of its release, more than some well-known Bollywood and Hollywood films.
- *Gabbar Singh,* the Telugu remake of *Dabangg* has grossed over 150 crore INR.
- *Nanban,* the Tamil remake of 3 Idiots has collections of over 165 crore INR.

- **Increased digitisation leading to wider release, higher collections**
The Indian film industry is witnessing rapid digitisation of cinema screens in the country and is enabling film producers to simultaneously release their films across the geography in the first week itself. As per our industry discussions, about 70% of the screens currently operational in the country are already digitised and the industry expects the remaining to be digitised by the end of 2013. One of the largest service providers, UFO Moviez India alone has over 3000 digital cinema installations throughout the country.

  Increasing digitisation has meant that even smaller films that were earlier unable to have a wider release on account of high physical print costs, are now able to occupy several screens and across the country. This has translated into increasing box office revenues for such films. Therefore, even though *Ek Tha Tiger* released in nearly 3,300 screens, *From Sydney with Love* a much smaller film with an unknown new cast was released across nearly 900 screens. This was unheard of four or five years ago, when only a big budget film would release in around 1000 screens.

- **Films increasingly using social media and other innovative marketing forms**
Social media has increasingly become an important tool for film producers and marketers to promote films and gauge audience reaction before the release of a film. Producers are increasingly releasing the promos and trailers of their films on sites like YouTube. Apart from that, they are also actively creating web-pages and accounts on sites such as Twitter and Facebook to create further buzz around the film.

  Apart from using social media, film producers are increasingly looking at innovative forms and media to market their films. *Ra.One* for example, extensively used gaming and animation as marketing tools to improve monetisation. *Gangs of Wasseypur* employed innovative marketing strategies for promotion. Social media was a vital aspect of the marketing campaign which included creating accounts of key characters in Hindi on Twitter accounts, so as to keep it consistent and relevant with the film. The producers in a couple of cities also put up posters of key characters in a pseudo election campaign in line with the overall theme of the film.

- **Experimentation with new monetisation models for the home video segment**
The home video segment continued its declining trend in 2011 and the first half of 2012 primarily due to piracy and the challenges in monetising home video on digital platforms. Revenues from the sales of film CDs and DVDs are shrinking due to people shifting to substitutes, particularly new-age media platforms. There is an increasing trend of films being viewed on personal devices (mobile phones and tablets), internet platforms such as YouTube and DTH PPV model. In January 2011, Reliance Home Video in partnership with YouTube launched an online premiere of *Dabangg.* YouTube's Box Office channel has over 1,500 films that viewers can watch for free. Home video companies such as Reliance and Rajshri have now started offering apps and websites that allow viewers to rent or stream films. Such expansion strategies to new-age media avenues stress shifting viewership trends.

- **Ancillary revenues spiral upwards**
The year 2011 saw an increase in the viewership of both Hindi and English film channels. This has led to positive responses from film broadcasters and advertisers. An increasing number of films with bankable stars are able to sell broadcasting rights even before their release. With top film channels such as Star Gold, Set Max, Zee and Colors constantly competing to secure the satellite rights of large releases, film producers have

an increased bargaining power leading to higher costs being witnessed. Production houses are capitalising on this in order to recover a significant proportion of the costs before their films hit theatres. *Agneepath* was able to recover close to 60% of its production costs through the sale of its satellite rights. However, in some cases, airing of films on television soon after their theatrical release has a negative impact on box office revenues.

Tax and regulatory issues

- **Deduction of expenditure on film production and acquisition of distribution rights**

  Rule 9A/9B of the IT Rules provides the manner of claiming deduction with respect to the expenditure incurred in connection with the production of a film or acquisition of distribution rights. The debate is whether Rule 9A/9B overrides all other provisions of the IT Act (for e.g. capital expenditure vs. revenue expenditure, cash system of accounting vs. accrual system of accounting, disallowance of statutory payments not made within the due date of filing of tax return, etc.) or the income needs to be computed based on the provisions of the IT Act (without recourse to Rule 9A/9B). The issue has generated significant debate, but the jury is still out on the subject. Also, there are various other interpretational issues surrounding Rule 9A/9B and an informed decision can help minimise protracted litigation.

- **Joint production of films between Indian producers or between Indian and foreign producers**

  There is an exposure that such an arrangement results in the constitution of an AOP, taxed as a separate independent legal entity apart from its members. The taxation of such combined income can extend to 40% (plus surcharge and cess). If the venture is assessed as an AOP, complexity could arise for the eligibility to claim tax treaty benefits, deductibility of interest expenditure, availability of credit for taxes withheld, etc.

- **Transfer pricing difficulty in comparability analysis**

  An Indian company is engaged in the distribution of films and television rights for its foreign parent, wherein it assumes limited risks while undertaking business operations. It is difficult to determine a routine return (based on industry comparables) for such routine distribution operations of the film distribution subsidiary in India. The financial information available on public databases relates mainly to publicly listed film distribution companies who typically operate under an entrepreneur model. Their financial results fluctuate tremendously based on box office results in respective years (ranging from say operating margin of 100% in year 1 to operating margin of -25% in year 2). This makes it extremely difficult to use such industry-based data for determining and also defending transfer pricing arrangements for such low-risk film distribution models.

  Sharing of content (such as films and television series) and content syndication between television channel group companies are difficult to benchmark as the pricing of these transactions are driven by commercial and business reasons. Often, there is a barter exchange of content between channel companies.

India's place in the world: Comparison with global trends

The global film industry is showing a positive trend on account of moderating price growths, new multiplexes and a growth in 3D screens. Growth in new avenues for the electronic distribution of films is giving a boost to the film industry. Major factors affecting the market in any given year are the quality of releases and their appeal to consumers, which remains true everywhere globally.

Key trends emerging in the global market are as follows:

- **Screening of 3D films helping raise ticket prices**
  New multiplexes and growth in 3D screens will stimulate the box office market, although the incremental impact of 3D is diminishing in some countries. While 3D films continue to attract audiences in EMEA, Asia-Pacific and Latin America, their novelty is fading in the US and Canada. The higher price points, and the perception that the quality of the films themselves had diminished, accounted for the drop in their revenues. In the US, consumers were reluctant to pay the surcharge for a 3D film not considered a must-see. This means exhibitors may look to limit price growth for 3D films, leading to a narrowing in the price differential over films in 2D. However, in other parts of the world, 3D continues to grow at a steady pace with more and more 3D films released in these countries.

  India perspective: *3D films in India are on a rise, with a number of upcoming Bollywood releases set to be released in 3D. Multiplex audiences are willing to pay 50 to 100 INR more for a good quality 3D film in India. However, given the quality of local 3D production and the fact that a three-hour film with 3D glasses can be quite uncomfortable, this trend may reverse in the near future.*

- **Digital cinema boosting cinema advertising revenues**
  Favourable demographics and an expanding box office market will boost cinema advertising—as will the migration to digital cinema—by reducing the costs and complexities of screening advertisements. Cinema advertising is appealing because the audience is not distracted by electronic media and is focused on the screen. Films also allow for longer ads than the 30-second or 60-second ads seen on television. With most screens now digital, it is easier and less expensive for advertisers to distribute their ads digitally, thereby enlarging the potential array of advertisers that may participate.

  India perspective: *While digital cinema in India is showing considerable growth, cinema advertising remains at a nascent stage. Advertisers are yet to assess the full potential of cinema advertising and the lack of any measurement mechanism or study to highlight its benefits has not helped the matter. With around three million admissions, India is one of the largest markets for films and as highlighted above, it would be difficult to match a captive audience which is this large. With an increasing number of digital screens, we can expect cinema advertising to grow in the future.*

- **Electronic video expanding at the cost of home video**
  A shortening home video window and experiments in modification of the current windowing structure (e.g., premium VOD and day-and-date digital releases) will benefit electronic video. Competition from electronic platforms will adversely affect the physical home video market, leading to spending declines in most countries. However, growth in the blu-ray platform is limiting the declines in physical home video. Nevertheless, the blu-ray market is growing more slowly than anticipated, leading us to project ongoing decreases for physical sell-through. While DVD as the preferred mode of home video distribution is declining, blu-ray, owing to its benefits of large capacity (for HD movies) and certain control over piracy, is showing steady growth globally.

  India perspective: *Shortening the theatrical to the home video and pay-per-view window is having a similar effect on the physical home video market in India (rental as well as sell-through). Blu-ray has failed to capture the market in India due to lack of popularity of HD content. Rampant piracy has not allowed existing home video players to expand in this market.*

- **Electronic distribution of movies on rise globally**
  Emerging over-the- top and streaming services and the growth in digital cable and telephone company TV subscription services that promote video-on-demand are expected to boost electronic distribution. The availability of content on tablets and other devices as well as internet-connected TVs will foster growth in electronic distribution. Netflix, with more than 20 million subscribers in the US and 1 million in Canada, is a major player. Smart TVs with internet connections are enabling this market. Content from Netflix, Hulu Plus and others can be accessed directly on a TV set, a more appealing platform for viewing.

  India perspective: *India is still a nascent market for over-the-top and internet streaming. Lack of good broadband structure has further deterred players such as Netflix and Hulu from entering the market. The country is just about getting used to LED and LCD flat TVs, and smart TVs are still expensive for the average household. However, a number of players such as YouTube have started to showcase films on their online channels. In future, we can expect to see movement towards electronic distribution.*

Going forward

The Indian industry is projected to grow from 95.8 billion INR in 2011 to 153.6 billion INR in 2016 showing a CAGR of 9.9% for the next five years after registering a growth of 9.4% in 2011. We expect the following key developments in the next few years:

- **Indian box office expected to overtake the UK and Australia markets in the next few years**
  The Indian box office is among the fastest growing markets in the world next only to China among markets greater than 15 billion INR. It is expected that in the next few years, the Indian market will surpass the UK market and will be the fifth largest market in the world by 2016. This growth in numbers is primarily driven by the increasing number of big budget films which are not only looking to tap the local market, but are also willing to spend to expand their reach in the overseas market where ATP is higher than in India. The domestic box office is estimated to continue its upward trend and grow from the current size of 68.0 billion INR in 2011 to 112.0 billion INR in 2016. Overseas collections are expected to grow from 8.5 billion INR in 2011 to 13.8 billion INR in 2016.
- **Home video market expected to continue its decline**
  The declining trend is likely to continue in the home video segment which will need to capitalise on the emergence of new digital platforms to sustain revenues going forward. It is expected de-grow from 3.8 billion INR in 2011 to 0.9 billion INR in 2016.
- **Ancillary rights to remain the fastest growing sub-segment in films, to increase its share in overall pie**
  The demand supply mismatch stemming from a limited number of A-list releases is resulting in higher acquisition costs. This trend is expected to continue in the short term. Broadcasters are also looking to acquire exclusive satellite rights for films and selectively screen them in order to capitalise on larger viewership per screening and differentiate themselves from competitors based on their film library. This bid for exclusivity is also driving higher revenues in this segment. There is good potential for film merchandising. However, with the exception of Ra.One, few big budget films have attempted this on a large scale. The trend of advertising destinations through films is expected to continue as these destinations try to reach out to Indian tourists. Ancillary revenues are expected to grow from 15.5 billion INR in 2011 to 26.9 billion INR in 2016.

Seeing it now: The hidden value of digital rights lockers

For today's tech-savvy consumers, the shift from physical media to online distribution is all about gaining the ability to access and manage content on demand. They want to access content from multiple devices. Mobility is key. They also want–and expect–the ability to download, share and store everything from videos and music files to full-length films.

Enter DRLs. Based on cloud storage technology, DRLs have unlimited storage capacity, allow for lightning-fast downloads and improve the ability to access and share content across multiple devices.

Recently, Apple launched its iCloud service, storing user content and making it available across all Apple devices. This has significantly changed the way consumers store information and access new media content.

A key finding from insight sessions conducted by PwC in the US with consumers aged between 18 and 30 is that even tech-savvy consumers appear to have little awareness and understanding of proposed commercial uses of DRLs to manage media and entertainment content.

- **Consumers have little awareness and understanding of digital rights storage.**

  There is a basic need for businesses to clearly explain the value of DRLs. While consumers appear to be somewhat familiar with the concept of cloud storage, they do not have a solid understanding of the benefits and advantages. However, they appear interested in learning the following:

  - *Unlimited storage capacity:* Consumers expressed an interest in the possibility of storage beyond their current hard drives. Cloud-based storage is the ideal way to access additional storage without replacing your hard drive.
  - *Speed:* The ability to rapidly access and download to multiple devices is highly appealing.
  - *Unlimited ability to access and share content and improved interoperability of devices:* This is critical for the promotion of digital rights lockers. For most, the ability to share content, especially across multiple platforms, is a huge benefit. Digital rights lockers shift the burden of transcoding and storing extremely large video files away from individual users.

