The Small Box Grows Big

Television has become the main driver for the entertainment industry's growth. On these pages, we excerpt from a report of the Confederation of Indian Industry (CII) and KPMG titled Indian Entertainment Industry Focus 2010: Dreams to Reality.

*Indian Rupees 45 equals one $

The entertainment industry is thriving on the current economic upswing and is currently estimated at INR* 222 billion. Due to its sheer size, television has been the main driver for the industry's growth, contributing 62 per cent of the overall industry's growth. Films contributed another 27 per cent, while other segments like music, radio, live entertainment and interactive gaming constitute the balance 11 per cent. Propelled by innovation across its value chain and a series of enabling regulatory actions, the entertainment industry is expected to grow annually at almost 18 per cent to reach around INR 588 billion by 2010. However, even with such growth, it could be just scratching the surface of the Indian market's true potential... With total revenues of INR 139 billion, television is the goliath of the entertainment industry. It is now ready to advance to the next stage of its evolution, grasping the opportunities presented by the digital age, which will completely change the home entertainment landscape. In the process, it is expected to continue its rapid growth and reach INR 371 billion by 2010.

Out of its total current revenues of INR 139 billion, subscription contributed 53 per cent, i.e. INR 73 billion. That is one-and-a-half times the advertising revenues, which are at INR 49 billion. However, due to the large skew in the 'last mile', as discussed later, the broadcasters' share of pay revenues amount to only around 17 per cent, or INR 12.5 billion. Other revenues, which include international distribution right, amount to INR 14 billion. As any industry matures, inevitably its growth starts slowing down. The Indian television industry too is following this dictum, seeing its growth decelerating from over 20 per cent, till a few years ago, to less than 15 per cent currently. However, it would be completely wrong to say that television has become a mature, sunset industry. While the current sets of growth drivers are gradually reaching saturation, there are a number of new initiatives which can power a fresh round of expansion. Some of these key factors are:

- **Introduction of addressability:** In spite of apprehensions, public debate and litigation, Conditional Access System (CAS) was eventually launched in Chennai, providing valuable lessons for future attempts to bring in addressability across the country, though the impact of the same is yet limited;
- **Alternative distribution platforms:** DTH broadcasting has introduced the power of choice to the consumer. The last mile distribution segment is expected to see further action with the entry of new DTH players, IP-TV, broadcasting services on DSL technologies, etc;
- **New players in niche genres offering more content choice to viewers:** Niche genres have significantly enhanced their proposition over the last few years with the entry of several new channels. While, news and children's programming segments accounted for most of the new entrants, other niche genres like religion and health also experienced the launch of several new channels.
- **Meaningful regulatory intervention:** The government needs to create a conducive regulatory environment for rapid but stable growth by supporting initiatives like digitalisation of cable television, regulatory policy for DTH players, etc. These trends have the potential to redefine the landscape of the broadcasting industry in the country. The significance of such a redefinition should be understood in the context of the overall evolution of the broadcasting and distribution market in India. The high growth that took place in a relative regulatory vacuum in the last decade created a distortion in the distribution of value amongst industry players. This has fostered an opaque transactional environment, resulting in:
- Lack of consumer choice for last-mile access;
- Under declaration of subscriber numbers resulting in revenue loss for broadcasters and tax loss for the government;
- Absence of uniform pricing with prices varying across geographies and consumer segments;
- Lack of level playing field for alternative platforms like DTH, IP-TV, etc resulting from 'unreal' cost structures of incumbent access providers and non-uniform licensing conditions.

A combination of purposeful regulatory interventions and technology adoptions can go a long way in correcting such structural imperfections. The initiatives being undertaken and being proposed to be undertaken, to correct these structural imperfections, will drive the second wave of growth of the industry.

In this new phase of growth, the sector is expected to grow at an annual rate of almost 18 per cent to reach INR 371 billion by 2010; with subscription revenues forming the lion's share at INR 250 billion. It is also expected that the broadcasters will get a fairer share of the subscription pie. Advertising revenue is expected to grow at a modest rate of 8 per cent to reach INR 78 billion in six years.

The true potential of television advertising however is much higher. It could touch INR 150 billion by 2010, depending on the following factors:

- Speed and effectiveness of the roll-out of the broadcasting sector reforms;
- The quantum of investments made by various players over the next few years on rolling out digital platforms; and
- The entry of telecom companies into the distribution sector.

ADVERTISING

As per industry estimates, the total advertisement spend in India last year was approximately INR 118 billion. However, at 0.50 per cent, India continues to have one of the lowest 'Advertising spend to GDP' ratios amongst peer economies. This underscores the significant potential India has yet to achieve vis-à-vis advertising budgets.

However, this is set to change. A growing middle-class will spur the increasing tide of consumerism and a growing lineup of global brands will continue to be attracted by this expanding market. Consequently it is expected that the 'ad spend to GDP' ratio will increase steadily over the next four years.