- **When asked to envision the future of film ownership, consumers consistently identify the following key themes:**

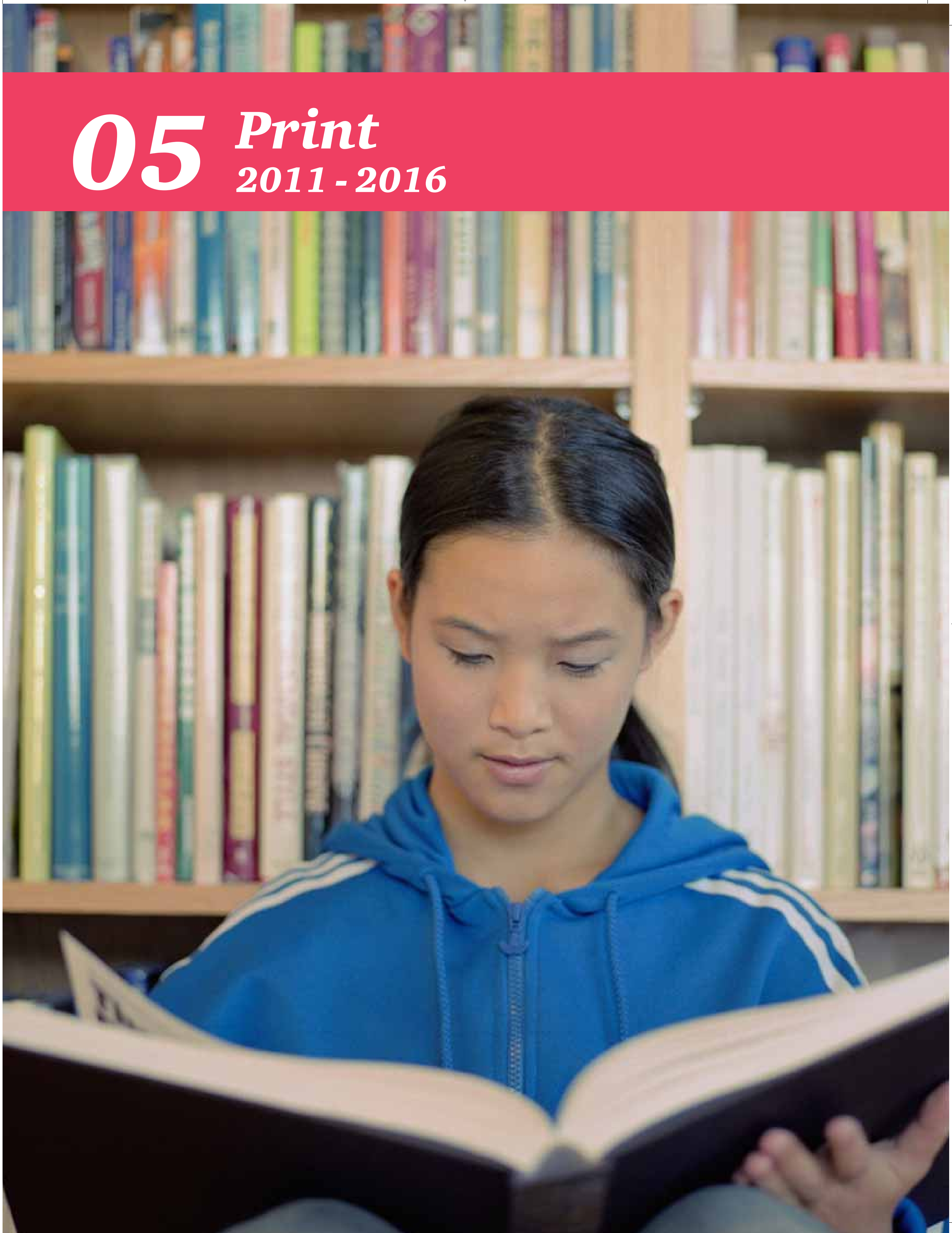
  - One place to store everything
  - Ability to share content with peers (especially important among younger group)
  - Ability to download instantly to any and all devices without restriction
  - Ability to access anywhere–mobility being the key
  - Quality undiminished and not restricted by device

- **Consumers still have the following concerns and questions about digital rights storage:**

  - *Ownership:* Who is responsible for maintaining the locker?
  - *Obsolescence:* What happens to the content of your locker if the next big storage option comes along? Will you have to pay for your content all over again?
  - *Interoperability:* What if all the major studios and device manufacturers don't participate in a common DRL approach? Will we have another platform battle like blu-ray/HD-DVD or VHS/beta or malware? As one consumer said, "What if somebody uploads a virus? Then you'd have a virus on a multitude of things."
  - *Theft:* What if someone amasses content in a locker, and then sells the password?

The implication for the providers of DRLs is to address these concerns in a way that the benefits for the consumer exceed the cost thereof.

05 Print
2011 - 2016



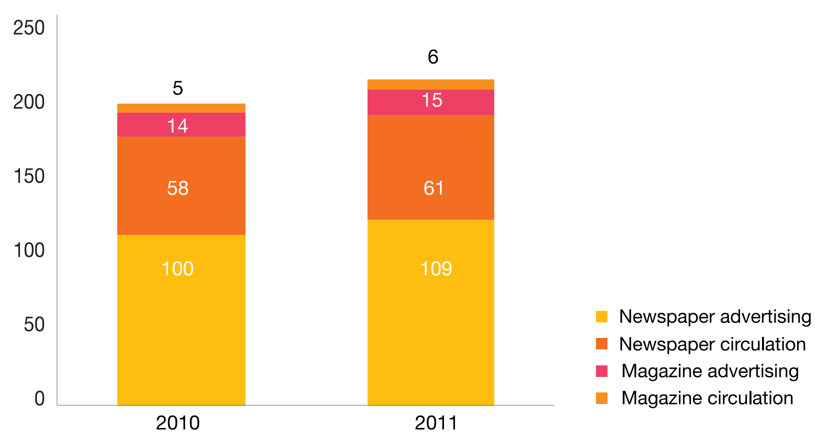
Last year, the Indian print industry witnessed moderate growth. Its revenue increased from 177.7 billion INR (2010) to 190.7 billion INR in 2011. Newspaper advertising witnessed higher growth than subscription, though it was tempered by the moderate economic climate.

The magazine industry saw a marginal growth in 2011. The industry has been slowing down for the past few years and the economic slowdown affected it further. Its market size is estimated to be 20.4 billion INR in 2011 as compared to 19.6 billion INR in 2010.

This sluggish growth can be attributed to the loss in readership of regional magazines as per readership survey. Traditionally, the vernacular publications have been widely read. However, over the last few years, readership survey indicates that most of these magazines are losing their readership base. For instance, *Balarama* (Malayalam) and *Ananda Vikatan* (Tamil) which were among the top magazines a few years back have lost readers.

The print advertising was also affected by the unfavourable macroeconomic conditions such as rise in oil prices, rupee depreciation, high volatility in stock market, rise in inflation and the overall global economic slowdown. While the first half of the year saw some traction due to the ICC world cup and IPL, there was a slowdown in the second half. Drop in spends on advertisement was witnessed in most major categories in 2011. The share of BFSI, education, retail, telecom, internet and DTH slid in 2011 as compared to the 2010 levels.

Print industry 2010 vs 2011 (billion INR)



Key trends

- **National players looking to regional markets to gain advertising**
  The regional print media managed to gain the attention of even national advertisers. The latter realised the huge potential of the regional print market and spends were directed there. With metros already being saturated, regional markets provide ample scope for growth in the media sector. To ride on the positive advertiser sentiment, several newspapers have launched local editions in regional languages. For instance, *The Times of India* has entered Kerala while *The Hindu* has launched its third edition in Kozhikode, besides introducing a printing facility in Mohali which will serve the states of Punjab, Haryana, and Himachal Pradesh.

- **Newspapers and advertisers joining hands to create innovative content formats and advertisement campaigns**
  During the year, some noteworthy innovations were seen in the field of content delivery; for example, the introduction of the *HT Mini* (a quick–read format tabloid) for metro commuters by HT Media Ltd. Also, taking further its 'Talking Newspaper' campaign in 2010, Volkswagen published its 'Jetta' ads in thick and shiny paper in *The Times of India* and *The Hindu* in 2011. In September 2012 as well, it carried this theme forward and used vibrators to create a 'shiver' effect for the 'Polo' and 'Vento' in *The Times of India.*

- **Hindi newspapers showing healthy growth in readership**
  Seven out of the top 10 Hindi dailies showed growth in readership in the first quarter of 2012. The growth is aided by the improving macroeconomic conditions in Hindi speaking regions. Besides, the three Hindi speaking states namely Bihar, Jharkhand and Uttar Pradesh have seen an increase in literacy rates from 2001 to 2011. The launch of new editions by many Hindi newspapers also helped them in garnering readership. In addition, these states have low readership and circulation penetration among their literate population, indicating scope for further increase in readership base.

- **Newsprint prices affecting profitability of print players**
  Globally, the demand for newspaper has reduced significantly in developed countries due to digital penetration, thereby reducing the need for newsprint. Thus, the newsprint manufacturers in the US, Canada and Europe have substantially reduced their operations to maintain the newsprint prices. According to major publishers, the availability of wastepaper, which is required for production of newsprint, in the West has reduced by 50% and in Europe by 20 to 30%. This shortage has had an adverse impact on the prices of raw material, thus further affecting newsprint prices in India.

  Other factors responsible for the hike include rise in crude oil prices, hike in freight charges (for import of newsprint), rupee deprecation, distribution cost, employee cost, cost of procuring content and the mismatch of demand and supply.

  Newspaper publishers use a mix of domestic and international newsprints, and companies vary this proportion to better manage costs and the quality of newsprint. Since both domestic and international rates are growing, publishers may not be able to reduce costs significantly, even by changing this mix.

- **Vernacular dailies witnessing slowdown in readership but still hold potential**
  Readership survey indicates that the vernacular dailies did not fare too well in 2011. The top 10 language dailies have witnessed a cumulative drop of more than 5 lakh readers in the first quarter of 2012 as compared to quarter four of 2011. Except for *Gujarat Samachar,* all other dailies saw a drop in readership.

  However, these markets continue to hold potential. The coverage ratio (average percentage consumers reading more than one newspaper) of southern markets is significantly lower than the Hindi speaking states, indicating potential to increase reader base. E.g., in states such as Tamil Nadu, Karnataka, Andhra Pradesh and Kerala, on an average only 20% to 30% of consumers read more than one newspaper whereas in Hindi speaking states of Bihar and Jharkhand, this number is as high as about 40%. This indicates that print players can target existing readers in these states to expand their reader base.

  In addition, many regional markets have low penetration among their literate population, highlighting the potential to capture new readers in these areas.

Vernacular readership penetration

State	*Penetration among literate population (%)*
West Bengal	15
Maharashtra	20
Karnataka	20
Andhra Pradesh	25
Tamil Nadu	25

- **Niche magazines sustaining growth in circulation as well as advertising revenue**
  The magazine industry seems to be moving from general interest to niche and special-interest magazines. Focussing on targeted audiences is helping them to realise higher circulation revenue and gain attention of advertisers.

  Conde Nast's recent launch of '*Architectural Digest',* targeted at users looking at beautification of their homes, is priced at 150 INR in line with its other launches in past such as *GQ.* This cover price is much higher than the cover price charged by general magazines, which are in the range of 10 to 50 INR. Indicating a confidence in their reader base, many niche magazines have increased their cover price. E. g., the cover price of *Golf Digest* from the India Today Group is expected to rise from the current 100 to 150 INR. Magazines targeted at students preparing for various competitive exams, such as *Pratiyogita Darpan, Competition Refresher, GK Today,* etc. have also increased their cover prices.

Cashing in on the increased interest of advertisers in regional markets, niche magazines are launching regional editions as well. Some of these include *Hello, Lonely Planet, Better Photography, Entrepreneur and Femina.*

App for magazines: Will it aid the ailing magazine industry?

In early 2011, Apple announced that iPad users will be able to subscribe to magazines through its iBooks app from the latter part of the year. It would be downloaded to their devices in the same way as the Zinio app. The company plans to retain 30% of the subscription fee, with the publisher getting the remaining 70%. Some publishers are considering using a Google version, which will only retain 10% of the profit.

Zinio also had to update its iPad app to comply with the Apple fee rules, with in-app purchases now made through users' iTunes accounts. With iPad purchases, publishers will not have access to customer information and, initially, are resisting this model and looking for alternative outlets.

In India, Zinio supplies most of the popular English magazines such as *Filmfare, Hello, Femina, India Today, Business Today,* etc. It will be interesting to see if such apps can open alternate revenue channels for the magazine publishers.

India's place in the world: Comparison with global trends

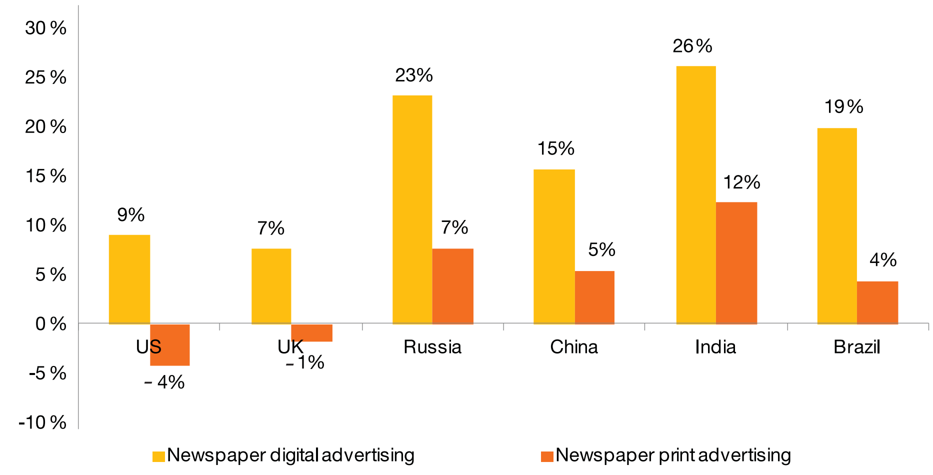
In countries where a majority of households have broadband connections, newspapers face erosion in print unit circulation as readers shift from print to online for information. The shift will cut into both circulation spending and print advertising. However, in countries where broadband penetration is low, there is less competition from the internet, benefiting both circulation spending and print advertising.

The economy is also affecting advertising and circulation spending, providing a lift in countries where conditions are improving while dampening spending in countries whose economies are weak.

However, newspapers have popular websites, and rising traffic on those sites will boost digital advertising. Distribution of newspapers to tablets on a paid basis will generate a paid digital circulation market as consumers appear to be willing to pay for content delivered to tablets.

India is one of the fastest growing countries in case of digital advertising revenues. Though the base is small, young population, addicted to the web, it is one of the primary reasons for growth in this segment.

Newspaper digital vs. print advertising growth (CAGR 2011-2016)



The global print industry is suffering from lower circulation and is seeking digital revenue to sustain existing business. This is more prominent in countries with high broadband penetration, where readers have easy access to information on the internet. Popular news websites are drawing traffic and boosting digital revenue.

Key trends in the global market are as follows:

- **Newspaper advertising moving from print to digital**
  In the western world, with growing availability of free online news content, many newspaper readers have switched to reading news on the internet. Newspaper websites are among the most widely visited on the internet. Also, online newspaper readers are younger and more affluent than their print counterparts, offering advertisers a more attractive demographic profile than in print. As a result, newspaper advertising is going digital. In North America (USA and Canada), newspaper print advertising declined by 9% in 2011 while newspaper digital advertising grew by 8%.

  India perspective: *Most newspapers today have digital presence in the form of websites and e-papers. Major players have also rolled out mobile applications and apps for tablets (e.g., The Times of India and HT Media). They have started digital archiving of their content. However, newspaper advertising is still dominated by print. As digital editions gain popularity, they are expected to get a larger share of newspaper advertising.*

- **Print players trying to offset decline in print circulation revenue by monetising digital content**
  Print circulation spending is declining and to offset this, publishers are stepping up their efforts to generate revenue through digital distribution. Global players are looking out for innovative ways such as introduction of pay wall, online subscription, commission from performance based marketing platform, etc. to monetise their content and build alternate revenue streams. E.g., *The New York Times* introduced pay wall in 2011 which requires users to pay for access of content beyond stated number of articles. *The Boston Globe* has two digital editions: a free version and a paid version. Tablet users are accustomed to pay for content on mobile devices and are being tapped by newspapers.

  India perspective: *Currently, most digital content is still free. Legacy players should start developing models for monetisation of their premium content. Tablets and smartphone users also present a potential readership base that will be willing to pay for news content, as in the West.*

- **Social media encouraging readers to be active consumers of news**
  The global economy is already smitten by the phenomena of social media. As more time is being devoted by online users on social networking sites to connect with other users, express views and suggestions, readers have started playing the role of news contributors as against their traditional role of news consumers.

  India perspective: *In line with the global scenario, social media and network are occupying more online time in the country. Facebook alone accounts for more than a fifth of the total time spent online by users in India. Many newspapers have content that can be shared by users on their social media pages, besides having interactive pages on different social media sites.*

- **Newspapers focussing on customer retention initiatives to maintain brand loyalty**
  In the face of increased competition from other newspapers as well as newer formats of news transmission, focus on customer retention has increased. Axel Springer has developed a measurement and evaluation system to measure its annual customer retention index, which indicates satisfaction and loyalty of its readers and advertising customers through monitoring factors such as perceived quality of publications, the brand loyalty of customers, repeat purchase rates, and its respective competitive advantage.

  India perspective: *While Indian print companies have not formalised mechanisms to measure and evaluate customer retention, most of them conduct customer engagement activities such as contests, fairs and promotional events on a regular basis. E.g., the Hindi daily Hindustan conducts an annual programme 'Pratibha Samman' for engagement among the youth.*

- **Magazine publishers adopting digital avenues**
  Digital readership is appealing to advertisers as digital editions provide advertisers with tools not available in print. E.g., readers can buy products directly from an ad on a web page by clicking the ad and going to a virtual store. The advertiser generates an impulse sale, and the magazine earns a commission. They also can accommodate video advertising, which is one of the fastest-growing components of the overall internet advertising. In addition, global audience is more accustomed to paying for digital content. Hence, magazines are able to launch paid digital editions. E.g., Condenast provides paid digital editions on various platforms such as phones and tablets. In North America, magazines are among the most-trafficked websites, with many titles averaging more than 10 million unique visitors each month. Half of all magazine readers regularly access digital editions.

  India perspective: *Leading Indian magazines also have online presence though the business models are fairly nascent. The Indian editions of foreign magazines are slightly more evolved and have segregated content and higher online ads. E.g., Autocar provides premium content to registered members and supports many relevant ads. With increase in broadband penetration and mobile internet access, the country can also expect its online readership to increase. Magazine companies should adopt models for monetisation of their content in the near future.*

Key technology trends

E&M firms, worldwide, devote a significant chunk of their budgets to operational IT work rather than transformational IT projects. Additionally, most of the IT function is in-sourced. The media landscape is increasingly being populated by niche non-traditional players such as Twitter, Storify and Flipboard, who take on micro-functions in the system rather than incorporating the vertical integration of traditional media players. Thus, it makes sense to follow principles of lean organisations by outsourcing non-key IT and web, and mobile application development and supporting specialist players.

Indian media firms are likely to reap benefits following the 'go lean' trend early as well. Additionally, forging content sharing partnerships with aggregator platforms such as Zite and Flipboard and enhancing their content sharing partnerships with Twitter is bound to give them time to iterate towards the best approach to utilise these relationships when these gain a critical mass. However, managing the transition in terms of talent looks to be a testing issue.

Another helpful paradigm to analyse the latest trends in the Indian print media space is to break each brand into its components. A brand is made of the following:

- **Legacy:** A print brand's important intangible asset is its legacy. This legacy resides in the brand's archives. Digitising these archives and building a knowledge-sharing and collaboration platform around these is seen as the key challenge. Vernacular players face an added challenge of limited OCR-friendly fonts and search functionality.
  - **NFC:** Opening up the archives to public and monetising these is seen as the other major challenge. In this space, micropayment technologies such as NFCs and square look to be promising trends which make payment possible and convenient.
  - **Open journalism:** A trend is seen with The Guardian's 'Open Journalism' project where the Trust opened up its archives and API to developers to build applications on.
- **Readership:** Readers, especially in the SEC A, B spaces are slowly moving to the digital space. In this context, brands need to ensure presence and connect across micro-content as well as the long-form spaces to ensure reader loyalty.
  - **Content management eco-systems:** In the past, adapting to the micro-content platforms was seen as a challenge for legacy players. However, as *IBNRealTime* and *HTTweets* show, a possible way forward is to keep readers keyed in with the development of each story. To enable mainstreaming of this idea, the content management systems can be reimagined as eco-systems with a set of tightly-knitted applications managing news and ad-distribution across multiple channels and also help package and cross-sell ad-inventory space. 'The Stream' by *Al-Jazeera* is a pioneering example of this idea.
  - **Monetisation:** In this space, monetisation is seen in the context of freemium models, as those pioneered by *The New York Times* and *The Wall Street Journal.* Closer home, *The Times of India* has experimented with monetising subscription of its crest pages. The idea is still in its nascent stage and looks to gain traction only in the medium to long term.
  - **Social listening:** Consumer analytics across platforms using available structured and unstructured data from social networks using listening tools (such as Google Insights), is likely to help brands effectively track their consumer engagement and position it effectively in their sales pitch.
- **Clientele:** It is understood that a print brand's clientele are likely to find stickiness with brands which have a presence across platforms. In this context, it is predicted that enterprise-level applications and actual inventory usage across platforms will be crucial. Additionally, CRMs will increasingly play an important role as dipping average revenues per user and CPM, CPI or CPC revenues will be important to bulk up the clientele.

Tablets: Self-publishing and rethinking children's books

With Micromax and similar low-cost players entering the tablet market fray, and the easy access to high-speed internet could also bring about traction amongst tablet users. Higher engagement experiences such as longform reading and interactive games are naturally suited to the medium, and present opportunities for niche publications and magazines (travel magazines, for instance, can use the platform to create compelling multimedia travelogues) to foster additional reader engagement.

Publishers of textbooks and children's books are likely to capitalise on the interactivity of the medium and re-imagine storytelling as a more dynamic feature; much like Apple set an example with its iBooks app. With the government pushing towards extremely low-cost tablets such as Aakash, this section of the market will see an immense opportunity to define the learning and storytelling experiences of school students.

Additionally, independent publishers are likely to find added traction with the opening up of Amazon's Kindle store in India with the facility for independent publishing. Whether this can spur on a self-publishing trend, much like YouTube did for independent artists, still remains to be seen.

M&A activities in print

Recent M&A activities in the print sector give brief insight on recent trends in the print industry in India.

- **Increasing interest by telecom companies:** Recently, the multi-crore investments by Reliance in Network18 Group and acquisition of 27.5% stake in Living Media by Aditya Birla Group supports long held desire of telecom companies to get access to media content to expand their businesses. These deals follow global trend of telecom companies moving forward from being carrier to content provider.

  Such deals are a 'win–win' situation for both telecom and media companies. On one hand, such deals provide telcos easy accessibility to content in the era of 'content is king'. On the other hand, media companies which are suffering on account of challenging macro-economic environment are benefited due to infusion of fresh funds. Telcos have realised that quicker access to superior content will act as key differentiators for the companies and provide them with a competitive edge. These deals help media companies accomplish their desire to build scale and go national.

- **'Go national' agenda of newspapers:** The investment of 225 crore INR by Blackstone in Jagran Media provided the latter with funds to support its growth plans including acquisitions (recent media reports suggests interest of the group in buying *Nai Dunia*). It helped in Jagran's plan to venture into regional languages across the country. As players with national hold are preferred by advertisers which enable them to garner better rates and higher ad volumes, any inorganic expansion will only be beneficial to the company. Stake sale to Aditya Birla Group is most likely the result of Living Media's attempts to raise funds to expand its print business. The company plans to start the Mumbai edition of its existing property *Mail Today* and may possibly want to get into the Hindi newspaper market to reap benefits of the high Hindi speaking population of the country. Acquisitions of majority stake by DB Corp in an Indore-based newspaper (Divya Prabhat Publications Pvt Ltd) and Asianet News Network Pvt Ltd acquisition of a Bangalore-based newspaper (Kannada Prabha Publications Ltd) also substantiates expansion of regional footprints by existing players in the industry.

- **Decrease dependence of print on overall revenue of the company by expanding into other areas of business:** Acknowledging its heavy dependence on print, companies such as HT Media are de-risking itself by expansion into other areas of business. The recent formation of an equal JV with US firm Apollo Global Inc, an expansion into education industry, supports such efforts. Amar Chitra Katha Private Ltd's (ACK) plan to get into amusement park business is another example of increasing diversification by players in print.

Going forward

The Indian print industry is projected to grow at a CAGR of 9.2% over the period 2012-16 and is estimated to reach 296 billion INR in 2016 from the present 190.5 billion INR in 2011. While the world is going digital, we believe that in India, print will retain its stronghold, due to lower broadband penetration. However, the influence of digital news will only increase and a combination of print and digital will drive growth. Another key growth area will be the regional markets that are steadily gaining importance in the eyes of advertisers. With higher proliferation of smartphones and tablets in India, it needs to be seen, if digital can impact the magazine market. Niche content in magazines and hyper-local news in regional and English newspaper are expected to be the focus of the existing players.