Print is still the largest recipient of advertising revenues, accounting for 46 per cent of the advertising pie and, after a temporary slump, is currently growing at a rate faster than that of television. The share of television seems to have stabilised at around 41 per cent, after increasing consistently for about 6-8 years. The overall media mix in India mirrors that in most advanced countries, where television and print jostle for dominance in the space of advertising expenditure.

In the Indian context, there is further potential for television to increase its ad share. It is expected that over the next three years, both print and television will each command around 43 per cent of the market, with the balance 14 per cent being split between radio, outdoors and others.

Who is advertising?

Until recently, FMCG companies and consumer durable marketers were the main advertisers on TV channels. Today, the advertiser segment has expanded to include youth and teen products, financial products and services, educational products and services, corporate image build-

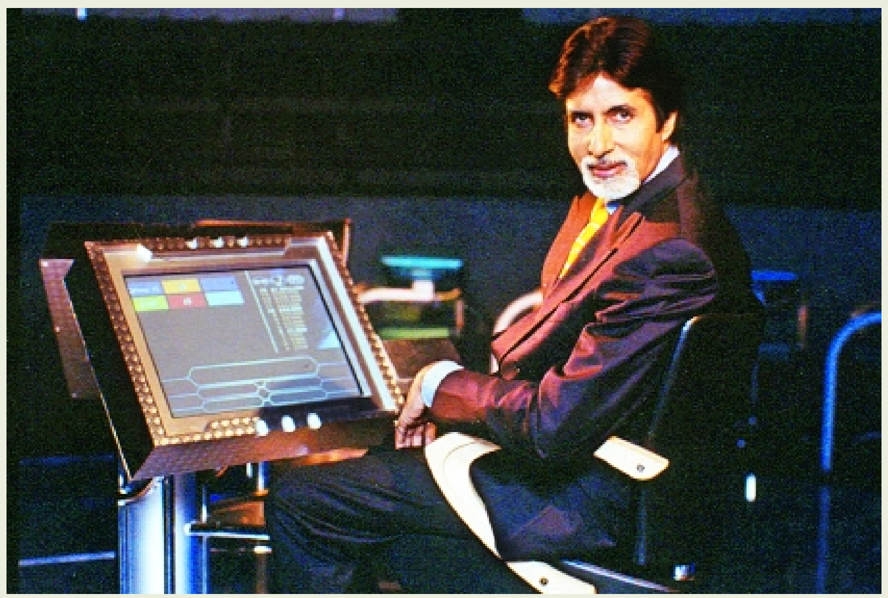
ZEE TV'S HIGHLY ACCLAIMED SOAP OPERA *ASTITVA - EK PREM KAHANI* ing, telecommunications, computing, vehicles, and mobile telephony, to name a few. It is interesting to note that according to TAM Media Research, on-air promotions that are carried out by the channels themselves account for almost 40 per cent of the total airtime, with a significant portion of them being shown on prime time. Going forward, with capacity utilisation of airtime improving, the opportunity cost of self-advertising will increase and it is expected to decline.

Where does the money go?

Mass entertainment continues to attract maximum ad-spends, but its share is being gradually ceded to niche channels. The major beneficiaries have been News, Regional and Sports channels.

Some of the key aspects of television advertising in India are:

- Mass entertainment channels have the largest loyal advertising base. Around 17-18 of the top 25 advertisers advertise only on mass entertainment channels.
- Consumer goods advertise mostly on mass entertainment, films and Hindi news.
- Luxury and lifestyle products are advertised across all major genres.
- Financial products like banking and insurance advertise primarily on English news and business channels.
- Organised retail, which is one of the larger advertising segments in developed economies like the US, has yet to impact the Indian advertising industry in a significant way. As the retail industry in India develops and begins to realise its potential in the near future, it is expected to follow its global counterparts and become a major advertiser on television.



SUPERSTAR AMITABH BACHCHAN HOSTING STAR TV'S *KAUN BANEGA CROREPATI*

SUBSCRIPTION REVENUE

Television reaches over 40 per cent of the billion people in India, commands the highest mindshare among consumers and cuts across rural-urban and class divides. Currently, 91 million households own a television, out of which 48 million households are cable and satellite households, the state-owned terrestrial broadcaster, Prasar Bharti, accounting for the balance 43 million. Though the cable TV penetration in India continues to grow at a brisk pace, the untapped potential is still very significant. Over the next few years, cable and satellite, along with emerging delivery platforms like Diret To Home (DTH) and Internet Protocol-based Television (IP-TV) are expected to close in on the gap further. It is expected that television connectivity in India can reach 134 million households by 2010, of which as many as 85 million, or 63.5 per cent could be connected through cable and satellite, DTH, IP-TV or other non-terrestrial broadcast platforms.