As the national advertisers look to target audience in Tier 2 and Tier 3 cities, the regional print media is expected to benefit more. However, English newspapers are focussing on these towns with local editions and content, giving advertisers an option to go regional. Going forward, some of the key focus areas for print players include the following:

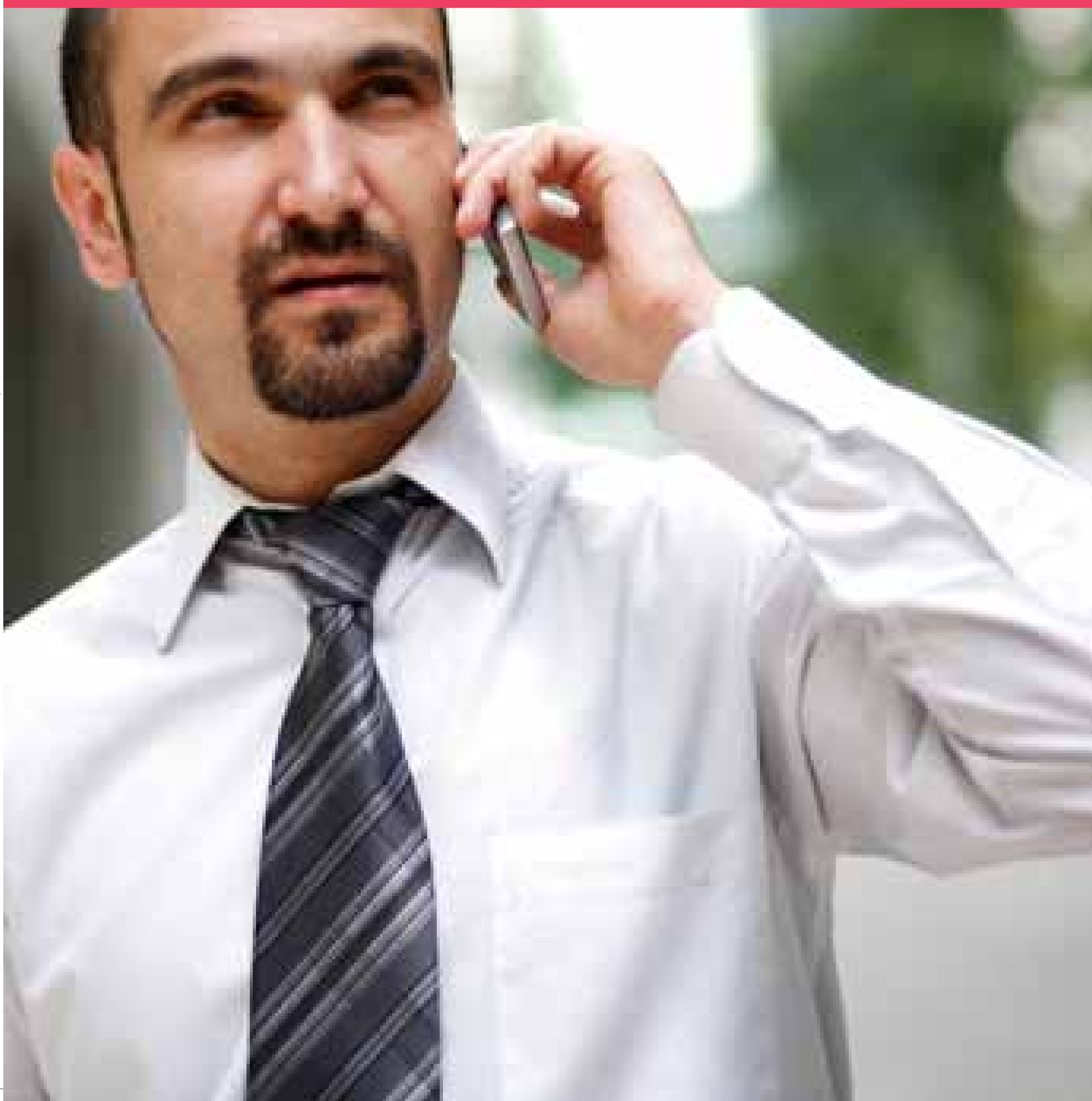
- **Monetisation of digital content**
  The influence of digital content is steadily increasing, especially among young readers. In the near future, print players should supplement their newspapers with digital content to retain their readers and maintain brand loyalty. E.g., integration of a classified advertisement across print, the internet and mobile will drive a powerful and unique value proposition to every advertiser.

  It is also essential for players to develop viable business models for monetisation of digital content. Utilising the distribution power of the internet and the lowered transaction costs offered by the computing platforms to design innovative pricing mechanisms can catalyse a new paradigm for the media industry.

- **Focus on regional consolidation**
  Backed by the increase in purchasing power across Tier 2 and 3 cities along with the rise in literacy rate, the regional media consumption will continue to rise. As is the trend with many players, editions with local content in regional languages will attract readers and help in consolidating the position of the newspaper, thereby attracting advertisers.

06 Wired and mobile internet access

2011 - 2016



As per the TRAI, India had around 23 million wired internet subscribers in March 2012, of which around 14 million had broadband connections. A year ago, there were around 20 million internet subscribers of which 12 million had broadband. In revenue terms, the size of the wired internet market increased from about 45 billion INR in 2010 to almost 55 billion INR in 2011.

Current values correspond to abysmally low internet and broadband penetrations (connections per 100 people) of approximately 2 and 1% respectively. India's national broadband policy target was to achieve 20 million subscribers by 2010 and that still seems a fair distance away.

The number of internet users exhibits a more positive scenario as many people are able to access internet through shared connections at homes, offices and cyber-cafes. As per estimates, the number of internet users in India had increased to 121 million in December 2011 from around 100 million in December 2010. The relatively low subscription and usage levels of wired internet can be attributed primarily to India's poor fixed-lined infrastructure with only about 40 million fixed-lines. Actual fixed line subscribers are closer to 30 million.

In contrast, India had a mobile connection base of 919 million at the end of March 2012. Adoption of mobile internet is also growing at a healthy pace with 51 million subscribers as at the end of December 2011 as compared with around 23 million subscribers in December 2010. Interestingly, revenues from mobile internet now exceed those from fixed internet.The mobile internet access market size increased from about 28 billion INR in 2010 to over 61 billion INR in 2011.

Key trends

Wired internet access

- **Current under-penetration to drive growth but significant challenges remain**

  With current low levels of penetration, the Indian wired internet access market can grow over the next few years on the back of rising income levels and high awareness as well as interest levels of youth population in accessing internet content.

  However, wired internet access needs users to invest in a PC or a laptop and a modem (plus installation charges) apart from paying monthly rentals, which could be as high as 500 to 1,000 INR for moderate usage plans. In comparison, the monthly ARPU for a GSM subscriber was only 97 INR in Jan-Mar 2012.

  Therefore, to drive significant adoption, it is important for policymakers and operators to examine ways in which the upfront as well as monthly costs can be reduced. Otherwise, it is unlikely that the adoption of fixed internet and broadband will increase at a rate similar to that expected for mobile internet.

Mobile internet access

- **Affordable smart-phones and data plans driving growth**

  The Indian market already has handsets priced lower than 5,000 INR that support mobile internet access. Several GPRS and EDGE compatible handsets are available at even lower prices. Over the next few years, prices are expected to trend down further, driving adoption.

  Affordable data plans are also important for wide-scale adoption of mobile internet. Recently, leading mobile operators in India reduced tariff rates for 3G plans by upto 70%. Since 3G is expected to offer significantly higher download speeds and an improved customer experience, this move is expected to lead to increased user adoption and usage of mobile internet.

India's place in the world: Comparison with global trends

Developed markets have a relatively more mature fixed internet access market as compared with India. These markets are also ahead of India in mobile internet access.

- **Fixed internet access market to approach saturation levels and mobile internet access to grow rapidly in developed countries**
  Most developed markets, such as the US, the UK, Germany and Australia, already have high household penetrations of fixed internet. These markets are approaching saturation with 70 to 80% household penetration already achieved (even higher in some countries such as Japan). They are, therefore, likely to exhibit modest growth rates over the next few years.

  On the other hand, mobile internet penetration is expected to grow rapidly in developed markets with increasing adoption of high-speed technologies such as 3G and 4G coupled with the rising prevalence of smartphones and dongles that provide good user experience. Going forward, countries such as the US, the UK, Germany and Australia are expected to exhibit rapid growth with double-digit growth rates over the next few years. Even developing countries such as China are expected to witness rapidly rising mobile internet penetration as wireless technologies help them leapfrog over the deficiencies of poor fixed line infrastructure.

  India perspective: *Although India's wired internet access market is expected to show modest growth over the next few years, it is unlikely to approach saturation levels over the medium term due to inadequate existing infrastructure, inadequate new investments and costs associated with using wired internet. However, this will be compensated to a great extent by the rising proliferation of mobile internet, driven by increasing smartphone penetration and relatively lower total costs (e.g. no investment in PCs or laptops required) of mobile internet access.*

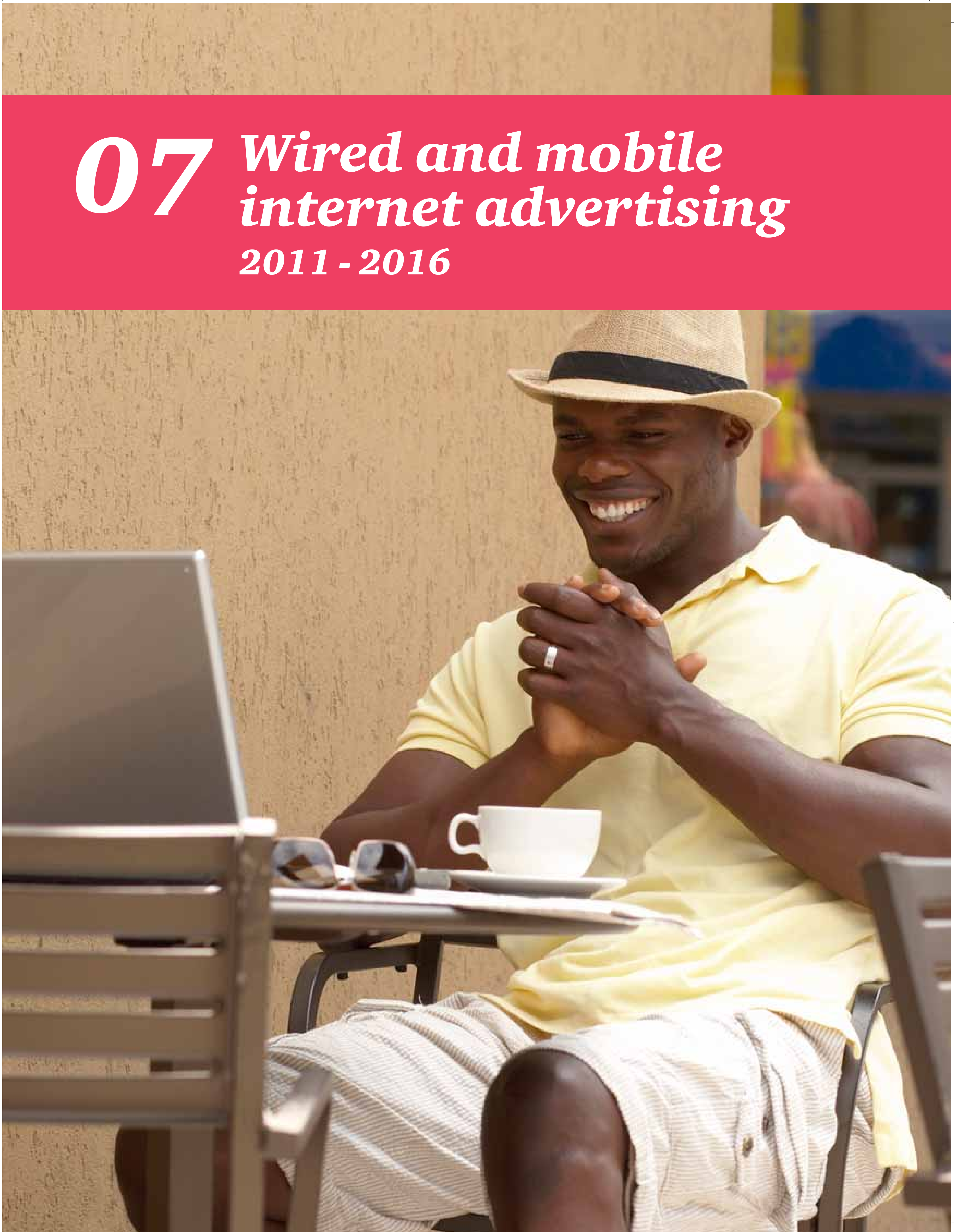
Going forward

The Indian wired internet access market is expected to grow rapidly, again from a low base, from about 55 billion INR in 2011 to approximately 149 billion INR in 2016. India's mobile internet access market is expected to grow even more strongly and increase multi-fold–from about 61 billion INR in 2011 to approximately 358 billion INR in 2016, representing a CAGR of over 40%.

Some of the expected trends in internet access include the following:

- **India to continue to be a laggard in fixed internet penetration despite reasonable growth**
  Going forward, the Indian fixed internet access market is likely to grow at a reasonable pace with the number of internet households increasing to around 43 million in 2016 from about 20 million in 2011, representing a CAGR of over 16%. Consequently, household internet penetration is expected to increase from about 9.2% in 2011 to approximately 17.3% in 2016. Thus, India is expected to lag behind developed countries by a significant margin over the next few years.
- **Rapid growth expected in the Indian mobile internet access market**
  The Indian market is expected to grow at a fast clip, with mobile internet subscribers growing from about 51 million in 2011 to approximately 400 million in 2016, representing a CAGR of over 50%. The convenience of personalised, anytime, anywhere internet access and lack of good fixed-line infrastructure, coupled with rising popularity of web-based applications such as email and social networks will propel the market forward.

07 Wired and mobile internet advertising 2011 - 2016



Wired internet advertising, although smaller than its TV and print counterparts, is emerging as an important platform for reaching consumers, especially the digitally savvy. Industry revenues rose from 7.7 billion INR in 2010 to 10 billion INR in 2011, thereby demonstrating a growth rate of over 30%, almost twice the growth rate exhibited by TV and print advertising segments, albeit from a lower base.

Mobile internet advertising[9] is presently in a fledgling state with revenues of only 0.1 billion INR in 2011. However, it should be noted that the market grew by almost 100% as compared to 2010.

Key trends

Wired internet advertising

- **Increasing internet user base driving strong growth**
  As per estimates, the number of internet users in India had increased from around 100 million in December 2010 to 121 million in December 2011. The increasing number of internet users, along with the growing frequency of use and time spent per browsing session, are driving internet traffic (e.g. number of webpages viewed) and propelling the growth of the internet advertising market.

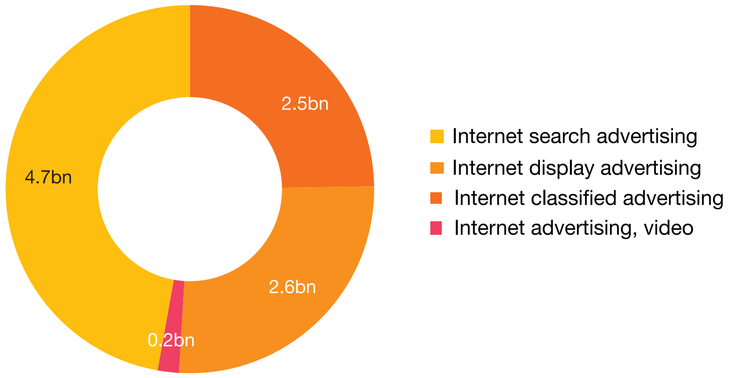
- **Distinct benefits over other media also boosting internet advertising**
  Wired internet advertising offers the dual benefit of reaching audiences and measuring campaign responses effectively. It also makes it possible to leverage demographic and geographic information to target specific customer segments and deliver customised ads. Internet advertising can also be highly cost-effective for SMEs and SOHOs to attract target customers and build their brands.

  Moreover, with people, especially the youth, spending greater time on social networking sites, internet advertising can be leveraged to deliver relevant messages to specific customer segments. As per a study, Indian internet users spent 25.2% of their time online on social networking sites in June 2012 as compared to 24.4% in the previous year. Advertising expenditure on social networks is expected to grow on the back of continued affiliation of Indian internet users with social networking sites.

- **Search advertising dominates other formats**
  Search, display, classified and video are the four key types of wired internet advertisements. In 2011, search advertising towered above other categories with about 47% market share and 4.7 billion INR in revenue, representing over 30% year-on-year growth. Search advertising offers the distinct benefit of enabling advertisers to convey messages when consumers are looking for specific information. Therefore, these messages are more likely to elicit a response from consumers. Moreover, such 'self-selection' is typically not available in other media.

  Display and classified advertisements comprised approximately 26 and 25% market share with revenues of 2.6 billion INR and 2.5 billion INR respectively in 2011. Moreover, they continued to grow rapidly with year-on-year growth rates of 27 and 29% respectively. Video ads are still nascent in India with about 2% market share and 0.2 billion INR in revenues.

Components of the India wired internet advertising market, billion INR, 2010-2011



9 The mobile internet advertising segment includes advertisements that are delivered on consumers' mobile handsets through SMS, apps or browsers (while accessing the internet through mobile devices).

- **Lack of adequate vernacular content proving to be a hindrance**

  Wired internet advertising currently suffers from a lack of ability to reach a wider audience due to language barriers. For instance, most of the web content in India is in English and there is an urgent need to make vernacular content available to foster wider uptake and usage of internet among people across the country.

- **The need to seamlessly integrate advertisements with online content**

  Another concern is that users can ignore display advertisements and do not like attempts by publishers to force them into viewing or clicking advertisements. In fact, search advertisements are viewed most positively and command a high market share since they are deemed highly relevant to consumers' specific information needs.

  Thus, it is important that publishers pay greater attention to the design of web-pages and also smartly integrate advertisements with on-screen content. Advertisers also need to ensure that their messages stand out and appeal to consumers through their relevance.

Mobile internet advertising

- **Increasing adoption of mobile internet and smartphones driving growth**

  The rising adoption of mobile internet by Indian consumers is providing a strong boost to the mobile advertising market. Additionally, smartphone penetration continues to rise steadily, especially among the youth. Smartphone users tend to access the internet more frequently through their mobile devices. As per estimates, there were about 27 million smartphone users in urban India in June 2012, representing around 9% of the urban mobile user base. Smartphone adoption in India is expected to increase further, driven by falling prices and increasing consumer acceptance.

  In May 2012, mobile internet usage exceeded fixed internet usage for the first time in India, and this trend is expected to continue. Therefore, advertisers and ad agencies would be well-advised to not ignore the growing importance of this medium.

- **Importance of delivering highly relevant ads to small screen sizes**

  In spite of high mobile penetration, the mobile internet advertising market faces the challenge of small screen sizes, especially when browser-based advertisements are considered. The relatively smaller display sizes of mobile phones restrict the number of advertisements that can be displayed alongside search results or in webpages.

  The increasing adoption of smartphones with relatively larger screen sizes will help drive the growth of search and display advertisements on mobile handsets, and therefore it is necessary to make such handsets more affordable for the masses. It is also important that advertising networks and publishers are able to deliver highly relevant ads to consumers considering the limitations on the quantity of ads that can be displayed.

India's place in the world: Comparison with global trends

The internet advertising market is at a significantly evolved stage in developed markets as compared to India.

- **Global internet advertising market poised for strong growth**
  Countries such as the US, the UK, Japan and China are significantly ahead of India in wired internet advertising. In fact, in many developed countries, the size of the wired internet advertising market is comparable to the television broadcast advertising market. This is due to high household internet penetrations and internet usage across almost all sections of the society.

  Almost all the key markets such as the US, the UK, Japan and China are expected to exhibit strong growth rates as consumers continue to spend significant amounts of their time online.

  Similarly, in mobile internet advertising, the developed countries are far ahead of India, which only has a fledgling market at the moment. Further, with smartphones increasingly becoming the norm and adoption of 3G and4G expected to increase further, the mobile internet advertising market is expected to continue to grow at a rapid pace over the next few years in developed countries.

  India perspective: *Although the size of India's wired internet advertising market is currently low as compared with various international peers, it is expected to grow faster than many of its peers over the next few years. The driving factors include increasing adoption and usage of internet from a low base and rising interest levels of advertisers. India's mobile internet advertising market is expected to grow even more rapidly as the global trend of increasing adoption of smartphones and high-speed mobile data access is being witnessed in India as well and this will lead advertisers to follow them on this platform.*

Going forward

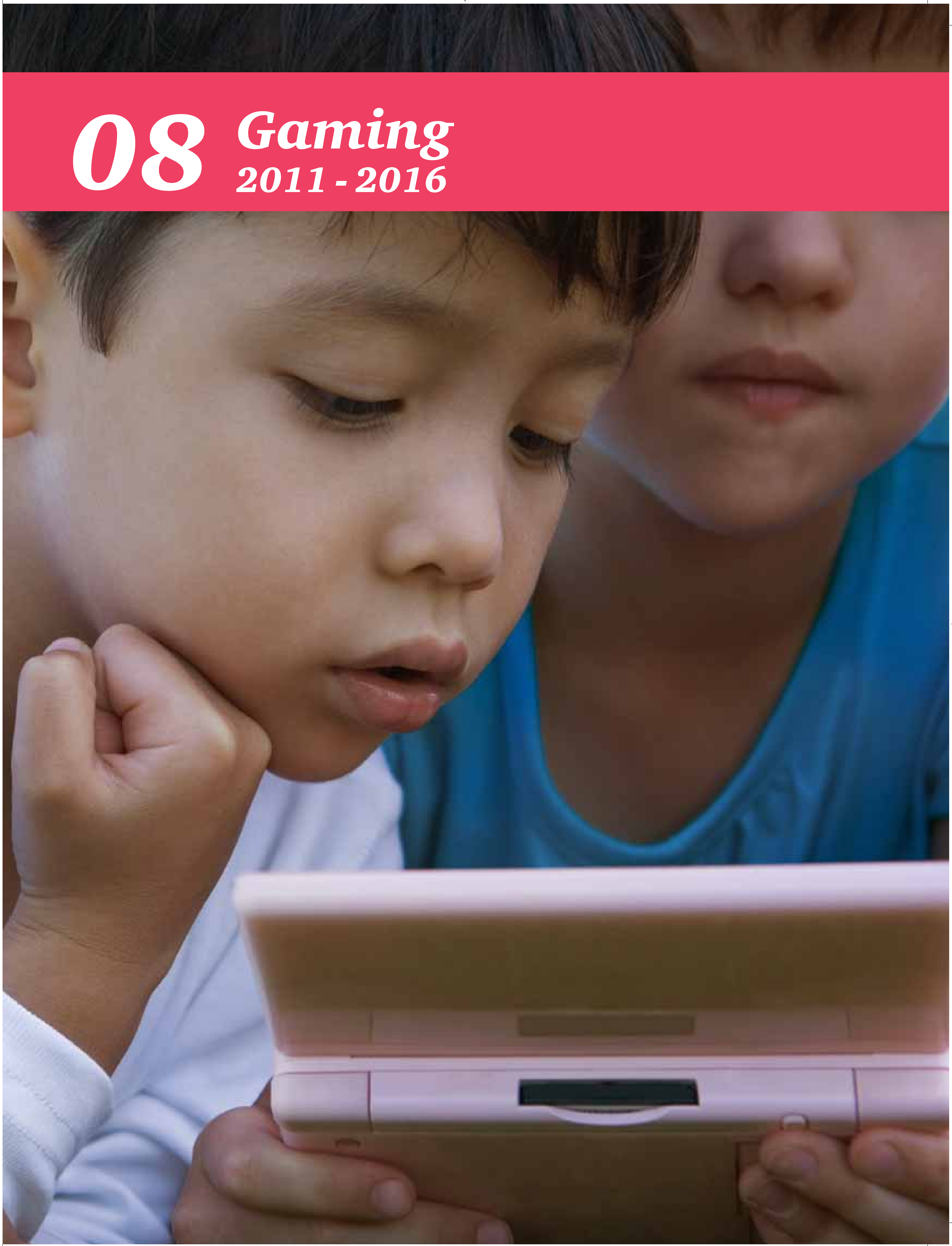
India's wired internet advertising market is expected to grow robustly and reach almost 29 billion INR in 2016, representing a CAGR of over 23%. The mobile internet advertising market is also expected to grow strongly, albeit from a low base, over the next few years, with revenues touching 1.4 billion INR in 2016, representing CAGR of over 70%.

- **Search advertising to continue its domination, video ads to grow the fastest**
  Search advertising will continue to dominate the wired internet advertising market and reach almost 14 billion INR in revenues by 2016, representing a CAGR of almost 24%, a little faster than the growth of the broader market.

  The fastest growth will be witnessed in video ads, which will exceed 1 billion INR in revenues by 2016. However, they will comprise only 4% (approximately) of the total market, which is still more than their current share of about2%.

  Display and classified advertising will also exhibit strong growth, although less than the broader market growth, and reach revenues of 7 billion INR and 6.7 billion INR, representing CAGR of approximately 22% and 21.5% respectively.