Along with a growth in subscriber volumes, the cable subscription charges (ARPU per month) too is expected to grow at a pace faster than that of per capita GDP. At around INR 150, India has one of the lowest ARPUs in the world. In fact, the ARPU for cable television has actually fallen in real terms, growing at sub-inflation rates over the past seven years. An average urban Indian cable connected household receive as many as 100 or more channels for which it pays anywhere between INR 100 to 300 per month, while in certain rural and semi-urban areas, this number could be as low as INR 60 per month. The wide disparity in ARPUs between locations and, often, between various localities within the same city, is not proportionate to the quality of content or service offering by the distributor but has been guided mostly by the relative bargaining power of the cable operator with both the consumer and the broadcaster.

Apart from the low subscription fees, subscriber declaration by cable distributors to broadcasters in India is one of the lowest in the world, resulting in a grossly inequitable distribution of subscription revenues. According to an independent research, operator-broadcaster split in India of subscriber revenue has the worst skew in the world. It is estimated that the Local Cable Operator (LCO) corners 79 per cent of the total subscription revenues of the industry and leaves just about 17 per cent for the broadcaster. The residual 4 per cent is retained by the Multi-System Operator (MSO) who downlinks the broadcasters' signals and transmits them through a combination of fibre and co-axial cable network to consumers' homes via the LCO, who, almost in all cases, owns the coveted 'last mile'. The low levels of declarations are attributed to the lack of transparency at the last mile distribution end of the business, owned by the 30,000 odd LCOs across India.

This combination of low subscription fees (ARPUs) and chronic under-declaration of the subscriber base by the LCOs has significantly constrained the growth in the subscription revenues for the broadcasters. Attempts at increasing transparency have been made through a combination of technology and regulations.

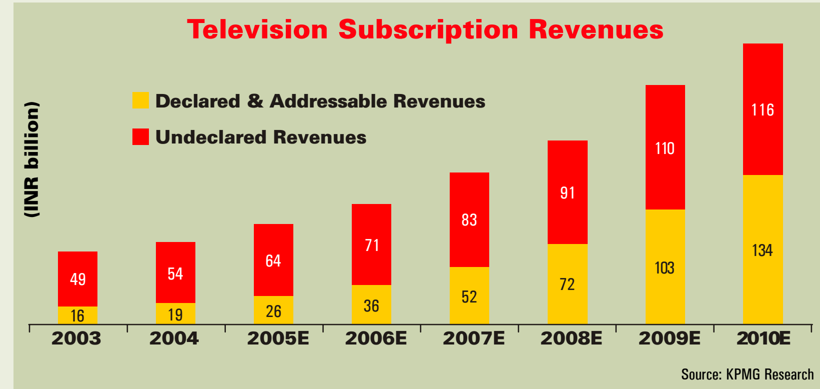
THE ROAD AHEAD

The television industry is now ready to advance to the next stage of its evolution, grasp the opportunities presented by the digital age and completely change the home entertainment landscape. In the process, it is expected to continue its rapid growth and reach INR 371 billion by 2010.

Over the next six years, television advertising spend is expected to grow at a little over 8 per cent annually, to reach INR 78 billion in 2010. Such growth will be a function of an increase in number of advertisers and an increase in paid ad seconds.

Going forward, digital distribution players like DTH, IP-TV are expected to emerge as new contenders for the total ad pie, as new revenue streams like (advertising on) Electronic Programming Guides (EPG) emerge.

The total distribution revenues are expected to grow from the current INR 73 billion to around INR 250 billion by 2010, of which the share of declared revenues will improve significantly from INR 19 billion (26 per cent) to INR 134 billion (54 per cent). It will be driven more by the conversion of existing analog subscribers to addressable digital subscribers, rather than a plain vanilla increase in the declaration



per centage, which will increase only from 25 per cent to 30 per cent in six years.

The increased addressability will significantly improve both the Pay television revenues to broadcasters and to organised distributors (MSOs, DTH operators, IP-TV operators etc.) which will emerge as a stronger, powerful community, as has been seen in evolved markets like the US.

Broadcasters' pay revenues will grow six-fold, from INR 13 billion to INR 82 billion, while organised distributors, currently at a fledgling INR 3 billion, will command a significant share of the television market with subscriber revenues of around INR 41 billion. The LCO community, though growing at a lower compounded rate, too will benefit from increasing ARPUs, seeing their revenues growing from INR 58 billion currently to INR 126 billion.

CONCLUSION

2004 was an eventful year for the industry. The industry saw a further strengthening of the C&S dominance and increasing reliance on subscription revenues. Persistent efforts by broadcasters enabled them to get higher disclosure rates. These superior disclosure rates coupled with higher subscription charges, post lifting of the price freeze that had been in force for around two years, increased the broadcaster revenues. It also helped the broadcast industry continue its progress from an advertisement dependant one to one with more balanced revenue streams.

2005 could be a turning point in the industry's life cycle. The launch of DTH, DSL and IP-TV is expected to reshape the landscape of the industry, by introducing competition in the last-mile for the first-time. The forces unleashed by them will determine the future of the industry.

On the Web
KPMG: www.in.kpmg.com
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