08 *Gaming*
2011 - 2016



The Indian mobile gaming industry was estimated at 6.8 billion INR in 2011. It is the fastest growing gaming segment with a projected CAGR of 22.2% till 2016. The gaming industry comprises the following four key segments:

- PC gaming
- Mobile gaming
- Console gaming
- Online gaming

Key trends

- **Sharp growth in mobile gaming driven by massive mobile subscriber base**
  With a massive mobile subscriber base of almost 920 million users, rise in disposable incomes, favourable young demographics, advent of powerful smartphones, growing influence of tablets, increasing broadband penetration and rise of 3G networks, the mobile gaming phenomenon is poised for exponential growth.

- **Social media and online gaming continues to grow**
  The following factors have led to the rise of online gaming in India:
  - *Popularity of social networking websites:* The number of Facebook users in India has risen dramatically from about 2 million in 2010 to over 50 million in 2012 (August). The Indian gaming companies are capitalising on this popularity to make avid gamers out of these users by integrating their games with such websites.
  - *Profitable business model:* Rampant piracy in the Indian PC games industry does not make this industry an attractive market for developers from a financial viewpoint. On the other hand, the emergence of alternate revenue channels such as advertising, micro transactions, subscription fee in the online gaming industry have grabbed the attention of developers. With nearly half of the Indian Facebook users falling under the 18 to 24 age category in-game advertising remains a formidable marketing force for brands from sectors as diverse as FMCG, apparel, insurance, banking, IT, telecom, etc. to reach their target audience.
  - *Higher internet penetration:* The rising number of Indian internet users, which currently stands at about 10% of the total population, will fuel the growth of the online gaming industry in the future.

- **Console gaming on a rise**
  Console games refer to those games which typically require an output device (computer or television) and an input device (controller). The popular gaming consoles in the Indian market are Play Station 3 (Sony), Xbox 360 (Microsoft) and Wii (Nintendo). With the majority of the population under the age of 35, the demographics make an attractive case for the console gaming industry. Falling prices coupled with rising awareness and easy availability of console games are going to be the major growth drivers of this industry for the next few years.

- **Affordable prices key to 3D gaming growth**
  3D gaming is a newly evolved category but a logical progression in the gaming space. It requires a 3D TV for immersive experience and major vendors such as Sony are already running a bundle scheme with its PlayStation 3 and the Bravia 3D TV. While some industry experts are betting on 3D gaming as the next game-changer, prohibitive hardware costs are going to keep this segment out of reach for most customers. Unless technological advancement ensures affordable prices in the next few years, 3D gaming will continue to be restricted to a niche segment.

- **Piracy key hurdle in growth in video games**
  Software piracy rates in the Indian market are close to 70%. Due to easy availability of illegal CDs in the grey market, the retail sales of games are deteriorating rapidly and are hurting this segment. The difference in price between original games and pirated versions is almost 10 times, incentivising the user to buy the pirated version at a cheaper price. The government has plans to introduce new laws and controls to tackle piracy but till that happens, piracy will continue to remain a major challenge in driving growth in the retail game segment.

- **Low internet quality making high-end gaming unviable**
  Slow internet speeds and limited broadband penetration make high-end gaming unviable. Over 35% of the internet connections in India have speeds of 256 kbps or less. The country's fixed broadband household penetration was 6% in 2011, much lower than the overall penetration in emerging markets. The National Telecom Policy (NTP) 2012, approved by the cabinet, promises broadband for all with a minimum download speed of 2 megabits.

- **Limited localised content a challenge for gaming publishers**
  The lack of local gaming content is a challenge for gaming publishers. Games inspired by Bollywood and cricket account for a large proportion of local games. E.g., Ibibo's Mumbai Underworld game is based on the underworld theme in Hindi films, while, last year, the game Ra.One Genesis was released just before the launch of the film as a part of its overall digital media strategy. Games2win launched its Turbo Cricket game on the Android market in mid-2011 while Mango Games recently launched 'Don' inspired by the eponymous Bollywood franchise.

  Until now, very few of the online games that catered to the audience incorporated local themes and characters. An online game in India called 'Angry Brides', highlighting the problem of illegal dowry demands, has attracted more than 270,000 fans.

Animation

The Indian animation industry, in 2011, was estimated at 28 billion INR. The industry has several segments namely e-education, web designing, animation entertainment–films (2D, 3D), visual effect (VFX), TV, broadcast, direct to DVD, etc.

Key trends

- **Animation moves from an offshore model to a co-production model**
  As the cost of producing animation films is high, many companies opt for co-production whereby both the risks and the revenues are shared between the concerned parties. The following are some examples:
  - Disney and UTV are co-producing an animated epic film *Arjun: The Warrior Prince.*
  - The film *Alpha and Omega* was animated by Crest Animation Studios in partnership with Lionsgate, a leading independent filmed entertainment studio. Crest is one of the first Indian production companies to make a Hollywood animation film.
  - Based on the hilarious escapades of Charlie Chaplin, *Chaplin and Co* is a co-production between Hyderabad-based DQ Entertainment and France-based Method Animation. It was developed in consultation with the Chaplin family.
  - Amar Chitra Katha (ACK) Media, co-owned by Future Ventures and Elephant Capital, has entered into a co-production agreement with leading kids channel Cartoon Network to produce its first feature film titled *Sons of Ram – Heroes will Rise.*
- **Newer avenues for animation continue to evolve**
  - E-learning: Several education institutes are trying to enhance their learning experience by providing education through animation.
  - Mobile: All forms of gaming use multimedia in an extensive way. The introduction of 3G and rising internet saturation as well as the young Indian demographic will lead to further growth of the gaming and animation industry.
  - Licensing: Companies have tied up with licensing companies offering various opportunities in the electronic media, videogames, mobile and merchandising in the unexplored areas of animation. In the process, the animation company gets revenue from the concerned company by selling animated products and their marketing rights. The merchandise-licensing business in India has been growing at more than 50% y-o-y in the last three years and the total sales are estimated at 500 crore INR.
  - Advertising: It is estimated that more than 75% of the advertisements made today use VFX in different ways and proportions. VFX is useful to reduce the budget of the advertisement.
- **Moving up the value chain**
  In India, companies engaged in VFX post production have been engaged in low-end work such as wire removals and clean-ups for a long time. However, the industry has been moving towards higher-end assignments of late.

  Also, the lack of adequate demand from the domestic market has resulted in dominant players in the VFX space scouring for opportunities abroad. Companies have to hard-sell their expertise, since not every production studio in the US or the UK may be comfortable with outsourcing. The inadequacy of domestic work is also an impediment for domestic VFX companies in showcasing their capabilities to clients in developed markets.

Going forward

The value of the animation industry estimated at 28 billion INR in 2011 is expected to reach 66 billion INR by the year 2016 at a CAGR of 18%. This income will mainly generate due to the growing reputation of India as a quality destination to outsource animation work. The Indian animation industry is currently a minuscule 0.6% of the worldwide animation market, thus indicating a huge scope for growth.

India's place in the world: Comparison with global trends

Globally, the shift to online and mobile games will hurt the console game market in the near term. The market for PC games will continue deteriorating as consumers turn their attention to newer technologies.

Key trends emerging in the global market are as follows:

- **Global console games in a phase of slow growth**
  Global console games constitute approximately 48.6% of the overall video games industry, estimated at 27.5 billion USD in 2011. This is expected to grow to 30.5 billion USD with a projected CAGR of 2.1% by 2016. Deteriorating sales of games are hurting retail stores. If this pattern causes some retailers to close, it will further exacerbate the decline in the market for console and PC games.

  The Indian perspective: *Console gaming in India comprises only 16.1% of the video games market in the country. The projected CAGR of 27.5% (till 2016) is deceptively high due to the base effect. In line with global trends, console gaming is being replaced with online and mobile.*

- **Globally, online taking over the next phase of gaming**
  As per PwC analysis, globally, online comprises 29.7% of the industry and is projected to grow at a CAGR of 13.3% till 2016. Increased broadband penetration along with the growing digital distribution of content will drive the growth of the online market. The migration of many MMOGs from their subscription models to a free-to-play business model is increasing the number of players worldwide. The growth of micro-transactions is proving a boon for the industry. Casual games and social network games are important components of the online market, helping expand the demographic base and stimulate spending.

  The Indian perspective: In India, mobile is taking over the next phase of gaming. It comprised 61.4% of the industry in 2011 and is projected to grow at a CAGR of 22.2% (till 2016). India has one of the largest mobile consumer bases (it has a mobile internet subscriber base of almost 850 million) in the world, and the percentage of people downloading games is expected to grow dramatically. In India, the mobile game segment of the market dominates the video game industry because mobile phones are widespread.

- **PC games continue to decline**
  According to PwC analysis, globally, PC games will continue to decline at 1.9% CAGR (2016) as consumers turn their attention to newer technologies. Piracy of PC games, prevalent in certain markets, has also hampered the growth of the segment. The growth of MMOGs, which usually require retail purchase of a PC game, continues to support the retail PC game market.

  The Indian perspective: *In India, PC games, albeit small (7.2% of the industry in 2011), are still growing and are expected to grow at a CAGR of 10.5% till 2016. The government has plans to introduce new laws and controls to tackle piracy. The materialisation of these laws will greatly boost the growth of the PC games segment.*

- **Video game advertising, nascent and emerging as an additional revenue stream**
  Globally, video game advertising comprises a small pie of the video games industry (3.7%), but is growing rapidly and is projected to grow at a CAGR of 11.2% (2016) as per PwC analysis.
  The growth of social network and free games is driving video game advertising. Cloud services will also have a positive impact on advertising because ads can be easily updated in the cloud. E.g., a billboard promoting a film can be updated as new films get released. In this way, the advertising will always be fresh. Additionally, advertising can be targeted geographically. The messages can be programmed for delivery at specific times in a day. Since online games are attached to the internet, it is also possible to track both the number of times a gamer is exposed to ads as well as the amount of time ads appear on the screen.

  The Indian perspective: *In line with global trends, video game advertising in India comprises a small percentage of the industry (1.7%) but is growing rapidly and is projected to grow at a CAGR of 14.9% (till 2016). Advertising will grow as more advertisers realise the gaming industry's potential to reach specific audiences.*

Going forward

The Indian gaming industry has shown tremendous growth in the past and its growth will continue in the future. PwC estimates that from 11.1 billion INR in 2011, the gaming industry will be worth 29.8 billion INR by 2016, surging at a CAGR of 23.6%.

- **Convergence of gaming anytime anywhere across devices**
  Gaming-on-the-go across any device is poised to explode given the phenomenal growth of mobiles and the increase in processing power of newer smartphones and tablets. However, mobile games, rather than cannibalising the traditional console and online gaming experience, will actually serve as a complementary gaming alternative. The ability to save, access and continue playing the same game on any laptop, mobile, tablet or smart TV will change the way gaming is viewed. With the rise of 4G networks and the rapid growth of smartphones and tablets in India, accessing the same game across devices could soon be a reality.

- **From motion control to virtual reality**
  Motion control cameras are becoming increasingly powerful at reading every nuance of motion that may be able to read your lips without any voice command. Leap Motion, a new start-up, has recently developed a new motion control device that is sensitive down to 1/100 of a millimetre–about 200 times better than other sensors. It detects motion via infrared within four cubic feet area volume in front of a screen and is only double the size of a pen drive. Scheduled to launch in December 2012, it will make motion control technology available to the general public. The demonstration of the new 'Half Life 2' prototype by the Fourth Dimension Displays at the Game Developers Conference in 2012 has shown that it is quite possible to create a virtual environment by positioning a 1080p HD display a few inches in front of each eye across an area which measures less than an inch diagonally and creating an almost 3D effect screen covering more than 100 degree field of vision in front of you. Google's 'Project Glass' is another powerful prototype which features futuristic transparent glasses a few inches in front of your eye with sensors and a data connection to boot. All functions of a smartphone can potentially be performed through the glasses making it breakthrough technology which can help revolutionise the gaming experience.

09 Radio
2011 - 2016

From AIR two decades ago to 245 operational radio stations across 86 cities in India, radio today has become one of the most effective means of reach through localised content. This dramatic growth is largely due to private FM stations.

Despite the slowdown in 2011 and the uncertainty about recovery, established players have held on to their advertisement rates while smaller players offered discounts for ad slots. The radio sector grew by almost 10.4 % from 12.5 billion INR in 2010 to 13.8 billion INR in 2011. Increase in radio listenership has been the major growth driver with consumers listening to radio through new mediums like mobile phones and live internet streaming.

Key trends

- **Advertisers yet to realise radio's full potential**
  It was during the slowdown that everyone discovered the efficacy of radio as a medium. But, advertisers are yet to completely acknowledge its full potential. While radio increasingly garners acceptance among advertisers, it is expected to result in higher ad spends. Advertisers are also focusing increasingly on non-metro markets, given the rising purchasing power of these markets.

  The cost per reach of radio is significantly better than television as the former has higher potential to penetrate rural areas. High growth rates in the sales of consumer commodities in these areas should attract firms interested in increasing rural marketing focus, as the medium provides an easier and effective way to achieve this. Radio also typically attracts a majority of advertisers that are exclusive on those mediums and are local in nature. These local retailers and restaurants see an advantage in advertising their products and services in local newspapers or radio as opposed to television.

- **Internet radio gaining popularity**
  The streaming of radio programmes on the internet by both traditional radio broadcasters as well as internet-only broadcasters is on the rise. By streaming their programmes online, station operators can widen their reach beyond their signal area and increase their potential to sell to national advertisers. Most channels are available anywhere anytime– Radio Mirchi, Radio City, Vividh Bharti, etc.

  Wi-Fi radios enable consumers unwilling to pay for satellite radio but wanting more than the limited selection on terrestrial radio, to access internet stations. Mobile apps enable consumers with smartphones to listen to radio from around the world on their handsets. Since most of these apps are ad-supported, they are free to download for consumers like TuneIn Radio, Pandora Internet Radio, etc.

Myopusradio is a popular internet radio station for international music that attracts about three lakh unique listeners a month. The station, started in Bangalore, wanted to provide a platform to Indian musicians and bands to showcase their songs and reach a larger base of listeners. With three channels currently, they are looking at new ways of marketing using internet radio. They also create customised music solutions for retail outlets for their in-store music.

Another strength of internet radio is that operators know exactly how many listeners they are getting as opposed to terrestrial radios which use approximations. Studies for terrestrial radios assume that a car usually has about four listeners. This helps in customisation of content and attracting more advertisements.

The biggest challenge, however, for internet radios is navigating royalties for music companies and record labels. This seems to be plaguing online radio giant Pandora. In India, music on the digital medium is still new and record labels are still trying to figure out revenue models for streaming music. Also, low broadband penetration acts as a hindrance.

- **Social media helping engage with listeners**
  With rising competition, it has becoming critical for radio players to go beyond traditional methods to grab a listener's attention. They are waking up to the fact that they need to design content and activities more in tune with consumer expectations. Today, we are witnessing many radio channels take the social media route to engage with target audiences. With a different page for each city, they not only interact with fans but also provide the latest gossip, share videos and pictures.

  Also, each radio player seems to be targeting a certain segment of population. Radio One has now become a full-fledged English music channel filling the void in this space for upper-class segments.

- **E-auction for Phase III of licensing**
  The government has decided that the allocation of FM licences will be done through the simultaneous ascending e-auction process followed for 3G and BWA auctions. One of the features of the proposed e-auctions is that all licences in a city are auctioned for the exact same price. This may have an impact on the positioning of channels and their content focus, and may limit growth in niche programming. Further, it is proposed, that the reserve price in cities where a private broadcaster already exists today (as part of Phase II), the highest bid received in Phase II would become the base price for the Phase III.

India's place in the world: Comparison with global trends

Advertising represents around two-thirds of global radio industry revenues, the remainder being funded through public broadcast subscriptions and individual subscription fees.

- **Radio players seek additional revenue streams**
  Terrestrial radio broadcasters are seeking additional revenue streams through the introduction of digital radio and online radio, which expand listeners' options. However, those technologies are not expected to add significant revenues in the near future.

  India perspective: *Radio players are yet to evolve business models that can monetise live radio streaming of existing channels through the internet. Phase 3 of licensing will determine the success of digital radio in true sense with more variety available to listeners.*

- **HD Radio**
  HD Radio is a proprietary trademarked technology developed by iBiquity Digital Corporation. Nearly 85% of the US is covered by about 2000 stations broadcasting HD Radio. It enables AM and FM stations to broadcast digital signals alongside their analog signals. HD Radio's IBOC technology can deliver better sound quality without interference. In addition, HD Radio enables stations to broadcast additional channels via the same spectrum.

  India perspective: *HD radio technology is yet to catch up in India. Technological advancement in the radio broadcasting space has been limited since the industry is still in the development phase.*

Going forward

Radio advertising revenues in India have shown healthy growth in the past on account of the expansion of radio technology, including digital as well as internet radio. India is expected to grow at a compounded rate of 16.7% over the next five years from 14 billion INR in 2011 to 30 billion INR in 2016, the fastest growing country in Asia Pacific.

We expect the growth to compound with the roll-out of Phase III where the licence period has been increased from 10 to 15 years for the radio industry relieving the pressure off radio companies. The TRAI has also released its paper on *Prescribing Minimum Channel Spacing, within a Licence Service Area, in FM Radio Sector in India*. As part of the paper, TRAI recommends that frequencies for FM radio channels within a licensed service area be released with a minimum spacing of 400 KHz. With multiple frequencies being allowed to a broadcaster in the same city, we expect radio channels to focus on niche customer segments and offer quality content to existing listeners.

10 Music
2011 - 2016

While 2010 was the year of a structural shift from the physical to the digital, 2011 provided users with viable options of music consumption through a variety of digital platforms. In India, digital music plays a vital role in the industry with affordable smartphones, data plans and better broadband connectivity. Also, with licensed music readily available for download, people are shifting to the digital format for quality experience. Music industry revenues from digital platforms have grown from 4.5 billion INR in 2010 to 7 billion INR in 2011 registering a whopping growth of 60% year-on-year. The overall Indian music industry has grown to 12 billion INR in 2011 from 10 billion INR in 2010 with physical sales of music being stagnant at 3 billion INR.

Key trends

- **Access to music becomes easier**
  The consumption of music in India is growing as it is increasingly available through different mediums to consumers. Easy access has made this difference–be it through mobile apps, internet radio, social sharing or traditional music CDs. It is now also easier to share music with others through different networks–social and mobile. Urban India has more than 27 million smartphone users and 121 million internet users as per recent estimates.

Digital music is in!

What was:	What is:
Consumers would request for songs on radio/music channels.	• Songs are unbundled and can be bought without downloading the entire album. • Micro transactions enabled services are available for digital music downloads.
CDs/transistors or walkman/discman were needed to access music on the move.	• The mobile phone can store and play music while on the move. • With smartphones, internet and apps allow the buying of music and creating personalised playlists.

- **Music promoted across country, social media playing a vital role**
  MTV's Coke Studio in partnership with Red Chillies Idiot Box launched in India, following its success in Brazil and Pakistan. Reliance Entertainment has formed a JV with US-based Talenthouse, an online platform for artists. In India, Talenthouse already has a user base of over 10,000 artistes and associations with approximately 350 creative schools.

  Social media has become an effective medium of sharing music. Proof being the Tamil-English song *Kolaveri Di* which became an overnight rage and created history as being the most watched Indian video on YouTube. The video has generated more than 53 million views and has become a viral phenomenon.

- **Efforts taken to curb music piracy**
  Piracy had negatively impacted the sales of physical music keeping CD prices stagnant. Also, the digital music industry is on its path to gain traction as India tightens its anti-piracy laws.

  The government has enforced patent laws, blocked illegal music websites, positioned piracy as a criminal act and has set up a piracy hotline to enable piracy reporting. Awareness campaigns through cinema chains, etc are also being rolled out in order to dissuade people from consuming illegal music.

- **Companies' tie-up with various telecom operators to provide mobile music**
  With the growing VAS market for mobile phones, it comes as no surprise that companies are now collaborating with music channels and telecom providers in order to bring music on the phone at a cost. Hungama Mobile has partnered with entertainment and music channel Vh1 to offer a dial-in music service on Airtel's mobile network, Radio Gaga. A service such as this one will be able to cater to India's growing audience for international music. Music and entertainment channel 9XM has partnered with Hungama, which has a catalogue of 1,00,000 tracks, film trailers and original videos, in order to launch an online and mobile music store where users pay 99 INR per month to download unlimited videos and songs among other things.

According to research by VISA, music purchase constituted 24% of e-commerce activity in India. This is evident with Flipkart, the e-commerce website venturing into the digital space with the launch of its digital music store 'Flyte'. The store was launched with over a million tracks with 150,000 albums in over 55 languages and 700 genres and sub-genres of music. The website allows users to purchase a single track at an average price of 6 INR and albums at 100 INR approximately, allowing flexibility to the customer. The company is doing an average download of 8,000 tracks daily coming mostly from the metros but expects demand in the non-metros to rise as well.

India's place in the world: Comparison with global trends

The global music industry grew marginally as growth in concerts and music festivals offset a modest decline in recorded music. Beginning in 2013, growth in digital spending will offset the ongoing decline in physical spending, leading to a rebound in overall spending on recorded music.

- **Streaming services to boost digital spending**
  New streaming services will add fuel to the growing digital distribution of music. This will be accentuated by increasing broadband, smartphone and tablet penetration. Popular music streaming service Spotify in Europe entered the US market in 2011 with a freemium package. A limited-access advertiser-supported option is available for free to users.

  India perspective: *Since India does not match the extensive broadband infrastructure of the west, streaming services have picked up mainly in metro cities. With improved capabilities through more digital devices and connectivity, this will drive growth in the Indian digital music market.*

- **Growth in music festivals to propel spending on live music**
  The market benefitted in 2011 from fewer but better promoted concert tours. Average attendance has increased pulling the average grosses up. Labels and artists are entering into full-service or 360 deals that incorporate touring and music sales in a single package.

  India perspective: *A growing economy, rising disposable incomes and a growing appetite for world music has led to a boom in the number of music festivals being held each year in India. Sunburn, the largest music festival in India has now spread to more cities and is held more than once during a year.*

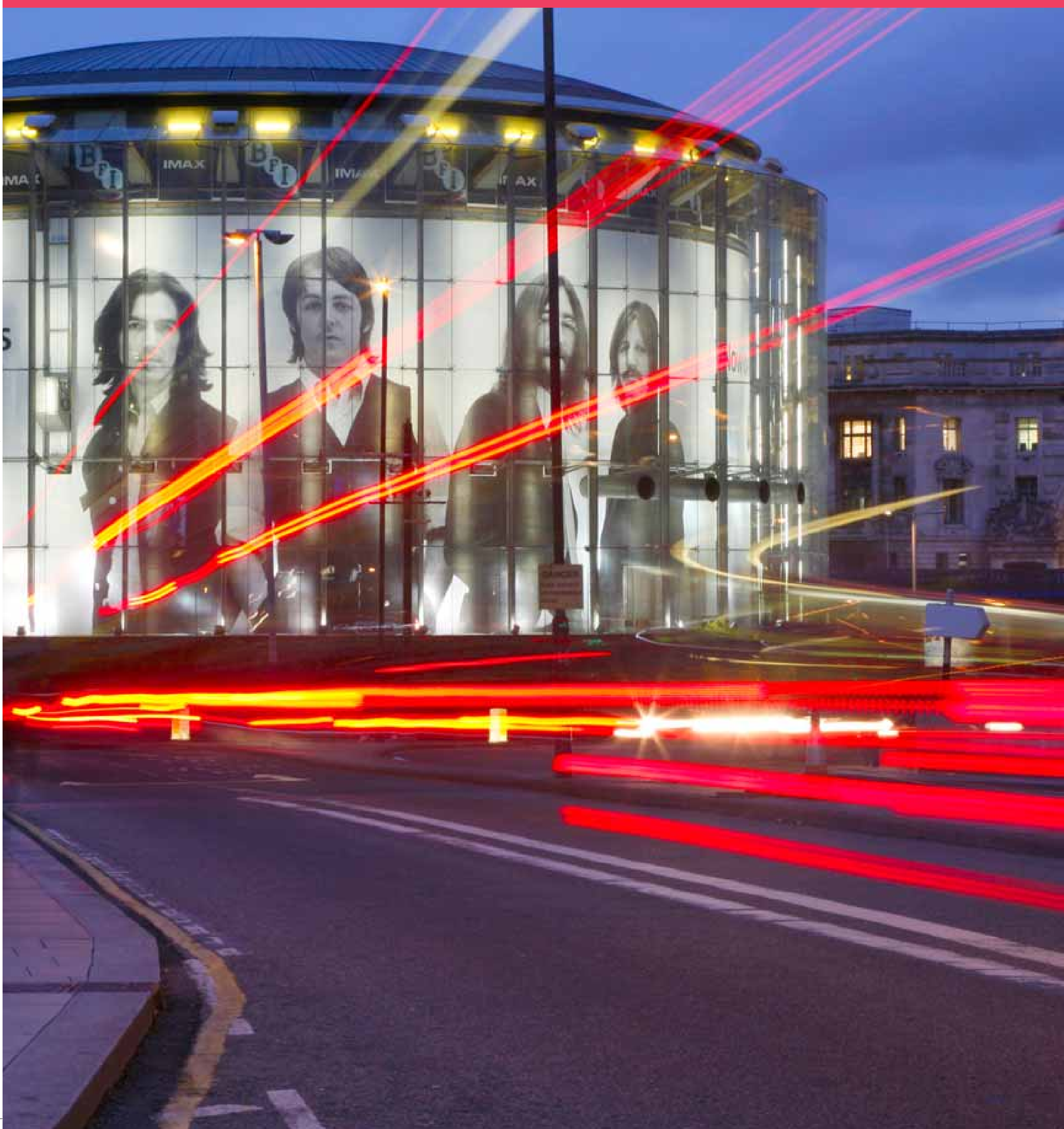
Going forward

The Indian music market is expected to grow from 12 billion INR in 2011 to 22 billion INR in 2016 with CAGR of 12% over the next five years. The digital spending on music is expected to increase continually and dominate overall industry revenues by 2016, while contribution from physical distribution will slowly decline to negligible levels.

- **New revenue models to emerge for mobile music**
  With mobile phones becoming the primary drivers for music access in India, content firms get only 5 to 15% of the total mobile entertainment revenue pie. Of the total revenue, between 15 and 20% is spent on aggregation and back-end activities, technology, payment systems and adverts. Between 60 and 70% is retained by telecom operators. In Europe, Japan or other parts of the world, content companies get a bulk of the revenues. For long, it was predicted that a telecom operator would be the new media giant of the future. With their ability to market and bill for mobile entertainment, telcos have done a great job in helping the market grow from almost nothing in 2000 to over 10,000 crore INR in 2011.

- **Phase III radio licensing to create opportunities**
  Phase 3 of radio licensing could be used by record labels and music companies to strengthen their hold on their rights in the industry by demanding larger percentages of profits. Also, the growing trend of radio channels playing music of a specific genre or language today will make companies owning music from those genres more desirable. This could help garner more revenues and royalties from the respective channels.

11 Out-of-home advertising
2011 - 2016



In recent years, the OOH medium has attracted companies from the FMCG, entertainment and media and healthcare sectors, which have multiple brands and a focused target group. Emerging categories such as real estate (especially in Tier 2 and Tier 3 cities) and e-commerce have also contributed to the growth of the OOH advertising industry, which registered a healthy growth of 10.7% in 2011, albeit less than the aggressive 12% growth seen in 2010. The industry size was estimated to be 15.5 billion INR in 2011 as compared to 14.0 billion INR in 2010 and represented 5.4% of the India advertising market.

Key trends

- **New advertisers reaching out to focussed target groups**
  With multiple channels and locations, the OOH medium can help reach targeted customer segments for their uninterrupted attention. Initially, OOH was restricted to billboard advertising and was used by mass media. However, at present, even upmarket brands are using it to target HNI.

  Innovation and customisation have helped advertisers reach out to target groups. As a result, sectors such as auto, telecom and financial services have become the biggest advertisers in OOH media. Other sectors such as FMCG, entertainment and media and healthcare are also increasing their expenditure on OOH advertising. In recent times, the OOH industry is also benefitting from the real estate boom. Initially, this sector advertised in OOH media primarily in the metros and their suburbs, but now the attention has moved to Tier 2 and Tier 3 cities as well.

  Further, e-commerce companies have recently been showing a lot of interest in OOH advertising. Thus far, they were addressing a target group that was internet-savvy and was aware of the nuances of online shopping. Now, they intend to take online shopping to a wider audience—especially consumers from non-metros who perhaps haven't experienced online shopping at all.

- **Improvement in infrastructure driving growth**
  New channels like bus shelters, LED billboards and street furniture are not being used as widely in India as in other countries, where they account for as much as 30 to 40% of the total industry. One of the primary reasons for this is the poor infrastructure. However, the situation is improving fast, with many new commercial spaces including malls and office buildings coming up. These buildings present a secured environment where channels such as LED screens can be installed without the fear of them being stolen or being vandalised. The pillars of the metro rail network in the National Capital Region are also emerging as a major destination for OOH advertising, since they are situated on the busiest roads in the region.

- **Digital OOH advertising raising the creative bar**
  The previous year witnessed a move away from traditional OOH advertising to digital advertising, which is fast becoming the preferred choice among companies from the BFSI, oil and telecom sectors. Digital signage provides the desired flexibility in real time, which is extremely difficult for other advertising mediums.

- **Growth of mobile internet and penetration of smartphones to drive digital OOH in India**
  The integration of the outdoor medium with new media has provided tremendous scope for innovation. In the age of smartphones and multiple media channels, any innovation in OOH advertising has a ripple effect on other media. A captivating display might be photographed, tweeted and talked about. OOH advertising drives search and is an effective medium when targeted at a particular audience in a particular destination. The integration of digital content with OOH is also leading to location-based customisation of messages, which has led to the growth in location-based advertising.

- **Lack of a unified common measurement platform hampering the industry**
  Reliable research is crucial for the OOH industry, but there has not been much development in this area. An attempt was made some years ago with the introduction of the IOS in partnership with MRUC, a research agency. However, the measurement system has not taken off.

  The challenge in determining the ROI is in part on account of the unavailability of a pricing tool. Costing is a major issue for both the advertiser as well as the OOH industry as the ROI for the advertiser cannot be determined accurately because the advertiser usually advertises through a host of media, including print and television. The costing done by the OOH company also takes into account a number of factors like the customer segments being targeted, attention span and visibility. It becomes very difficult to arrive at a standard costing mechanism, which can then be related to the ROI.

In Europe and the US, considerable work has been done on developing global guidelines for OOH research, which the Indian market can probably benefit from and use to its advantage. The Traffic Audit Bureau for Media Measurement (TAB) introduced its ratings measuring system in over 200 markets in the US. The system combines TAB's OOH traffic audits with visibility-adjusted indexes to estimate the number of people who notice billboards and how long they are exposed to the billboards. The system measures the actual number of people viewing an ad rather than the potential audience, thereby making it more consistent with the way other media are measured. This enables media planners to better evaluate OOH advertising against other media.

- **Fragmentation of the market posing hurdles for advertisers wanting to reach national audiences**
  The OOH advertising industry is characterised by unorganised players, low investments and poor display quality. Small advertisers are usually not given prime slots by established media houses since they prefer to give these slots to bigger players. This is because contracts with major advertisers are long-term. Moreover, if a big player advertises in a slot, then the competitor aims for a comparable slot and this means more business for the media owner. This factor prevents small advertisers from advertising with established media houses.

- **Integration of media driving up OOH spends**
  The integration of OOH advertising with other media has led to an increase in its importance. This has resulted in an 'integrated media' approach, and advertisers, especially large corporate houses, are giving their advertising contracts (including OOH advertising) to these houses. Airtel has given its media contract to Madison whereas Percept is handling the media campaigns for major groups like Tata Motors and Mahindra & Mahindra.

India's place in the world: Comparison with global trends

The global OOH advertising industry is migrating from traditional to digital billboards, which expand the OOH inventory because multiple images can be projected on the same display area. Advertisers are becoming increasingly aware of the value of OOH advertising because improved measurement techniques provide the reach and frequency of data comparable to those of other media. Key trends emerging in the global market are as follows:

- **Traditional billboards constitute the bulk of the inventory in the industry**
  Traditional billboards still remain the most popular. But new technologies are emerging to make them more efficient. For example, digital printing of billboards has a significant impact on reducing costs. Oftentimes, posters are placed in a frame with no need for gluing, thus reducing installation time and costs.

  India perspective: *In line with the global scenario, traditional billboards dominate the industry. Traditional panels in India are now almost all vinyl with dry posting.*

- **Fragmentation of the market has made it difficult for advertisers that want to reach national audiences**
  While the industry is fragmented, ongoing consolidation should make the medium an easier buy for advertisers. Additionally, aggregators such as SeeSaw and Adcentricity enable advertisers to make purchases across numerous networks at one time, thereby making purchasing easier.

  India perspective: *In India, the OOH industry is highly fragmented due to the low entry cost for billboard operators. This prevents advertisers from effectively reaching out to a nation-wide audience.*

IPO and deals

The industry is showing great promise and looks poised for substantial growth. Hence, it is attracting the attention of big players and the sector is sure to see consolidation in the future. Recently, Sixth Element Advertising was formed by the collaboration of Pune-based OOH media houses Asha Publicity, Captions Outdoor Advertising and Hallmark Outdoor Advertising. However, the industry has not seen any other major deal. This is primarily because the sector is highly unorganised. Thus, players who are not a part of the industry don't see it as a potential investment option, whereas industry major players are currently not large enough to look in this direction.

Regulatory environment

There is currently no regulatory policy or body for the OOH industry, although the need for it has been felt and explicitly discussed at various forums by advertisers as well as industry players. This regulatory body is required to enable a single set of pan-India standards, and all stakeholders need to be part of it. The launch of SOPs at the Outdoor Advertising Convention (OAC) in mid-2011 was an attempt in this direction. The industry is also actively exploring the option of having a self-regulatory body similar to the News Broadcasting Standards Authority, set up by TV news channels.

Technology

Technology is and will continue to play a pivotal role in the OOH advertising industry. At the front end, technology like OOH television and LED screens is being used in a big way by media. These are targeted primarily at SEC A customers and are currently being used only by premium brands. Industry players believe that digital media is the future of OOH advertising and more and more advertisers and OOH companies will use digital media in the future.

At the back end, there is an urgent business need for automating the entire inventory-tracking process and integrating it with the financials to arrive at the profitability across segments. The target needs to be to reduce manual interventions as much as possible. This will empower business users to manage uncertainties, identify new growth markets and, at the same time, keep a tab on the overall cost and get a clear picture about profitability. This will enable senior management to identify and map business strategies to efficiency and effectiveness metrics and link them back to business benefits. The sales' team, which is on the ground, can also categorise the inventory by cost, footfall, etc.

- **A growing digital landscape driving innovation**
  The deployment of digital billboards and the expansion of digital networks are spurring innovation in the OOH advertising market. Although digital technologies still account for a small portion of the overall market, they are expected to grow in importance over the next few years. The move to digital is raising the creative bar for OOH advertising. Interactive displays are becoming popular with advertisers because they engage passers-by. Bank of America installed an interactive ad at Times Square, which allowed people to participate in polls using their smartphones, with the billboard updating the results of the poll.

  India perspective: *Indian companies, too, are taking innovations seriously and some noteworthy examples were seen last year. Mumbai-based EnRoute Media, in conjunction with Easy Cabs, launched Flo, an in-taxi digital OOH advertising network that features sound-enabled touch-screen displays.*

Going forward

The Indian OOH advertising industry is estimated to grow at 11% in the next five years and reach 26 billion INR in 2016.

Globally, on the technology front, digital signage has come of age, moving from the experimental and into the mass production phase. However, in India, advertisers are known to be sceptical about investing in the medium due to the lack of an effective measurement system, which is seen as the single-biggest challenge. On the other hand, the growth of mobile internet and the penetration of smartphones in India are expected to drive innovation in advertising and boost the popularity of the medium.

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List of abbreviations

AFP	Advertiser funded programme
AOP	Association of persons
ARPU	Average revenue per user
AIR	All India Radio
ATP	Average ticket price
BWA	Broadband wireless access
CAGR	Compound annual growth rate
CRM	Customer relationship management
CPM	Cost per million
CPI	Consumer price index
CPC	Cost per click
DRL	Digital rights locker
DTH	Direct-to-home
DVR	Digital video recorder
DVD	Digital video disc
EMEA	Europe, the Middle East and Africa
E&M	Entertainment and media
FDI	Foreign direct investment
FMCG	Fast-moving consumer goods
GEC	General entertainment channel
GRP	Gross rating point
GDP	Gross domestic product
GSM	Global system for mobile
GPRS	General packet radio service
HD	High-definition
HSM	Hindi speaking market
HITS	Headend-in-the-sky
HNI	High net-worth individuals
IPL	India Premier League
IPTV	Internet protocol television
IBOC	In-band on-channel
IOS	Indian Outdoor Survey
INR	Indian rupee
LED	Light-emitting diode
LCD	Liquid crystal display
M&A	Mergers and acquisitions
MIB	Ministry of Information and Broadcasting
MMOG	Massively multiplayer online game
MSO	Multi-system operator
MRUC	Media Research Users Council
NFC	Near field communication
OAC	Outdoor Advertising Convention
OOH	Out-of-home
PCI	Per capita income
PPV	Pay-per-view
PSTN	Public switched telephone network
PBG	Performance bank guarantee
ROI	Return on investment
SME	Small and medium enterprise
SOHO	Small office, home office
STB	Set-top box
TRAI	Telecom Regulatory Authority of India
USD	American dollar
VAS	Value-added service
VOD	Video-on-demand
VHS	Video home system

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